



## External Assessment Report 2010

Subject	<b>Accounting</b>
Level	<b>Higher</b>

The statistics used in this report are pre-appeal.

This report provides information on the performance of candidates which it is hoped will be useful to teachers/lecturers in their preparation of candidates for future examinations. It is intended to be constructive and informative and to promote better understanding. It would be helpful to read this report in conjunction with the published question papers and marking instructions for the Examination.

# Comments on candidate performance

## General comments

Candidates generally coped well with this assessment, which was straightforward in some areas but relatively demanding in others. Candidate performance in Section A (Financial Accounting) and Section B (Management Accounting) was similar.

In Section A of the paper — the financial section — Question 1 (the compulsory question) was based on the final accounts of a partnership, which candidates coped with reasonably well. In the choice of practical questions in this section, a large majority of candidates opted for Question 2 — the manufacturing account — which was generally well done. Candidates preferred this question to Question 3, which was based on the less popular topics of ratio analysis and correction of errors.

The theory questions in this section were based on the theory of public limited companies (Question 4) and not-for-profit organisations (Question 5). A high percentage of candidates opted for the more traditional content of Question 4, and generally performed better than those candidates who attempted Question 5.

In Section B of the paper — the management section — Question 6 (the compulsory question) was based on the often less popular topics of decision making and breakeven analysis. There was a mixed response to this question, but some candidates did manage to score high marks. In the choice of practical questions, more candidates opted for Question 8 (based on service costing and process costing) than Question 7 (overhead analysis).

Candidates performed slightly better in Question 8. The theory questions in this section were based on the theory of budgets (Question 9) and the pricing of stores issues (Question 10). More candidates opted for Question 9 and generally scored higher than those opting for Question 10.

It was generally thought that candidate performance was of a slightly lower standard than that achieved in the previous assessment in 2009, although most candidates managed to complete all of the questions in the time required.

## Areas in which candidates performed well

Candidates performed well in the following areas:

### Question 1

- ◆ layout of final accounts of partnership generally well presented
- ◆ general improvement in 'headings' and 'labels' in final accounts
- ◆ rates and advertising calculation
- ◆ provision for bad debts calculation
- ◆ revaluation reserve calculation

## **Question 2**

- ◆ layout of manufacturing and trading accounts
- ◆ general improvement in 'headings'
- ◆ fewer candidates losing marks through omission of labels
- ◆ royalties in correct place in prime cost
- ◆ apportionment of overheads between factory, warehouse and office
- ◆ calculation of unit cost of production

## **Question 3**

- ◆ calculation of gross profit percentage, net profit percentage, rate of stock turnover, return on capital employed, acid test ratio

## **Question 4**

- ◆ explanation of public limited company and debentures

## **Question 5**

- ◆ explanation of accumulated fund and secretary's honorarium

## **Question 7**

- ◆ overhead recovery rate calculation
- ◆ overhead analysis statement

## **Question 8**

- ◆ calculation of relevant costs for annual cost statement
- ◆ presentation of process account
- ◆ calculation of selling price

## **Areas which candidates found demanding**

### **Section A**

#### **Question 1**

There was a mixed response to this question, although layout of the accounts was generally good.

Candidates experienced difficulty in the following areas:

- ◆ Loss on Sale of equipment was calculated correctly by very few candidates, and hence the provision for depreciation figure for the year was also wrong.
- ◆ Discounts were treated as expenses rather than income.
- ◆ Interest on loan was entered in the appropriation account rather than the profit and loss account.
- ◆ Current accounts were given as lists rather than in the form of accounts.

- ◆ Correct adjustments for equipment and bank in the balance sheet were rarely attempted correctly.
- ◆ VAT was treated as a current liability rather than a current asset.
- ◆ Stock figure was given as 11 rather than cost value of 9.
- ◆ Correct provision for bad debts figure being deducted from debtors.
- ◆ Some candidates repeated individual items from the current accounts in the financed section of the balance sheet, rather than the closing current account balances.

## **Question 2**

This question was generally well done by most candidates who preferred it as an option to Question 3.

Candidates experienced difficulty in the following areas:

- ◆ Manufacturing wages and direct factory power were often omitted from prime cost and placed in factory overheads.
- ◆ Advertising was included in factory overheads.
- ◆ Warehouse expenses were included in factory overheads rather than trading account.
- ◆ Calculation of market value of production and hence factory profit.
- ◆ Factory cost of production rather than market value of production was carried to trading account.
- ◆ Some candidates still attempted a joint manufacturing and trading account starting with sales although questions asked for separate accounts.
- ◆ Some candidates wasted time and also completed a profit and loss account which was not required.

## **Question 3**

Fewer candidates attempted this question and opted for the more traditional manufacturing account in Question 2.

Candidates who did attempt this question experienced difficulty in the following areas:

- ◆ calculation of mark-up ratio
- ◆ calculation of debtors collection period — some candidates did not use average debtors figure
- ◆ calculation of creditors payment period — candidates found difficulty in calculating purchases figure as well as not using average creditors figure
- ◆ fixed asset turnover ratio often calculated wrongly
- ◆ reasons for changes in ratios very poorly attempted
- ◆ calculation of correct gross profit and net profit in the correction of errors section of the question

## **Question 4**

Most candidates opted for this question rather than Question 5. The question was generally well attempted but some candidates experienced difficulty in the following areas:

- ◆ Preference shareholders and ordinary shareholders receive interest rather than a dividend.
- ◆ Reference to partners in a plc rather than shareholders.
- ◆ Debenture holders receive dividends — not fixed rate of interest — each year.
- ◆ Explanation of share premium.

### **Question 5**

Few candidates attempted this optional question and preferred Question 4. This question was generally poorly attempted and candidates experienced difficulty in the following areas:

- ◆ Explanation of life membership fees and its treatment in the final accounts — very few candidates showed knowledge of this (this had not been asked at Higher level before but is included in the Financial NAB).
- ◆ Other terms asked — accumulated fund and secretary's honorarium — were generally well done.

## **Section B**

### **Question 6**

There was a mixed response to this compulsory question, with most candidates coping with parts (a), (b) and (c) of the question but experiencing more difficulty with parts (d) and (e).

Candidates experienced difficulty in the following areas:

#### **Parts (a) and (b)**

- ◆ calculation of fixed cost per unit and hence total cost per unit
- ◆ total cost per unit rather than variable cost per unit being used in the calculation of contribution
- ◆ fixed costs of £45,000 being recovered by each department
- ◆ departmental profits calculated but no total profit calculated
- ◆ candidates may have scored higher in this section if they had labelled relevant items correctly

#### **Part (c)**

- ◆ correct formula for breakeven point — also total fixed costs used rather than departmental fixed costs for Z
- ◆ calculation of profit before tax
- ◆ calculation of profit volume ratio
- ◆ some candidates wasted time and calculated part (c) for all three departments

#### **Parts (d) and (e)**

- ◆ no correct limiting factor — contribution per kg — being used to calculate order of production
- ◆ no reduction in profit calculated — only new profit figure

### Question 7

Fewer candidates opted for this question and preferred to answer Question 8. Some candidates attempting this question experienced difficulty in the following areas:

- ◆ difference between departmental recovery rates and factory-wide absorption rates
- ◆ some candidates calculated absorption rates correctly but could not apply them correctly to job cost statements
- ◆ some candidates calculated VAT before mark-up had been added
- ◆ some candidates used margin instead of mark-up in job cost statement calculation
- ◆ under and over-absorption of overheads

### Question 8

This was a slightly more popular choice than Question 7. This question was generally well done but some candidates attempting it experienced difficulty in the following areas:

#### Question 8 (a)

- ◆ answer **not** presented as a statement
- ◆ not multiplying relevant expenses by six vans
- ◆ not showing working for specific expenses and hence losing marks
- ◆ depreciation not dealt with and omitted from answer
- ◆ mark-up used instead of margin in total annual hiring charge

#### Question 8 (b)

- ◆ treatment of work in progress — placed in inputs instead of outputs
- ◆ calculation of abnormal loss and abnormal loss account
- ◆ confusion between mark-up and margin when calculating selling price

### Question 9

More candidates attempted this question than Question 10.

Some candidates experienced difficulty in the following areas:

- ◆ purpose of a budget very often described as a cash budget
- ◆ contents of specific budgets poorly answered

### Question 10

Fewer candidates attempted this question and preferred Question 9.

Candidates experienced difficulty in the following areas:

- ◆ A high percentage of candidates confused pricing of stores issues with the physical movement of stocks and therefore scored lowly in this question.
- ◆ Advantages and disadvantages of methods referred to the sales of perishable items rather than specific advantages and disadvantages of FIFO, LIFO, AVCOs.

## **Advice to centres for preparation of future candidates**

Some candidates are still losing unnecessary marks by omitting relevant labels and headings from accounts or entering incorrect headings, eg balance sheet for year ended. Although there has been a marked improvement this session, correct layout of accounts, especially in financial accounting, should be stressed in teaching and preparation for assessment.

Some candidates lose time in this examination — particularly in Question 1 — by producing a full set of working notes prior to attempting the final accounts. This working could be incorporated into the final answer and would save time. On the other hand, it is correct for centres to stress the importance of showing workings where calculations are being made — especially in Management Accounting. However, there appears to be confusion in the minds of some candidates as to what is required by the way of working, and a great deal of time, and thus marks, are lost due to this.

It should also be stressed that when candidates are asked to present an account it must be in that form and not that of a list — again marks can be lost here. Also, if a statement is required, then a relevant heading must be given to this statement.

Markers have highlighted this year the number of candidates presented for Higher level who scored very poorly in this examination, and question whether candidates should have been presented for Intermediate 2 level rather than for this examination.

## Statistical information: update on Courses

Number of resulted entries in 2009	1344
Number of resulted entries in 2010	1219

## Statistical information: performance of candidates

### Distribution of Course awards including grade boundaries

Distribution of Course awards	%	Cum. %	Number of candidates	Lowest mark
Maximum mark — 200				
A	28.0%	28.0%	341	140
B	17.6%	45.6%	215	120
C	18.9%	64.5%	230	100
D	7.7%	72.2%	94	90
No award	27.8%	100.0%	339	–

### General commentary on grade boundaries

While SQA aims to set examinations and create marking instructions which will allow a competent candidate to score a minimum of 50% of the available marks (the notional C boundary) and a well prepared, very competent candidate to score at least 70% of the available marks (the notional A boundary), it is very challenging to get the standard on target every year, in every subject at every level.

Each year, therefore, SQA holds a grade boundary meeting for each subject at each level where it brings together all the information available (statistical and judgemental). The Principal Assessor and SQA Qualifications Manager meet with the relevant SQA Head of Service and Statistician to discuss the evidence and make decisions. The meetings are chaired by members of the management team at SQA.

The grade boundaries can be adjusted downwards if there is evidence that the exam is more challenging than usual, allowing the pass rate to be unaffected by this circumstance.

The grade boundaries can be adjusted upwards if there is evidence that the exam is less challenging than usual, allowing the pass rate to be unaffected by this circumstance.

Where standards are comparable to previous years, similar grade boundaries are maintained.

An exam paper at a particular level in a subject in one year tends to have a marginally different set of grade boundaries from exam papers in that subject at that level in other years. This is because the particular questions, and the mix of questions are different. This is also the case for exams set in centres. If SQA has already altered a boundary in a particular year in say Higher Chemistry this does not mean that centres should necessarily alter boundaries in their prelim exam in Higher Chemistry. The two are not that closely related as they do not contain identical questions.

SQA's main aim is to be fair to candidates across all subjects and all levels and maintain comparable standards across the years, even as Arrangements evolve and change.