



A-LEVEL ACCOUNTING

7127/2: Paper 2 Accounting for Analysis and Decision-making
Report on the Examination

7127
June 2019

Version: 1.0

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Overall

This paper was generally done well by students. This is especially encouraging given that it is the first sitting of the new reformed A-level specification which includes both new topic areas and different skills expectations. There was a wide spread of outcomes with a good proportion of students achieving 50 raw marks or more out of the maximum 120 marks available.

With it being the first sitting of a new specification, there was the inclusion of some new elements including the ethical framework in question 09 and investment ratios in question 17. Most other questions contained themes previously tested in the legacy paper ACCN4 and so pertained to management and cost accounting components. However, centres are to be reminded that there are some parts of the specification that can be tested in either paper and so this examination contained some more financial accounting themes previously seen only in ACCN3 at A2 level. Calculation tasks were broadly well attempted, with workings clearly shown in many instances. Students were also able to articulate the longer prose questions well, which is encouraging given that accounting students quite often favour the numerical and computational tasks. There was no evidence that students were overly time constrained with a majority of students appearing to have completed all tasks set.

Questions 01 to 10 inclusive

Multiple choice questions have been used to a lesser extent previously, but now form an integral part to the assessments for this specification. They are designed to test students' very precise knowledge and understanding combined with some application of the content. Many of these questions were answered correctly by a high proportion of students. The best response rates were for question 09 on the fundamental principles of ethical behaviour and question 10 on the calculation of break-even quantity. The questions answered least well were 07 on cost classifications and 04 on break-even chart interpretation.

Question 11

Most students demonstrated some knowledge of break-even analysis limitations. However, less effective responses just stated these drawbacks and in some cases were only able to offer one limitation. In contrast, the more effective responses were able to describe them, which meant they were able to access at least level 2 outcomes where understanding was evident.

Question 12.1

Many students were able to manipulate discount factors to calculate present values and then a net present value. However, the cash flows used in this process were not always correct. The most common mistake was either not using depreciation to convert profit to cash flow or adjusting it incorrectly. There was also confusion in some instances about the treatment of the estimated residual value, with this either being omitted completely or adjusted against the original cost.

Question 12.2

The payback period allowed for own figure cash flows from question 12.1 and on this basis, many students were able to at least identify the remaining cash flow to be recovered. However, some students calculated the payback period to be over 4 years and should have realised that this must be incorrect, given that the estimated life of the hi-tech machine was only 4 years.

Question 13

Many students were able to correctly apportion overhead costs between departments and then calculate a correct OAR based on either labour or machine hours. The most common mistake was to apportion the machinery depreciation based on machine hours as opposed to machinery cost. Some students also calculated the OAR based on both labour and machine hours and so unfortunately did not select which one was most appropriate.

Question 14.1

Many students made a reasonable attempt at calculating the maximum profit allowing for the lack of material quantity. This meant that they were able to initially identify that they could only produce 4 440 units of product C. However, the workings to achieve this headline figure were varied and not always easy to completely understand. The mark scheme demonstrates good practice for presentation. The most typical mistakes being made were as follows:

- to include fixed overheads in the calculation of contribution per unit
- to rank production based on contribution per unit and not contribution per kg of materials
- to calculate total fixed costs based on the production units and not the budgeted units demanded.

Question 14.2

There were some well-articulated responses to this task. However, students sometimes lacked a clear structure and did not demonstrate the skills set out within the levels descriptors in the mark scheme. For this task, that meant offering arguments both for and against using an alternative supplier and then making an absolute decision about whether or not to use the alternative supplier to address the expected shortage of material. Although not essential, calculating the extra contribution that could be made is a good quantitative technique to support the judgment. Many students did not include this evidence. Students also need to be careful not to merely restate the evidence in the scenario without any further amplification or explanation of the relevance.

Question 15.1

Many students were able to correctly calculate the material and labour variances. However, it was generally the case that students could either do all of the variances or none of them, with not much in between. The most prevalent mistake was to not flex the quantity of material or the labour hours when calculating the usage and rate variances respectively. However, students who only made this mistake could still achieve 8 out of the 10 marks for the question and so were not unduly disadvantaged.

Question 15.2

Many students were able to attempt the reconciliation. Students could either commence the reconciliation with the budgeted or actual cost. However, it needed to be clear which of these was the starting position in order to then establish if the variances had been adjusted in the correct direction subsequently. The actual cost was the only figure which had to be correct given that there should not have been alternatives by virtue of the data having been provided in the question.

Question 15.3

Like 14.2, this question required a balanced argument both for and against. In this case, whether costs have been controlled effectively followed by a definite decision about whether the management were correct. More effective answers were able to offer explanations to support the judgements about whether costs had been controlled effectively or not. Less effective answers compounded the misunderstanding about the need to flex the variances and so assumed that costs must have been controlled effectively because the business actually produced 2 000 units less than the budgeted amount.

Question 16

Many students were able to develop a reasonable response in terms of having a detailed articulation of ideas, but very few reached beyond a level 3 response. The structure was also sound in terms of having arguments for and against the strategy along with a recommendation. Students were able to comment further on both financial and non-financial factors as instructed to do so in the question stem. However, many comments then were made at a quite superficial level and therefore did not expand or develop the evidence presented in the scenario stimulus information. Students need to recognise that this information is provided as a prompt to explore ideas but that equally it is not an exhaustive list of possible discussion points. Some more effective responses looked at what would be more appropriate ways to apportion the overheads but also recognised that this could not be done differently without further information. Consequently, it was also not possible to determine the impact on profit per department. A large number of students calculated profit per department (and possibly also in total) and showed this in the question text box without using it in the answer commentary. As a consequence, the results of appropriate calculations were not properly integrated into the analysis and evaluation. There were also some common misconceptions, the most notable being perhaps the idea that total overheads would be reduced by shutting a department, which is not necessarily the case. With no other information to the contrary, it would be assumed that they were remaining unchanged.

Question 17

The same generic comments apply here as they did in question 16, where the structure and detail were commendable in many cases. However, this question had a smaller proportion of students who provided any further calculation work to support the investment decision. More successful students were able to recognise that it was possible, and indeed appropriate, to calculate both the market price and dividend per share to help make a more informed choice. In cases where few calculations were done, this was constrained to working out gearing in the context of assessing risk. Less effective responses tended to use the evidence at a quite superficial level. Students need to be mindful of other feasible options. Some more effective answers suggested that rather than investing on Company A or B, Hannah could in fact invest some of her inheritance in both companies. The conclusion Hannah may need more information before making a decision might have been equally valid, including about any other possibilities apart from just these two companies. Perhaps the most significant misunderstanding in this scenario was in calculating the number of shares that Hannah could obtain with her £60 000 with many students basing this on the nominal share price and not the current market price, which it was possible to determine but which hadn't been given in the data.

Use of statistics

Statistics used in this report may be taken from incomplete processing data. However, this data still gives a true account on how students have performed for each question.

Mark Ranges and Award of Grades

Grade boundaries and cumulative percentage grades are available on the [Results Statistics](#) page of the AQA Website.