Examiner's report 2009

2910317 Accounting information systems – Zone A

General remarks

The candidates for the examination demonstrated a good level of understanding of the unit requirements, consistent with previous years. The majority of candidates followed the examination instructions and attempted the required number of questions. However, candidates should take note of the weighting of marks for subsections of questions. A small number of candidates reproduced the subject guide as their answer to questions. These candidates were given very low marks.

It may help candidates to know how marks are allocated for this examination. For each question, or part of a question:

- 40 per cent of the total marks are awarded for setting out a reasonable number of the main points suggested in the marking scheme (or their equivalents)

- 20 per cent of the total marks are awarded for comprehensive coverage of the subject in an answer

- 20 per cent of the total marks are awarded for structure and clarity

- 20 per cent of the total marks are awarded for insight and imagination.

Candidates should understand the importance of legible text and numerical examples. Scripts that were poorly presented were marked down significantly. Poor grammar and spelling were another common reason for marking down scripts.

A minority of candidates failed to understand the set question and adapted questions to topics that they had learned.

Very few candidates managed to get credit for the latter categories of the marking scheme; there was little evidence of insight and imagination in the answers. Any candidates who attempted to display an understanding beyond the basic core material were positively rewarded.

Candidates should know that to achieve a high grade they are required to address the set question with good structure and clarity. A good structure should include a brief introduction that addresses the set topic and outlines how the candidate will answer the question. A good structure would also require a brief conclusion summarising the points made in the main body. The conclusion should seek to make original remarks to demonstrate the insight and imagination that a candidate has for a particular topic.

Question 1

This question was generally well answered. A few candidates presented the cash outflows as positive numbers and cash inflows as negative numbers for the calculation of NPV in section (a). This is incorrect as the initial capital outlay is a negative cash flow and the contribution flow is a positive cash flow. Candidates must avoid making this mistake in the future. Some candidates put depreciation in the calculation as a negative cash flow. This is a serious mistake as depreciation is not a real cash flow and should be omitted from the NPV calculation. A large number of candidates failed to calculate the Internal Rate of Return (IRR). This is a manipulation of the basic Net Present Value (NPV) model which candidates should be able to calculate. Some candidates did not present their calculations in a readable form and were penalised. Many candidates failed to take note of the relative weighting for the subsections (a) and (b) of the question. Many candidates made very brief comments for part (b), which were not sufficient with respect to the weighting of marks. Candidates must read the question carefully and take note of the weighting of marks for each question part to avoid making this mistake in the future.

Question 2

Many candidates presented tables outlining the differences between financial and management accounting. This was useful in clarifying the main issues but many candidates failed to address the issues in sufficient depth. A table is useful to summarise points, but candidates must also appreciate the importance of in-depth analysis of the key issues. However, most candidates answered this question reasonably well. They clearly identified that financial accounting is mainly for external users, principally shareholders. They identified the process of recording transactions which are finally aggregated to make up the balance sheet, profit and loss account and cash flow statement. However, many candidates failed to emphasise that financial accounting is a historic account of past events.

Most candidates correctly defined management accounting as the use of financial data by managers to improve resource allocation and help in all types of business decision-making. They also classified management accounting under costing techniques, investment decisions and budgetary control systems and candidates who provided good summaries were rewarded. Most candidates emphasised that management accounting is more concerned with the future decisions and planning of an organisation.

Good candidates mentioned that the two branches of accounting work in coordination with each other sharing a common series of definitions, terminology and data. However, they serve different purposes in business organisation. Financial accounting serves the external information needs of shareholders and management accounting serves the internal information needs of management.

Question 3

Most candidates identified the features of an effective budgetary control system with a good level of detail These included technical features, such as the need to set targets which are realistic and attainable, the ability to direct and allocate resources to areas requiring them, and the ability to evaluate the costs and benefits of various alternative courses of action. Behavioural features such as cooperation, coordination and good communication as well as participation and effective delegation were mentioned. Good candidates identified the benefits of a flexible budget well and used contemporary examples to illustrate their points. The main benefit of a flexible budget is that it allows the latest available information to be incorporated in the budgetary control system. This makes the system up-to-date and relevant to the organisation. Good candidates mentioned the main benefit and illustrated its relevance with reference to the economic crises affecting the world today. These candidates were positively rewarded, earning marks from the latter categories of the marking scheme.

Question 4

Most candidates detailed profitability and liquidity ratios and outlined their use. However, many candidates failed to identify gearing ratios and operating ratios such as stock turnover and debtor collection. Candidates who failed to identify these gearing and operating ratios were penalised. Many candidates failed to identify the problems of applying ratio analysis. Examples, such as the basis of account preparation may not be consistent between two companies or between two accounting periods, would have earned credit. Some candidates correctly identified seasonality in the business cycle affecting the financial accounts and distorting the calculated ratios. Good candidates mentioned that ratios could only be as good as the underlying financial figures. Finally, many candidates failed to point out that ratios must be interpreted in a broader context of the business environment in which the business operates.

Question 5

Some candidates produced a checklist of advantages and disadvantages. This was beneficial to the structure of their answers. However, some candidates did not follow up with comments to justify their points. For example, the candidate may have written that off-the-shelf software was more cost effective. This was not, in itself, sufficient to earn merit. Candidates were expected to discuss underlying factors such as the development cost being shared by a large number of end users. Better answers elaborated further on the basic point by suggesting that if the organisation has no shortage of IT resources, particularly systems development staff, the cost effectiveness of packaged software may not apply. It would be more economical to use the underutilised IT resources and develop the software in-house. Generally, the coverage was good, but candidates must understand the importance of answering questions with sufficient depth of analysis.