Examiners' Report Summer 2008

GCE

GCE Accounting (8011/9011)

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Unit 1 The Accounting System and Costing

General

Centres are to be congratulated for their preparation of students for the June 2008 examination. The standard achieved was higher than in previous examinations and candidates, in general, demonstrated a sound understanding of accounting and were able to apply their skills and knowledge to the scenarios set.

Candidates did not demonstrate any significant general weakness in any of the areas examined. Within the overall construct, in Section A of the Paper, Question 3, manufacturing accounts and in Section B, Question 5, costing, were less popular choices for candidates.

Candidates continued to improve their evaluation skills with a range of responses which considered both aspects of the scenarios set.

Particular points that will be tested in future examinations and which centres may wish to reinforce with candidates are the:

- Treatment of life or long term memberships in the annual accounts of a club.
- Formula for the calculation of return on capital employed.

Question 1

The preparation of the departmental trading and profit and loss account was generally accurate and candidates scored high marks. Some candidates incorrectly adjusted the revaluation of stock and the internal transfer of parts by adjusting the sales figure. The apportionment of expenses between the departments was generally accurate and the provision for doubtful debts accurately calculated and recorded. The balance sheet was accurately prepared and presented in good format.

In part (b), candidates accurately modelled an answer using the correct formula for rate of stock turnover, but were less accurate with the formula for mark up. Commonly, candidates used the formula gross profit over sales. Candidates were able to make appropriate comments in comparing their calculations in part (b) to the sector averages.

Candidates generally gave appropriate advice concerning the future of the department. Answers tended to fall into two categories, some candidates only related their answers to the loss being made by the department, but other candidates also considered the wider impact that a closure of the department would have upon the business.
Common errors were:

- Adjustment(s) for revaluation and transferred parts made to sales figure.
- Treatment of bank as a current asset and not as a current liability.
- Use of correct formula for 'mark up'.

Question 2

Candidates were generally able to accurately calculate the closing balance of stock using the LIFO method and scored high marks in this section of the question. In part (b), the trading account was generally accurately prepared, with many candidates achieving high marks within this section. In part (c), candidates generally adopted a control account approach to the calculation of closing debtors and creditors. Candidates were generally accurate in the case of the creditors balance but generally failed to take account of the cash banked and till receipts when calculating the debtors balance.

In part (d), candidates were able to identify alternatives to the revaluation method of depreciation, in particular reducing balance and straight line methods. Candidates tended to explain one or both of these methods without considering the suitability of each method to the particular asset under consideration, namely fixtures and fittings.

Part (e) again tested the candidates' knowledge of the value to a business of maintaining a set of double entry accounts. This particular item has been tested on numerous occasions, but many candidates were unable to identify clear points in favour and points against.

Common errors:

- Calculation of the closing debtors balance.
- Failure to apply knowledge of depreciation methods to the suitability for the asset of fixtures and fittings.
- Failure to identify points in favour or against maintaining a set of double entry accounts.

Question 3

Candidates were generally unable to state the difference between a direct expense and an overhead, although they could give an example of each type.

In part (b), the manufacturing account was generally well prepared. The position of the manufacturing wages and manufacturing salaries in the preparation of the manufacturing account varied. Some candidates included both items in prime cost; others included both under the heading of overheads.

In part (c), candidates generally calculated the total projected overhead with accuracy, but failed to deduct the actual overhead incurred to arrive at an over or under recovery. The cost of completing the order was generally accurately prepared but the profit was often not calculated and where a calculation had been made this was not based upon the order price of £40 000, but some other figure. Very few candidates attempted to calculate the percentage profit achieved.

In part (e) candidates generally were able to explain the circumstances in which it would be appropriate to use machining recovery rates or labour recovery rates.

Common errors:

- Definitions of direct expenses and overheads.
- Recording of manufacturing wages and manufacturing overheads in incorrect sections within the manufacturing account.
- Use of the actual overhead incurred to establish the over or under recovery.
- Calculation of the percentage profit achieved.

Question 4

Many candidates were unclear about the treatment of five year memberships in the income and expenditure account and in the balance sheet. This topic will be tested in future examinations.

In part (b), candidates generally prepared accurate subscription accounts with the correct treatment of opening and closing balances in the accounts. The bar trading account was also in good format and many candidates accurately calculated the value of the closing stock from the mark up on profit.

In part (c), candidates were able to consider points in favour and against calculating the closing stock as an alternative to a physical stock take.

Common error:

- Treatment of long term memberships in the income and expenditure account and in the balance sheet.

Question 5

Candidates who attempted this question generally prepared good answers which were substantially correct. In part (a) candidates were aware that job costing was used for unique, one off, jobs. However, candidates were generally unable to develop the explanation further.

In part (b), there were many correct answers and most candidates achieved an answer that was at least substantially correct. In part (c), candidates were able to prepare substantially correct answers, but common errors occurred in the calculation of the income, with £32 000 commonly seen, and the vehicle costs recorded as £5 000, accounting for two vehicles, not three.

In part (d), candidates were able to provide appropriate advice based upon the calculations from previous sections. However, candidates concentrated on financial advice and generally failed to consider non financial aspects.

Common errors:

- Calculation of £32 000 income in part (c). Calculation of one electrician not two.
- Calculation of vehicle costs accounting for two not three vehicles.

Question 6

Candidates were fully conversant with the difference between capital and revenue expenditure and could consistently apply those principles to the scenarios set.

In part (b), candidates accurately calculated the current and liquid (acid test) ratios. A majority of candidates failed to calculate the return on capital employed accurately. Candidates generally failed to account for the long term loans in the calculation.

Candidates were able to make appropriate comments concerning the movement of the three ratios over the two year period together with appropriate comments on the evaluation of the use of own funds to finance the development.

Common error:

- Calculation of the return on capital employed. Failure to include long term liabilities in the calculation.

Question 7

Candidates accurately prepared the journal entries correcting the errors in part (a) of the question. The preparation of the ledger account of Coldstream was generally less thorough and candidates generally did not complete the double entry identified in the journal.

Candidates were generally clear about the meaning of errors of commission and principle and could identify examples of each type. Candidates were also familiar with points in favour and against the use of a trial balance.

Common error:

- Completion of a ledger account from journal entries identified.

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General Comments

The level of responses this year appeared to be quite strong. It is pleasing to see that candidates have clearly grasped some aspects of the syllabus. Other areas still require more practice to develop a full understanding.

Whilst overall standards were quite good, the points listed below are general areas where candidates may look to improve performance.

- Candidates are advised to show all workings, as marks are available for the stages in the workings. Showing the answers only is a "high risk strategy", as a wrong answer results in no marks.

- Careful reading of the question is advised, as some candidates may arrive at a wrong conclusion. For example, "the relative importance of liquidity and profitability" requires a candidate to conclude which of the two is the most important, not just write all they know about each.

- Evaluation usually involves a judgement, usually on figures calculated. Candidates need to try to ensure they have considered BOTH sides of the argument, before arriving at a conclusion. At the end of an evaluation, the candidate may have to form an overall conclusion e.g. "the project is worth investing in."

Question 1

This was a popular question, and where candidates answered using Format 1 of the Companies Act, marks were usually good. However, a disappointing number of answers still had the accounts drawn up as if they were prepared for a sole trader, with no reference to the headings and layout required by the Companies Act. Section (b) was poor, with many candidates guessing what was involved in the Directors Report. Many confused this with the Auditors Report. It would appear that many students have not seen a company's final accounts. These are sometimes available on the internet, by visiting the website of the company. Alternatively, they can be downloaded for the sum of £1 from Companies House, for the company of your choice. The web address is www.companieshouse.gov.uk Students would benefit from looking at an actual set of published accounts if possible.

Common errors were :

- Failure to layout accounts using Format 1 of the Companies Act, preferring a "sole trader" style
- Allocation of expenses to incorrect heading
- Where workings or notes were shown, candidates merely produced a list of figures, with no labels, so marks could not be awarded
- Taxation included as an expense, before arriving at Profit, rather than deducting from Profit Before Tax
- Goodwill not included under a separate heading of Intangible Assets, but merely included in a list of "Fixed Assets"
- Lack of any knowledge or understanding of what is included in a Directors Report

Question 2

This was not a popular question, and answers were often quite weak. Candidates struggled with the ledger entries, with errors on amounts and the double entry. It was good to see sections (b) and (d) answered well, although few worked (c) through to a final, correct answer. Strong answers were given in Section (e) as most candidates had a good knowledge of bank loans and ordinary shares.

Common errors were:

- Incorrect entries in the ledger accounts
- No dates included in Journal entries
- In (c) inaccurate figures for contents of Revenue Reserves ie Profit and Loss and General Reserve
- Inclusion of Capital Reserves (eg Share Premium) in calculation for (c)

Question 3

This was a popular question and answers were generally good, as students appear to have a sound understanding of Cash Flow Statements. However, candidates would benefit from learning exact headings eg "Capital Expenditure and Financial Investment", rather than a general "Investing Activities". In (a) candidates would be advised to start with Net Operating Profit ie £56 600, then show clearly the different Interest items added back ie Bank Overdraft and Debenture. This is an example of showing workings, rather than starting with a "Profit Before Interest" figure, which could be wrong, and thus would achieve no marks.

Common errors :

- Failure to show clearly and label, the Interest to be added back to Profit in (a)
- Labels for Cash Flow Statement in (b) not learnt fully
- Some figures in (b) had no labels, so did not gain the mark eg "Net Cash Flow From Investing Activities", or "Net Cash Inflow From Financing"
- Failure to label final figure in (b) of £1000 as an <u>Increase</u> in Cash
- Confusion in (c) over treatment of overdraft figures ie treat as a "minus"

Question 4

This was a very popular question, which saw many candidates able to successfully calculate the break even point in (a) and the profit figures in (c). Margin of safety in (b) was a little more tricky, with students often subtracting break even point from the selling price. It was good to see that candidates considered both sides of the argument in (d) before coming to a conclusion. Including the difference in profit ie £1100 would be a stronger answer than merely repeating figures calculated in the rest of the question, when answering (d).

Common errors were:

- Not taking account of the 3 metres of material required for each jacket, and the 3 or 4 hours of labour time required for each jacket.
- Subtracting the break even point form the selling price to find the margin of safety.

Question 5

This was the least popular question of Section B, but candidates answered reasonably well. Most were able to produce a flexed budgeted profit and loss account which was mainly correct. Answers to b(ii) tested candidates ability to apply the figures to the business, and interpret them, rather than just be able to produce figures using the correct method. Candidates showed some good ideas, but these often needed to be developed to score higher marks. Responses in (c) were generally weak, as answers tended to merely describe budgets, without focussing on flexible budgets, and their strengths and weaknesses.

Common errors :

- Incorrect application of percentage reduction on timber and selling prices
- Deciding to separate variable and fixed costs in the budgeted profit and loss account, and an unnecessary calculation of contribution, which often led to errors
- Failure to concentrate on flexible budgets and their advantages and disadvantages

Question 6

A question on Investment Appraisal which was popular, and generally answered well. A number of methods were used to correctly arrive at the weighted average cost of capital in (a). However a disappointing number selected B as the funding package, stating the reason as a higher figure for capital cost! As usual however, depreciation was left out of the workings by many candidates in (b). Appraisal of the project was good in (c), with both sides considered and a decision made as to whether to go ahead with the project.

Common errors:

- Selection of Package B because it had a higher capital cost
- Not using the Discount Factor selected in (a) (ii) for calculations in (b)
- Inability to correctly treat depreciation i.e. deduct £800 000 from running expenses in Year 1, to calculate Running Costs Less Depreciation and therefore help find Net Cash Flow

Question 7

This was a fairly popular question with a mixture of responses. Many candidates were able to calculate goodwill correctly in (a). Answers to (b) were weak, as most thought the £1.90 value of the shares received was classed as "cash", failing to see that Andy received only 10p cash per share. The balance sheet in (c) scored very well, with many obtaining full marks. Unfortunately, (d) was very poorly attempted, as candidates described goodwill, and why it was valued. Very few evaluated the writing off of goodwill over its useful economic life e.g. twenty years, which would be the treatment in the accounts.

Common errors were:

- Omitting the liabilities, or including Bank and Cash, from the Goodwill calculation in (a)
- Counting the £1.90 worth of shares received as cash, instead of the 10p cash per share
- Not realising the bank balance had reduced by £100 000 to pay cash to shareholders, in (c)
- Failure to address the treatment of goodwill in accounts i.e. write off over useful economic life

Statistics

Unit 1 - 6001

Grade	Max. Mark	A	B	C	D	E
Raw boundary mark	200	133	117	101	86	71
Uniform boundary mark	300	240	210	180	150	120

Unit 2 - 6002

Grade	Max. Mark	A	B	C	D	E
Raw boundary mark	200	132	119	106	93	80
Uniform boundary mark	300	240	210	180	150	120

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