

Examiners' Report/  
Principal Examiner Feedback

Summer 2012

GCE Accounting (6002)  
Paper 01

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## GCE Accounting 6002/ 01 June 2012

### General Comments

The level of responses for this paper, once again, was high. Certain areas of the syllabus, and particular techniques, have been learnt and practiced well. Where these questions were attempted and techniques were applied, the marks were good. However, some topics still require more attention and understanding to give candidates the opportunity to achieve a better score in the examination.

Although overall standards were good the general points listed below, could be addressed by candidates and centres in order to improve performance.

- Careful reading of the question is advised, as some candidates may fail to answer the question. This is particularly important in the evaluation section.
- In this paper, it is still possible that candidates will be asked to complete entries in ledger accounts. Therefore, they should be aware of what is required to fully complete this basic accounting requirement. These include dates, figures, totals, and balances carried forward and down.
- This paper saw the first questions where candidates had to answer using IAS 1 instead of the Companies Act 1985. Similarly, the Cash Flow Statements question used the IAS 7 layout, not FRS1. Centres should be aware that candidates have to answer using IAS 1 or IAS 7. Centres will benefit by ensuring IAS 1 and IAS 7 are taught, and looking at the mark scheme for this paper and other guidance notes on the Edexcel website.

### Question 1

This was a very popular question, and it was good to see almost all candidates were able to answer using IAS 1, and marks were usually high. Only a small 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 IAS1.

Section (b) was often poorly done, as candidates failed to answer the question. Many answers involved a discussion as to whether the company was correct or not in selling the buildings. Careful reading of the question should have meant candidates could see that the question involved evaluating the accounting treatment of the Discontinued Activity.

Common errors were:

- Allocation of items to incorrect heading, especially:
  - Discount Received on Materials (should be under Cost of Sales, deducted from Direct Materials)
  - Accountancy staff wages wrongly given as a Financial Cost, instead of an Administration Expense

- Warehousing under Cost of Sales, when it should be under Distribution Costs
- Treating Interest on Bank balance as an expense, instead of income, even though it was clearly showed as a Credit balance.
- The Rent Received account had £4 880 owing, which meant this amount had to be added, not deducted.

## Question 2

This was another popular question that was answered well. Many candidates had clearly learnt the formulas, and were able to apply them to the question. Most were able to calculate correctly for (a). A reasonably good number of candidates scored well in (b), although some omitted to state the formulas. Others were unable to get started in this section, not being able to see a way through the information and figures given. Profit for the month was usually accurate in (c). Overall answers for (d) were reasonable, but candidates were not able to go into much depth. The answers could have been developed by giving reasons, or examples, of why the variance was adverse, and when the adverse variance was not bad for the business.

Common errors:

- Failing to give units for answers in (a)
- Not stating the formulas used in (b). Even if the candidate added Material Usage Variance and Material Price Variance to give Material Cost Variance, this could have been shown as a formula.
- Repetition of basic points in (d), rather than giving more depth to answers with reasons and examples.

## Question 3

This was not a popular question, and the marks achieved were only average. Candidates often failed to answer the question in (a), which asked for how the reserves were “created” and “used”. Whilst answers contained correct information e.g. “General Reserve is a revenue reserve”, this would not score any marks. Answers in (b) were disappointing, with candidates showing incomplete answers. The question asked for dates, and opening and closing balances, and these were very often omitted. Section (c) saw mixed responses, with some correct answers, but others had incorrect formulas or wrong figures in the calculations. Responses for section (d) were strong, with good awareness of ordinary shares and debentures shown.

Common errors:

- Failure to address question in (a)
- In (b) not showing dates or balances brought down or carried down.
- Wrong dates shown for ledger entries in (b)
- Adding together items in (b) that occurred on different dates.

- Not including the extra £60 million pounds in the denominator, at the bottom of the equation, in (c).

#### Question 4

This was a fairly popular question, which saw candidates generally score very well on section (a) but struggle on (b). Calculating net present value was good, although some failed to indicate the answer was a negative figure. Internal rate of return has not been examined for a few years, and candidates found the concept difficult for (b). Poor scores for (c) indicated that this was an area of the syllabus candidates were unfamiliar with. Very few comments made in (c) were worthy of scoring more than a few marks.

Common errors:

- In (a) failure to subtract depreciation from the total running costs.
- Omitting the initial investment from the calculations in (a).
- Not realising that because the net present value was close to zero, the Internal Rate of Return was close to 9%.

#### Question 5

A fairly popular question that was not answered particularly well. A number of candidates failed to correctly calculate goodwill in (a), often revaluing assets incorrectly. Section (b) was found very difficult, and few arrived at the correct answer. The Statement of Financial Position in (c) was much better, and it was pleasing to see nearly all students added their answer for goodwill calculation from section (a), into the Statement of Financial Position. However, many candidates were unable to evaluate how goodwill would be treated in the books after the purchase. Many described why goodwill had a value and how it arose, which was not answering the question.

Common errors:

- In (a), taking the book value of the equipment as £750 000, instead of reducing it by £750 000.
- Omitting liabilities from the goodwill calculation in (a).
- Wrong method used in (b) for calculations.
- Failure to adjust cash balance for money paid out to shareholders in (b).
- In (d) displaying no knowledge of how goodwill is treated in the books of the purchasing company.

#### Question 6

This was a popular question that scored well. Most candidates were able to correctly calculate the profit or loss for each mine in (a). Similarly, the answers in (b) were good, as most arrived at mainly correct answers for calculations per unit. Evaluation of the figures in (c) was a little disappointing. Most were able to state which mines to open or close, but very few made reference to the long term or the short term.

Common errors:

- Failure to refer to positive or negative contribution, when deciding the future of each mine.
- No reference made to time period in (c).

#### Question 7

Not a popular question, but the marks were reasonable. Candidates were presented with the new format for the Cash Flow Statement, using IAS7. They were then asked to carry out a range of calculations in (a), which they did with mixed success. Answers to (b) were good, with candidates able to state clear differences. It was pleasing to see that candidates were able to evaluate liquidity and profitability in (c), often distinguishing between short term and long term positions. They were also able to come to a conclusion as to which was the most important.

Common errors:

- Giving the figure for tax on this year's profit, instead of the tax paid on last year's profit in a (i).
- In (a) (iv), not realising that interest on debentures is paid in two six monthly instalments. As a result, candidates thought £12 000 was the interest for only 9 months of the year, so arrived at 8% not 6%.
- Not realising that the figure in the Statement of Cash Flow is for the 12 months ended 31 March, so in (a) (vi) many candidates merely added £8 000 and £7 000, which gave the wrong answer.

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