

Examiners' Report/
Principal Examiner Feedback

Summer 2013

GCE Accounting (6002)

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General comments

The level of responses for this paper covered a large range of marks, but the overall standard was good. Students have developed a wide range of skills and understanding of accounting, and are able to apply these well. Where the student has an in-depth knowledge of the topic area, they are able to successfully address different types of questions on a particular topic.

The general points listed below, could be addressed by students and centres in order to improve performance.

- This was now the third paper where students had to answer using IAS 1 instead of the Companies Act 1985. Centres should be aware that students have to answer using IAS 1 (or IAS 7 for a Cash Flow Statement question). Centres will benefit by ensuring IAS 1 (and IAS 7) are taught, and looking at the mark scheme for this paper. The Edexcel website contains example layouts using IAS 1 and IAS 7 as well as the mark schemes for questions in these topic areas from the last few years.
- Careful reading of the question is advised, as some students may fail to answer the question. This is particularly important in the evaluation section. Answers to questions 1(b), 3(b) and 7(d) were good examples of not specifically answering the question. It is probably worth students taking a little time to reflect on what exactly the question is asking, before attempting their response.

Specific comments

Question 1

This was the most popular question on the paper, and probably the best answered. Most students answered using IAS 1, but a number of answers still had the accounts drawn up as using the Companies Act format, or even as a sole trader! Correct headings and sub-headings were required, many of which gained marks. The mark scheme gives a good example of an IAS format. It was good to see that few students included the “distracters” such as Trade Payables in their Statement of Comprehensive Income.

Section (b) was often poorly done, as students failed to answer the question, or were not really aware of what the Auditors Report actually was. Many answers considered the usefulness from the view of the company, rather than the users of the accounts eg shareholders, potential investors etc. It would be helpful if students or teachers looked at, or downloaded a copy of an actual company’s accounts from the internet. This would allow them to see exactly what the Auditors Report (or Directors Report) actually covered. Where students were aware of what was included in the Auditors Report, marks were actually high.

Common errors were:

- Omission of a heading for the Statement of Comprehensive Income, required by IAS 1, a good example being shown in the mark scheme.
- Referring to Cost of Sales as Cost of Goods Sold
- Showing Discount Received as Other Income, rather than deducting from Direct Materials.
- Instead of deducting the inventory of Office Stationery from the Office Stationery total in the Trial Balance, it was added. Sometimes, it was deducted in the Cost of Sales section.
- Interest on the bank balance was treated as an expense, rather than income, despite being a credit balance.
- In (b), the Auditors Report was confused with the financial statements. Some students described what they thought the contents of the Report showed eg profits, current assets etc, which is clearly not the case.

Question 2

This was the least popular question on the paper, and the worst answered. However, answers to (a) were reasonably good, working to a net profit using marginal and absorption costing. Many students correctly applied marginal costing to their answers in (b), although failed to include much else, despite the answer carrying 8 marks. Answers to (c) (i) were often accurate, with the calculations being correctly performed, and the right option chosen. This was not the case with (c)(ii), where few calculations were used, answers being an explanation of the affect of fixed and variable costs as output changes, with no option selected. It was disappointing to see answers for (d) involved a discussion of the levels of stock and profit for each costing method, with the company selecting the method that gave the most appropriate profit level.

Common errors:

- When calculating Sales in (a), not adjusting for opening and closing inventory.
- Overlooking the fact that one unit took 40 minutes work, not one hour of labour.
- Incorrect method used to calculate closing inventory in (a).
- Omission of coverage of long term/absorption costing in answers to (b).
- Failure to do any calculations in (c)(ii) eg to find an output level where one option becomes more expensive than another.
- Lack of depth in discussions in (d), leaving out key points such as short/long term use, decision-making, recommendations of Accounting Standards.

Question 3

This was a fairly popular question, and the marks achieved were reasonably good. Most students were able to produce a Statement of Cash Flow in the IAS 7 format. It was disappointing to see that some are still using the old FRS 1 format, which would score much lower marks. Some answers were very good, especially those where all of the headings and wordings had been learnt and applied correctly.

Section (b) saw students show that they knew a great deal about liquidity, and often scored well. However, many decided to lock themselves into an answer that compared liquidity this year with last year. Whilst this would have scored reasonably well, again, it is not fully answering the question. Some concluded that liquidity had worsened over the year, without mentioning that overall, liquidity was good.

Common errors:

- Failure to show any workings when calculating depreciation.
- Stating the tax paid was £16 000 (18 – 2) instead of taking last year's tax figure of £18 000.
- When labelling the final figure in Investing Activities and Financing Activities, which were both outflows, students wrote "Net cash from..." instead of "Net cash used..."
- Not labelling the final outflow of £6 000 as "Net decrease in cash and cash equivalents"
- Omitting to show the final reconciliation section of the £6 000 decrease.
- In (b) merely stating for example, that Inventories had risen, but not developing the point to say that this ties up liquid funds.

Question 4

This was a fairly popular question, which saw students generally score well on section (a) and (b) but struggle on (c). Understanding of break-even analysis is a strength of the students, and many could calculate break even point in (a) although some were confused with the costs. Most arrived at the correct profit figure in (b), with a number of different routes available. In (c) students with a mathematical background were able to use their algebraic skills in conjunction with their accounting knowledge to good effect. Again, a number of different routes were possible to arrive at the answer, and some were successful, whilst many others found themselves going down a dead end unable to finish the journey. Most students were able to argue a good case against lowering the wage rate in (d), and give a conclusion, but a surprising number failed to argue a good case for lowering wages.

Common errors:

- Failing to find a monthly figure for depreciation, and working with a yearly figure.
- Converting all fixed costs figures to a yearly figure, instead of a monthly one.
- In (b), forgetting to deduct fixed costs when calculating profit.
- Failing to put forward a case for reducing wages eg the fact that other costs may be impossible to reduce.

Question 5

This was a fairly popular question that saw only reasonable scores. Many students performed well on section (a), having learnt the formulas. They were able to interpret the information given, substitute the correct figures, and calculate accurate answers. Sections (b) and (c) were found more difficult, as it demanded a greater understanding than just mechanical application. Only the best students were able to make meaningful comments concerning share prices and dividends. Too many answers accepted the statement in (b) at face value.

Common errors:

- Failure to notice that the ordinary shares had a nominal value of £2.50 so 24 million shares were issued not 60 million.
- Not deducting the preference dividend from the net profit after tax to give the numerator in (a) (iii) and (iv).
- Omission of units in the answers in (a).
- Deciding that (b) required an evaluation of two companies, although almost nothing was given about Oceanic Assurance.
- Working through a list of ratios in (c), without making any meaningful comments as to what they show, and why they are important.

Question 6

This was not a very popular question, and responses received only average scores. Whilst (a)(i) and (ii) scored well (iii) to (vii) were often found difficult. Answers to (b) managed reasonable marks, but many could not get much further than a basic argument. However it was good to see some students explore the motivation theme, or argue that this was a new business and sales may pick up in months 2 and 3.

Common errors:

- Failing to show the number of units going into inventory each month in (a) (iii) – many seemed to expect examiners to work out that final calculation stage themselves!
- Confusion in (a) when working forwards to find, for example, Trade Payables.
- In (b) stating that a change in budgets will bring about an improvement in results.

Question 7

A fairly popular question that saw reasonable scores. Most responses for (a) were correct, calculating the actual expenditure. A good number scored full marks on (b), but many calculated the variance just for one unit, instead of the whole month. Too many students failed to take the short cut for (b) (iii), ie by adding answers for (b) (i) and (b) (ii) together. Students were able to give a good range of actions that the company could take concerning adverse variances in (c). Answers for (d) were disappointing, as it showed that the knowledge of students concerning the application of management by exception was thin.

Common errors:

- Confusion with figures in (b) or calculating variances for one unit, not one month.
- Starting a whole new calculation in (b) (iii), rather than adding answers for (b)(i) and (ii).
- Defining what an adverse material usage (or price) variance actually is, in (c), instead of suggesting one reason for the variance.
- Explaining how management by exception works, rather than applying it to the decision made by the accountant in the scenario in (d).

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

<http://www.edexcel.com/iwant to/Pages/grade-boundaries.aspx>

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