

# Examiners' Report June 2015

## IAL Accounting WAC01 01

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## Introduction

Centres are again to be congratulated for their preparation of students for the IAL Accounting examination. Students again applied a full range of Accounting knowledge and skills in the preparation of their responses to the Examination.

Students found the Examination questions generally accessible and provided informed responses in good format to most questions. Only Question 6, testing partnership knowledge, caused difficulties. Most students failed to complete the capital accounts correctly and made significant errors in the other sections of the question. All other questions were well answered.

With effect from Summer 2016 the new 2015 Specification will be examined. Although the 2015 Specification and assessment is wholly comparable with the existing specification and assessment, centres are reminded of the one significant difference between the two on Unit 1. Under the new Specification all questions will be multi part as at present, but the evaluation section of those questions will be assessed out of 12 marks instead of 8 marks in Section A, and 6 marks instead of 4 marks in Section B. In preparation for that examination centres are advised that there will now be marks awarded for a reasoned conclusion and centres should instruct students accordingly in their preparation for the New Specification, June 2016 examination. Students are familiar with marshalling arguments for and against a scenario. To ensure that they have access to the highest marks they should now also ensure that they reach a conclusion with some reasoning for that conclusion. This will normally be which of the factors identified as arguments for and against were weighed most heavily in that conclusion.

To assist centres I have in at least one Section A question advised of the marks which were awarded and which would probably have been awarded under the New Specification.

## Question 1

Students prepared good answers to all sections of the question. Answers were substantially accurate and many students scored high marks on this question.

The restaurant account was generally complete and in good format with many totally correct answers. A high degree of accuracy was demonstrated in the preparation of the income and expenditure account although there was regular mistreatment of the subscription bad debts. The financial position statement was substantially correct but some students reduced the provision for doubtful debts from the trade receivables not the subscriptions in arrears.

Common errors were:

- The inclusion of bad debts in the calculation of subscription. Many students calculated a figure of £247 000.
- The provision for doubtful debts related to the subscriptions in arrears. Many students sought to deduct the provision from the trade receivables not the subscriptions in arrears.

The evaluation section of the question is currently worth 8 marks. Looking forward to the New Specification the evaluation will be assessed by 'Levels Based Assessment' where up to 12 marks will be available. **centres should note that** in the new evaluation assessment, to achieve the highest level the student must present a conclusion with some rationale for that conclusion. Examiners commonly see students work which clearly shows at least two arguments in favour and two arguments against. Currently, this does attract the full marks to be awarded. Under the new specification, the failure to reach a conclusion with rationale would result in the student being able to achieve no more than the Level 3 of the four levels. Therefore a students work which just highlights points for and against will only achieve a maximum of 9 marks of the 12 marks available.

Club accounts have not proven popular with students in previous series but on this occasion most students prepared good answers.

### SECTION A

Answer TWO questions from this section.

Indicate which question you are answering by marking a cross . If you change your mind, put a line through the box  and then indicate your new question with a cross .

If you answer question 1, put a cross in this box .

Source material for question 1 is on pages 2 and 3 of the source booklet.

1 (a) Prepare the:

(i) Restaurant Trading Account for the year ended 30 April 2015

(10)

Restaurant trading account

For the year ended 30 April 2015

| Details   | £      | £       |
|---|--------|---------|
| Sales   |        | 175000  |
| <u>- Cost of sales:</u>   |        |         |
| Opening inventory   | 7000   |         |
| + Purchases of supplies   | 57500  |         |
| - Closing inventory   | (6500) | (59000) |
| Gross Profit  |        | 117000  |
| <u>- Expenses:</u>  |        |         |
| Restaurant wages  | 35000  |         |
| Restaurant salaries   | 27500  |         |
| Restaurant Electricity  | 8500   |         |
| Depreciation on Equipment <sup>(16000 × 1/4)</sup> <del>(80000 × 1/4)</del> | 4000   |         |
| Depreciation on Fixture and Fittings (10000 × 1/2)                          | 5000   | (80000) |
| Profit from Restaurant  |        | 37000   |

## (ii) Income and Expenditure Account for the year ended 30 April 2015

(18)

Income and Expenditure account  
For the year ended 30 April 2015

| Details                                  | £                | £                             |
|--|------------------|-------------------------------|
| <u>Income:</u>                           |                  |                               |
| Subscriptions (225000 + 27500 - 16500)   | 236000           |                               |
| Profit from Restaurant                   | 37000            |                               |
| Interest receivable (4200 + 1200)        | 5400             |                               |
| <del>Donations</del>                     | <del>12000</del> | 278400                        |
|  |                  | <del>290400</del>             |
| <u>- Expenditure:</u>                    |                  |                               |
| Wages                                    | 96000            |                               |
| Salaries                                 | 64000            |                               |
| Insurance (5750 - 2500)                  | 3250             |                               |
| Bad debts                                | 11000            |                               |
| Increase in provision for doubtful debts | 500              |                               |
| Electricity                              | 19200            |                               |
| Depreciation on Equipment                | 12000            |                               |
| Depreciation on Fixtures and fittings    | 5000             |                               |
| Depreciation on Clubhouse                | 5600             |                               |
| Golf course maintenance                  | 64850            |                               |
|  |                  | (281400)                      |
| <del>Surplus</del> Deficit               |                  | <u><del>9000</del> (3000)</u> |

## Statement of Financial Position

For the year ended 30 April 2015

| Details                           | £ (Cost)      | £ (Dep.)      | £ (NBV)              |
|-----------------------------------|---------------|---------------|----------------------|
| <u>Assets:</u>                    |               |               |                      |
| <u>Non-current assets:</u>        |               |               |                      |
| Clubhouse                         | 280000        | 89600         | 190400               |
| Equipment                         | 200000        | 136000        | 64000                |
| Fixtures and fittings             | 100000        | 60000         | 40000                |
|                                   | <u>580000</u> | <u>285600</u> | <u>294400</u>        |
| <u>Current Assets:</u>            |               |               |                      |
| Inventory                         |               | 6500          |                      |
| Insurance prepaid                 |               | 3500          |                      |
| Interest Receivable owing         |               | 1200          |                      |
| Subscriptions (27500-3000)        |               | 24500         |                      |
| Trade receivables                 |               | 1450          |                      |
| <del>Bank sav</del> Cash and Bank |               | 26200         |                      |
| Bank savings account              |               | 90000         | 152350               |
|                                   |               |               | <del>62350</del>     |
|                                   |               |               | 446750               |
|                                   |               |               | <u><u>356750</u></u> |

| Details                          | R | R      | R             |
|----------------------------------|---|--------|---------------|
| <u>Equities and liabilities:</u> |   |        |               |
| <u>Equities:</u>                 |   |        |               |
| Accumulated fund                 |   | 400000 |               |
| + Donation                       |   | 12000  |               |
| - Deficit                        |   | (3000) | 409000        |
| <u>Liabilities:</u>              |   |        |               |
| Trade payables                   |   | 21250  |               |
| Subscriptions                    |   | 16500  | 37750         |
|                                  |   |        | <u>446750</u> |

(b) Evaluate the usefulness of a provision for doubtful debts on subscriptions.

(8)

~~A provision for do~~

Maintaining a provision for doubtful debts will make the accounts more accurate, as it abides by the prudence concept. It will not overstate the profits made.

A provision for doubtful debts on subscriptions will not be accurate as it is an estimation and the real value could be different. Less profits shown due to an estimation of an expenditure, which does not comply with realisation concept.





## ResultsPlus

**Examiner Comments**

This was an excellent piece of work in which the student almost achieved full marks.

Full marks were achieved in section (a)(i),(ii) and (iii) ie 10 marks, 16 marks and 16 marks.

In the evaluation section (b) the student was awarded 6 marks, for two positive comments and one point against such a provision.



## ResultsPlus

**Examiner Tip**

Students should ensure that a reasoned conclusion is made to ensure the best possible award of marks from June 2016.

## **Question 2**

Students again presented good answers to all sections of the question. The journals were substantially accurate and in good format. There were many correct answers to the suspense account with correct narratives. The calculation of the revised profit for the year was also substantially accurate. In the financial position statement common errors resulted in the failure to adjust the cost of computers and to adjust the trade receivables for the omission of the cheque from the books.

Common errors were:

- Miscalculation of the depreciation adjustment on the leasehold.
- Not adjusting the cost of the computers in the financial position statement.
- Again this was an excellent piece of work only lacking in the quality of the evaluation.

If you answer question 2, put a cross in this box  .

Source material for question 2 is on pages 4 and 5 of the source booklet.

2 (a) Prepare the:

(i) Journal entries to correct the errors (1) to (5). Narratives are **not** required

(12)

THE JOURNAL

|  | Dr (£) | Cr (£) |
|--|--------|--------|
| 1. Bank  | 900    |        |
| Suspense a/c                                     |        | 900    |
| 2. Discount allowed                              | 1880   |        |
| Suspense a/c                                     |        | 1880   |
| 3. <del>Profit</del> SOCI                        | 4000   |        |
| Provision for depreciation on lease on buildings |        | 4000   |
| 4. Computers a/c                                 | 1600   |        |
| Computer maintenance a/c                         |        | 1600   |
| <del>Profit</del> SOCI                           | 400    |        |
| Provision for depreciation on computers          |        | 400    |
| 5. Bank  | 480    |        |
| fung   |        | 480    |

(ii) Suspense Account after the correction of the errors (1) to (5).

(4)

| Suspense a/c                 |                  |             |
|------------------------------|------------------|-------------|
| Balance as per trial balance | Bank             | 900         |
| <u>2780</u>                  | Discount allowed | <u>1880</u> |
| <u>2780</u>                  |                  | <u>2780</u> |
| <del>278</del>               |                  |             |

(b) Calculate the profit for the year after the correction of all errors.

(10)

| Redrafted profit for the year    |      |               |
|----------------------------------|------|---------------|
| Profit for the year as per books |      | 9680          |
| Add: income                      |      |               |
| computer maintenance             |      | <u>1600</u>   |
|                                  |      | 11280         |
| less: expenses                   |      |               |
| discount allowed                 | 1880 |               |
| depreciation on computer         | 400  |               |
| leasehold on buildings           | 4000 |               |
|                                  |      | <u>(6280)</u> |
| Profit for the year              |      | 5000          |

(c) Prepare the Statement of Financial Position at 31 March 2015, after the correction of all errors.

(18)

|                              | cost   | Aggregate depr. | Carry over    |
|------------------------------|--------|-----------------|---------------|
| <u>Non current Assets</u>    |        |                 |               |
| leasehold on buildings       | 100000 | 54000           | 46000         |
| Computers                    | 24000  | 14000           | 10000         |
| Fixtures & fittings          | 12500  | 10000           | 2500          |
|                              |        |                 | <u>58500</u>  |
| <u>Current Assets</u>        |        |                 |               |
| closing inventory            |        | 16100           |               |
| Trade receivables            | 31320  |                 |               |
| (-) prov. for doubtful debts | (2800) | 29020           |               |
| other receivables (750+850)  |        | 1600            |               |
|                              |        | <del>750</del>  |               |
| Bank cash and Bank           |        | 3370            | 50090         |
|                              |        |                 | <u>49240</u>  |
|                              |        |                 | <u>108590</u> |
| <u>Capital and Equity</u>    |        |                 |               |
| Capital                      |        | 75000           |               |
| Profit for the year          |        | 5000            |               |
|                              |        |                 | 80000         |
| <u>Current Liabilities</u>   |        |                 |               |
| Trade payables               |        | 27500           |               |
| other payables (500+590)     |        | 1090            |               |
|                              |        |                 | <u>28590</u>  |
|                              |        |                 | <u>108590</u> |

(d) Evaluate the usefulness of draft financial statements, before the correction of errors.

(8)

Preparing draft financial statements ~~can~~ will be useful when locating errors before or identifying where the errors have been made. It can also be convenient to prepare after all the correction of errors.

Balances drafted from ~~the~~ draft financial statements can be cross checked when locating errors.

However, <sup>it</sup> ~~this~~ may be time consuming to prepare draft financial statements more than once.

Furthermore, it may not accurately provide locations of errors which may again be time consuming.



**ResultsPlus**

**Examiner Comments**

Again, this was an excellent piece of a students work which scored full marks in sections (a) and (b) but which had a very limited evaluation.

Part (a)(i) scored the full 12 marks, part (a)(ii) the full 4 marks and part (b) the full 10 marks.

In part (c) 15 marks were awarded the only errors relating to the non-current asset of computers and the absence of the computer maintenance accrual.

The evaluation in part (d) was very limited and was awarded only 2 marks. This would have been a level 1 response on the levels based marking.



**ResultsPlus**

**Examiner Tip**

Note comments on evaluation.

### **Question 3**

Students generally prepared accurate ratio calculations. the calculation of the value of the purchased goodwill did cause difficulty with very few students arriving at the correct calculation.

In Part (b) the question was seeking possible reasons for the differences. Most students equipped themselves well but others merely listed the differences between the ratios in words without offering possible reasons for the variance.

Students did not demonstrate an understanding of the significance of the revenue to non-current assets in part (c).

In part (d) students were fully familiar with non-financial factors that might have to be considered before making an investment.

The evaluation in part (e) was generally appropriate using a mixture of financial and non-financial advantages and disadvantages of the restaurants. However, although these were extensive, many students failed to summate this into a reasoned conclusion, actually recommending one of the restaurants. Centres and students should be aware that a reasoned conclusion must be part of the evaluation in the New Specification to achieve the highest level and the highest marks.

Common errors:

- Calculation of the value of goodwill in part (a).
- Failing to offer reasons for the differences in ratios in part (b).
- Students understanding of the value of a revenue to non-current assets ratio.

Students prepared excellent responses stating the formula and carrying out the calculation for each ratio. Most students were unable to accurately calculate the value of goodwill.

(b) Suggest **two** possible reasons for the differences between the ratios for the Garden Restaurant and for the New Restaurant under each of the following headings:

- (i) Profitability
- (ii) Liquidity
- (iii) Use of assets.

(12)

i) PROFITABILITY

Garden Restaurant

→ Cheap supplies hence more gross profit.

→ Higher selling price which will make the profits to rise hence higher gross profit margin.

New Restaurant

→ Expensive supplies since it's new in the business hence lower gross profit margin.

→ Lower selling price in order to gain revenue and to attract more consumers since it's a new business hence lower gross profit margin.

ii) Liquidity

Garden Restaurant has got more creditors than the New Restaurant hence the ratio is lower of ~~New~~ Garden Restaurant.

- There is better cash-flow of New restaurant which makes them to pay faster to creditors hence less trade payables unlike Garden Restaurant whose cash-flow is not that good.



### iii) Use of the assets

- There are less assets bought by garden restaurant because it is located in town centre and there is not so much space hence ~~lower~~ less use of the assets.

→ More assets for New restaurant may be because it's a newbie in the market and the owner does not know how much he needs or may be he has a plan of extending the business since it's located in the outskirts hence more chances of expansion.

(e) Evaluate which restaurant, if any, Nural should purchase.

(8)

Nural should purchase New Restaurant which is located on the outskirts of the Town.

The return on capital employed is way more than the Garden restaurant. The new restaurant has return on capital employed of 27.5% which is very beneficial to the owners and Nural will enjoy this.

The current ratio of new restaurant is 3:1 which is above the ideal ratio of 2:1 hence the business is able to pay its short term debts very easily and this would be great for Nural.

However, the gross-profit margin is lower than the Garden Restaurant by 10%. so he ~~is~~ is less likely to make huge profits and also the sales volume is less compared

to the Garden Restaurant but will soon speed up since it's new in the market.

Moreover, there is under-utilization of current assets, there are idle funds lying since the current ratio is 3:1.

Therefore, Nural should invest this extra fund into profitable venture which will again help the business to fetch extra revenue for the business.



## ResultsPlus

### Examiner Comments

The ratios were generally calculated accurately by students.

Part (b) of the question brought a range of responses but the question asked for **possible reasons** for the differences. The example of a student's work attached is exactly what the examiners required and was therefore awarded the full 8 marks.

Some students merely stated the difference between the two ratios and failed to give any possible reasons for those differences. Those students were not awarded marks for their comments.

The part (e) evaluation attached was an excellent answer which highlighted a range of strengths and weaknesses of each restaurant. Those strengths and weaknesses were then balanced to arrive at a reasoned conclusion. The student's work was awarded the full 8 marks. Had the levels based marking been applied to this response it would have been a level 4 response and would probably have been awarded the full 12 marks.



## ResultsPlus

### Examiner Tip

Part (b) is a good example of how students need to read the question carefully and answer the question asked by the examiners.

## Question 4

The question was answered well by most students. In part (a) students were generally aware of the difference between bad debts and provisions for doubtful debts. Students were also able to explain the differences with clarity. In part (b) students were much better at identifying possible reasons for a credit balance on the control account than had been the case in previous examinations.

In part (c) the control account was generally well presented but the credit entry for bad debts was often recorded as a different number. The journal prepared by students varied considerably in accuracy and very few students provided a narrative to the journal. The provision for doubtful debts account was generally accurate.

In part (d) students were generally aware of the reasons providing the strengths and limitations of control accounts.

Common errors:

- Treatment of bad debts in the sales ledger control account
- The journal entry and the provision of a narrative.

The student performed strongly throughout the question.

### SECTION B

Answer **THREE** questions from this section.

If you answer question 4, put a cross in this box  .

Source material for question 4 is on pages 8 and 9 of the source booklet.

4 (a) Distinguish between bad debts and a provision for doubtful debts.

(4)

Bad debts are ~~be~~ debts which the business cannot recover. This can be because the debtor has ceased trading or declared bankrupt.

Provision for doubtful debts is where a provision is made for debts in doubt. This means that some debts are unsure as to whether they will become a bad debt or the debtor will repay them. A provision is made <sup>for</sup> ~~from~~ those doubtful debts out of the profit to comply with the prudence concept, and not to ~~overstate~~ <sup>overstate</sup> profit.

(b) Suggest **two** possible reasons for the opening credit balance on the Sales Ledger Control Account at 1 February 2015.

(2)

• Overpayment by a debtor

• Goods returned after cash paid received by ~~it~~ from debtors.



**ResultsPlus**

**Examiner Comments**

This is another example of students good work. The student provides a good distinction between bad debts and provisions for doubtful debts and was awarded the full 4 marks.

When part (b) has been examined in previous series responses have been poor but on this occasion we are pleased to report that students responses were generally appropriate. In the students work attached the comments were awarded the full two marks.



**ResultsPlus**

**Examiner Tip**

Centres had clearly responded to previous examiners reports. Reports and mark schemes should be studied after each examination series.

## **Question 5**

Students answered this costing question better than has been the case with many other costing questions in the past. Many answers were substantially accurate and high marks were scored.

In part (a) most students scored high marks on the stock valuation and many students accurately calculated the closing inventory value.

In part (b) many students were able to calculate the prime cost and present the information in the correct format. The most common error was to miscalculate the direct labour cost. In part (c) students generally adopted the correct formulae for the calculations.

In part (d) students evaluation of the use of Last In First Out (L.I.F.O) was excellent, however again there was generally no conclusion which will be required under the New Specification.

Most common errors:

- Calculation of the direct labour cost in the manufacturing account extract.



(b) Prepare the Prime Cost section of the Manufacturing Account for the month ending 31 March 2015.

|  |                             |
|--|-----------------------------|
|  | <u>£</u> (12)               |
| Opening inventory of raw materials:                            | 720                         |
| (+) Purchases of raw materials:                                | 4590                        |
| (-) Closing inventory of raw materials:                        | (1230)                      |
| (-) <del>Damaged</del> <sup>wasted</sup> inventory (4080 x 5%) | <u>(204)</u>                |
| Raw materials consumed:  | 3876                        |
|  |                             |
| (+) <u>Direct expenses:</u>                                    |                             |
| Direct expenses for March (3800 x 40%)                         | 1520                        |
| Employees salary (160 x 4) + (20 x 2) + (5 x 8)                | <u>800</u>                  |
|  | <del>2320</del> <u>2320</u> |
| Prime Cost:  | <u><u>6196</u></u>          |

(c) Calculate for March 2015, the:

(i) number of bicycle frames manufactured

(3)

Each bicycle <sup>frame</sup> require 3 meters of metal tubing.

∴ total issued = 3000

number of bicycle frames manufactured =  $\frac{3000}{3}$   
= 1000 by bicycle frame.

(ii) prime cost per bicycle frame manufactured.

(3)

Prime cost for total = £ 6196

∴ for per bicycle prime cost =  $\frac{6196}{1000}$  = £ 6.196 per bicycle

(d) Evaluate the use of Last In First Out (L.I.F.O) as a method of valuing inventory.

(4)

By using Last In First Out (LIFO) as a method of valuing inventory the closing inventory can be easily calculated. The first inventory issued to production is based on the most recent prices paid for the inventory.

However there is a higher risk of inventory being obsolete and this method is also not accepted by the Inland Revenue for taxation purposes.

Overall there are higher advantages which outweigh the disadvantages.



### ResultsPlus Examiner Comments

The student calculated the inventory valuation of £1 230, although by a different route from the one included in the model answer, and was awarded 10 marks.

In part (b) the student made an error in the calculation of the direct labour cost and failed to include the label Prime Cost and was therefore awarded 9 marks.

In part (c) no adjustment had been made for the wastage of raw material and therefore 2 marks for (a)(i) and 3 marks for (a)(ii) were awarded.

Part (d) of the question was well answered with positives and negatives stated, therefore 4 marks were awarded.



### ResultsPlus Examiner Tip

Beware of using short cuts or not showing detailed workings. If students fail to do so, if they get the answer correct full marks will be awarded, but if the answer is incorrect the student may lose possible marks for workings.



## Question 6

The question was not well answered by students, particularly in part (b).

In part (a) an understanding of the effects in the event of no formal partnership agreement varied between students. Most students were aware that profits or losses would be shared equally but few students were aware of all of the remaining legal implications.

Part (b) was not answered well by students. Very few students considered the effect of the inventory revaluation. Many students failed to identify a payment to be made to the retiring partner. A significant number of students also brought down a balance for both partners even though one partner had retired.

In part (c) students prepared reasonable financial position statements from their work in part (b) and the additional information. Many students failed to show the goodwill although this was retained in the business. The evaluation in part (c) of the decision to retain goodwill in the books was generally good and many students were aware of the difference between purchased and non purchased goodwill.

Common errors were:

- Other than an equal sharing of profits and losses, an understanding of the rules relating to the distribution of profit in the absence of a formal partnership agreement.
- Within the capital accounts accounting for the revaluation of inventory.
- Failure to include goodwill in the statement of financial position.

Many students struggled on this question mainly because they failed to complete the capital accounts with reasonable accuracy.

(b) Prepare the:

(i) Capital Accounts of Poon and Quan

| Capital A/c Poon |                | (8)                 |                |
|------------------|----------------|---------------------|----------------|
| Dr               |                | Cr                  |                |
| Motor vehicle    | £<br>10 000    | 28.2.15 Balance b/f | £<br>60 000    |
| Revaluation loss | 4 000          | Goodwill            | 40 000         |
| Loan             | 50 000         |                     |                |
| Balance Bank     | <u>36 000</u>  |                     |                |
|                  | <u>100 000</u> |                     | <u>100 000</u> |

| Dr               | Capital A/c Quan  |             | Cr           |
|------------------|-------------------|-------------|--------------|
|                  | £                 | 25.12.15    | £            |
|                  | <del>10 000</del> | Balance b/f | 40 000       |
| Goodwill         | 80000             | Goodwill    | 20 000       |
| Revaluation Loss | 2000              | Loan        | 30 000       |
| Balance c/d      | 28000             | Balance c/d | 2000         |
|                  | <u>90000</u>      |             | <u>90000</u> |
|                  | <u>62000</u>      |             | <u>62000</u> |
| Balance b/d      | 2000              | Balance b/d | 28000        |



### ResultsPlus Examiner Comments

Many students failed to post the capital accounts correctly which caused difficulties in the remainder of the question. The example attached is one of the students better responses. In the case of Poon the capital account is correct, the revaluation was made and the bank settlement was identified correctly and no balance was carried forward.

In the case of Quan the student entered a debit entry for goodwill which was incorrect. The student was awarded 8 marks for the question part on the own figure rule.



### ResultsPlus Examiner Tip

This was an example of a partnership question which was different in it's approach and one which centres may wish to ensure that they work through with future cohorts of students.

## **Question 7**

Students generally provided inaccurate explanations of net realisable value. Students seemed to break into three equal groups in preparing this answer. One group did not attempt this part of the question, another group confused the term with net book value on non-current assets and explained the meaning of the latter. The third group's responses stated that it was the current realisable selling price, but failed to be precise that this price was less any costs of placing the good in a saleable condition. Centres should reinforce the meaning of this term for future examinations.

Part (b) of the question was answered very well with most students achieving high marks for accurate answers.

In part (c) the student was required to establish the expected cost of sales from a 40% mark up and then derive the inventory lost. Many students did this and were awarded high marks. In the following example of a student's work the answer is correct and well presented and was awarded the full 11 marks.

A minority of students failed to work backwards from the expected cost of sales and were unable to establish the inventory destroyed. The following example of a student's work was common and was awarded 5 marks.

Part (d) of the question was answered well with students aware of the effects of using Last In First Out (LIFO) as a method of inventory valuation. A minority of students still confused inventory valuation with inventory rotation.

Common errors were:

- A failure to understand the term net realisable value.
- A failure to calculate the cost of sales from the mark-up.

Students generally performed very well on this question. However the key to success was an understanding of mark-up and how the cost of sales could be calculated.

- (c) Prepare the trading account for the period 1 April to 20 April 2015 showing the value of the inventory remaining and the value of the inventory destroyed.

(11)

Trading account  
For the period 1 April to 20 April 2015

| Details                       | £       | £            |
|-------------------------------|---------|--------------|
| Revenue                       |         | 140000       |
| - Cost of Sales:              |         |              |
| Opening inventory             | 25000   |              |
| + Purchases                   | 96000   |              |
| - Closing inventory remaining | (14300) |              |
| - Inventory destroyed         | (6700)  | (100000)     |
| Gross Profit                  |         | <u>40000</u> |



**ResultsPlus**

**Examiner Comments**

This is an example of how students were required to answer the question. The key to that calculation was to use the mark-up given in the question to establish the cost of sales. Students could then work backwards to establish the expected value of the closing inventory and hence the inventory destroyed. The answer was correct and was awarded 11 marks.



**ResultsPlus**

**Examiner Tip**

Students need to understand the difference between mark-up and margin and how to work out revenue and cost of sales when one of these is not given.

(c) Prepare the trading account for the period 1 April to 20 April 2015 showing the value of the inventory remaining and the value of the inventory destroyed.

(11)

| Details                 | £       | £            |
|-------------------------|---------|--------------|
| Revenue                 |         | 136000       |
| Less: cost of revenue   |         |              |
| Opening inventory       | 25000   |              |
| Add: purchase           | 93600   |              |
|                         | 118600  |              |
| Less: closing inventory | (14300) | (104300)     |
| Gross profit            |         | <u>31700</u> |



**ResultsPlus**

**Examiner Comments**

In this example the student has failed to use the mark-up to calculate the cost of sales which could have been awarded on an own figure basis. Instead, the student has calculated the cost of sales from the inventory balances and the purchases. The student was awarded 5 marks including 2 on the own figure rule.

## Paper Summary

Students answered most questions displaying a full range of Accounting knowledge and skills. However, centres may wish to consider the following areas for improvement to assist their students to achieve even higher standards in future examination series:

- Partnership scenarios where one partner is leaving or joining the business. Entries in capital accounts and the preparation of a statement of financial position after the arrival or departure of a partner.
- A reasoned conclusion to the evaluation of scenarios set. Assess the importance of factors in arriving at a conclusion.
- Ensure that all students are using International Accounting Standards (IAS) terminology and formats.

## **Grade Boundaries**

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

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

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