

# Examiners' Report January 2008

GCE

GCE Accounting (8011-9011)

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## 6001 GCE ACCOUNTING EXAMINERS' REPORT - JANUARY 2008

### General Comments

Candidates were generally well prepared for the examination, and were able to demonstrate a wide range of accounting skills.

Candidates were again generally stronger on the topics examined in Section A, where candidates were able to apply their knowledge and skills to the scenarios set.

Within Section B, candidates demonstrated a significant improvement in the application of costing concepts but were less confident in areas which have been regularly examined, these being accounting concepts and double entry.

### Question 1

The profit and loss was generally presented with accurate calculations and in good format, including the correct content and format within appropriation. Within the capital accounts, candidates generally calculated goodwill correctly and many candidates correctly included the closing balances from which the opening balances were calculated. There was still a lack of clarity from some candidates of the items which should be included in the capital account and those items which should be included in the current account. Candidates were generally able to calculate the stock value using the Last In First Out (LIFO) method, but many candidates were unable to identify the impact of a change in method on profit. Candidates could describe depreciation and the need to match depreciation to financial years over the life of the asset, but candidates could generally not identify depreciation as a non cash item.

Common errors were:

- Calculation of the depreciation and provision for doubtful debts in the profit and loss account.
- Including current account items within the capital accounts.
- Recording the closing capital account balances as the opening balances.
- Failure to understand the impact of LIFO on reported profit.
- Understanding that depreciation is a non cash item.

## Question 2

Candidates generally prepared manufacturing, trading and profit and loss accounts accurately and in good format, although a minority of candidates failed to prepare the manufacturing account in columnar format. Candidates generally made a sound attempt to calculate the cost per item, although some candidates used the number of bags sold and not the number produced. Few candidates were able to adjust the net profit to establish the potential net profit if the items were purchased instead of manufactured. Candidates were able to finally evaluate the scenario providing a sound argument based upon financial and non financial reasons for their proposals.

Common errors were:

- Failure to use columnar format in the manufacturing account.
- Calculation of impact on net profit.

## Question 3

Candidates demonstrated an improved understanding of profitability which they were able to explain and identify the means by which this would be measured. In application, candidates could calculate liquidity accurately; however, the calculation of the profitability ratios was still noticeably weaker than the calculation of liquidity ratios. Candidates made good attempts to evaluate the proposals although the calculation of profitability often restricted the quality of responses made.

Common errors were:

- Calculation of net profit to sales % and return on capital employed.

## Question 4

Candidates generally prepared good answers, accurately calculating the purchases and the sales before preparing a generally accurate trading and profit and loss account. The calculation of the stock stolen was often inaccurate with candidates often including profit within the stock value and adjusting the actual closing stock. Candidates also accurately identified the business entity concept as having been breached and could evaluate the maintenance of a formal set of accounting records.

Common errors were:

- Calculation of stock stolen.

### Question 5

Candidates demonstrated a much improved understanding and application of costing concepts. Calculations of cost were generally accurate and candidates were able to accurately calculate the impact of proposed equipment changes on the overall cost. Candidates also evaluated the scenario well, identifying financial and non financial reasons for their decisions.

Common errors were:

- Calculation of annual cost of owner within the hourly rate calculation.

### Question 6

Candidate's demonstrated limited ability in identifying the accounting concepts within the scenarios set, although candidates were generally able to apply those concepts to the adjustment of the profit and loss account. Candidates were familiar with the role played by accounting concepts and conventions and could identify a range of benefits. Candidates were generally unaware of any of the limited circumstances in which increased staff skill could be accounted for by the business.

Common errors were:

- Identification of accounting concepts from scenarios set.
- Understanding of the circumstances in which the increased skill of staff could be accounted.

### Question 7

Candidates generally accurately recorded the corrections and adjustments in the journal. Candidates demonstrated less ability in the preparation of the ledger accounts required in part (b), where answers generally lacked detail and were often not consistent with the journal entries in part (a). Candidates were generally aware of the importance of the trial balance in ensuring accuracy in the accounts.

Common errors were:

- Preparation of double entry ledger accounts.

## 6002 GCE ACCOUNTING EXAMINERS REPORT - JANUARY 2008

### General Comments

Most candidates showed a reasonably good understanding of Accounting at this level. Learning the detail and improving application could see higher marks achieved. All seven questions were attempted by candidates with no one question proving markedly unpopular. Candidates achieved broadly similar marks in all questions.

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

- Practice on application. Candidates had learnt the formulas well, but had difficulty in inserting the correct figures into the formulas.
- Evaluation usually involves a judgement on figures already calculated, rather than mere repetition of those figures without judgement on their meaning.
- When evaluating accounting information, part of that evaluation includes arriving at a conclusion, eg Redeeming the Preference shares and issuing Ordinary shares was a good idea.

### Question 1

This was a fairly popular question with candidates scoring reasonably well. In part (a), a good understanding of the basic balance sheet was displayed, but the Format 1 layout needs to be learnt. This would include the correct headings as well, as they will always be awarded marks.

Part (b) was weakly attempted, with many candidates not understanding the purpose of the Auditors Report.

Common errors were:

- Failure to distinguish between Intangible and Tangible fixed assets.
- Omission of Work in Progress altogether, instead of placing in current assets.
- Incorrect headings for Creditors: Amounts falling due within one year (or after more than one year) as candidates still used Current Liabilities (or Long Term Liabilities).
- Not showing Total assets less Current Liabilities.

- Placing Debentures in the Capital and Reserves section of the balance sheet.
- Not showing Taxation Provision under its own separate heading (although the marks were awarded for showing under Creditors due within one year).
- Forgetting to increase the Revaluation Reserve to £170 000.
- Failure to realise the Profit and Loss Account balance was a debit balance and needed to be subtracted.
- Insufficient knowledge of the Auditors Report, stating that it explained the figures in the final accounts, rather than verified them.

## Question 2

A popular question, where candidates scored fairly well.

In part (a) the figures were not applied correctly to the formulas, even though they had been learnt well. However, it was good to see that almost all candidates were able to identify the variances as Adverse.

Most candidates were able to arrive at a correct profit figure for part (b).

Part (c) was found difficult, with many being unable to calculate correctly the production cost of one pot, and fewer still the profit on one pot.

However, in part (d), most answers included valid points both for and against the decision to pass on the increased costs to customers. It was also pleasing to see that many decided to include an overall decision, as to whether or not to pass on the increased costs to customers.

Common errors were:

- Failure to calculate the correct figures to be inserted into the formulas in part (a).
- Leaving Fixed Costs out of the profit calculation in part (b).
- Inability to calculate the various cost figures per pot, when attempting part (c).

### Question 3

This was the least popular question in Section A, although marks were reasonable.

Answers for part (a) were strong, with many achieving full marks.

Many candidates were able to score fairly well in part (b), but including dates and balancing off would have obtained higher marks. Few were able to show that a transfer needed to be made to the Capital Redemption Reserve. Preference shares of £125 000 had been redeemed, and Ordinary shares including the premium had raised £60 000. A difference of £65 000 had to be transferred to maintain the Creditors Buffer.

In part (c) a range of possible figures were allowed for Capital Employed, but a large number of candidates still failed to arrive at a correct figure.

A mixed range of answers was given for part (d), with most able to state some advantages or disadvantages of the two types of share, and arrive at a conclusion.

Common errors were:

- Failure to use dates in ledger accounts, and to balance off at the year end in part (a).
- Not showing a transfer to the Capital Redemption Reserve in part (b).
- Incorrect calculation for Capital Employed figure in part (c).
- In part (d), thinking that the directors had personally bought the preference shares, rather than acting on behalf of the company, and cancelling the shares after purchase.

### Question 4

A popular question that was generally answered quite well.

Candidates knew the structure of a Cash Budget for part (a), although weaker answers showed incorrect balancing off, or no balancing off at all. Some of the detail was omitted or not accurate, such as the Cash and Credit Sales figures.

Answers for part (b) were good, often all correct.

Part (c) saw candidates able to discuss the question, although not in a great deal of depth.

Common errors were:

- Share Capital being shown as £10 000 instead of £20 000.
- Incorrect calculations of Credit Sales and Cash Sales.
- Directors Drawings entered as £1 600 not £3 200.
- In part (b) showing the figure for the month when debtors paid, not the balance at the end of the month eg £3 500 in Month 2 not Month 1.

## Question 5

This was the least popular question in Section B.

However, answers were surprisingly strong, with many obtaining full marks in part (a).

Part (b) was weaker, as many candidates merely restated the figures they had calculated in part (a).

More marks would have been awarded if there was a reference to how much higher one figure was in relation to another. There was also a need for an awareness of which figures were not relevant to the investment decision. These would have included the number of £1 shares issued, and probably the Net Profit figure, given the different sizes of the companies. Some figures would need to be justified eg share price, dividend cover, as just stating that one is 'higher', does not always mean better. However, it was good to see that every candidate recommended a firm to invest in as part of the evaluation.

Common errors were:

- Failure to state units for figures calculated.
- No justification for a preferred figure eg share price.

## Question 6

Candidates were able to construct a table to calculate the profit or loss in part (a) for each oil well, although some got into difficulties with the number of zeroes involved. Others avoided this by stating each column was expressed in "£000s".

Generally answers to part (b) were good, although some gave only profit or contribution, and not both, as the question requested.

In part (c), candidates were able to state a preferred course of action for each oil well, although few referred to marginal costing in their decision-making. For example, Al Quarat was making a positive contribution, so should remain open in the short term. However, if it continued to make a loss, and fail to cover its fixed costs, it should be shut down in the long term.

Common errors were:

- Confusion with zeroes in calculations for part (a).
- Failure to calculate contribution and profit or loss in part (b).
- Not using marginal costing in decision-making for the future of each oil well.

## Question 7

This question saw some good answers, with most of the calculations required for part (a) correct. However, some candidates thought a Cash Flow Statement as per FRS 1 was required and attempted to do this, despite the fact that not enough information was given.

Part (b) saw many confused answers, with the fact that an overdraft was involved proving difficult.

Many answers for part (c) described how liquidity could be measured eg using Current Ratio. This did not address the question which wanted an evaluation of the importance of liquidity to a business.

Common errors were:

- Incorrect calculation of depreciation on machinery, finding 25% of £60 000, instead of £80 000.
- Failing to state that £49 310 was 'Net Cash Flow from Operating Activities'.
- Confusion in part (b) due to negative figures of overdraft.
- Describing liquidity or how to measure it in part (c), instead of evaluating its importance to a firm.

### 8011-9011 GCE Accounting Grade Boundaries

Grade	A	B	C	D	E
6001 Lowest mark for award of grade	69	60	51	42	33
6002 Lowest mark for award of grade	65	56	48	40	32

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