

Examiners' Report

June 2016

IAL Accounting 1 WAC01 01

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Introduction

Performance was strong in almost all areas. Candidates demonstrated a wide range of Accounting skills and knowledge, reflecting good preparation for the examination.

Although the performance was strong, common errors on which centres may wish to consider placing greater emphasis, were:

Costing. Question (Q) 2 was the least popular question with candidates and although some areas of the question were well answered, there was an underlying weakness in the calculation and use of costing information, particularly in the quotation.

Double entry ledger accounts. Q6, in particular, required double entry skills to be applied. Many candidates prepared excellent accurate answers. For others, there was a lack of underpinning knowledge of double entry to enable them to complete the task.

Use of appropriate narratives in accounts and when balancing accounts. Some candidates used a narrative of the account in which the entry was being made eg narrative suspense, in the Suspense Account. More commonly, candidates did not use a suitable narrative when balancing an account, b/d, c/d is insufficient. A small number of candidates lost a considerable number of marks through inappropriate narratives.

As part of this report, typical responses that were received in the examination, are shown. These are not always exemplars but are typical of the work of candidates.

Question 1

The question was generally well answered by candidates. Almost all candidates prepared their answers in columnar format and in an ordered fashion. Answers were accurate, with few common errors.

Common errors were:

The £3 250 of repair parts was correctly deducted from the purchases of motor vehicle repairs, but was often not added to the purchases for car sales.

Advertising costs: the adjustment for the prepayment was calculated incorrectly. A prepayment of 3 months, and not the correct 4 months, was used regularly. This gave an incorrect value for advertising, and therefore an incorrect apportionment.

In the position statement it was common to find the 5% loan as a non-current liability, although it had to be repaid within one year and therefore was a current liability.

The evaluation of the scenario set was generally good and informed.

The question chosen as an example is one that was typical of those seen by examiners.

SECTION A

Answer TWO questions from this section.

If you answer Question 1 put a cross in the box .

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

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

1 (a) Prepare the:

- (i) Departmental Statement of Comprehensive Income, in **columnar format**, for the year ended 30 April 2016, showing the profit for the year in **each** of the two departments

(29)

Oaktree garage Departmental Statement of Comprehensive		Income year end 30/4/16	
	motor vehicle Repair	Car & motor vehicle	Total Car
Sales	286000	520,000	
Opening Stock	14500	135000	
Purchase	147500	417750	
closing Stock	(21000)	(116000)	(116000)
Cost of Sales	(141000)	(436750)	
gross profit	125000	83250	
Expenses			
Dep: Repair Equipment	2400	3200	
Car Sale fixtures		3200	
Administration	2400	1600	4000
Advertising	18600	12400	31000
Repair machine wages	36700		
Car Sales Staff		31000	
Admin Salaries	15000	10,000	25000

	MVR	Car	Total
Rent	12000	28000	40,000
General Expenses	5500	4500	10,000
Bank loan interest	1500		
Bad debt	1400		
	(95500)	(90700)	
Net Profit	29500	(7450)	

(ii) Statement of Financial Position at 30 April 2016.

(15)

at 30/4/16			
Statement of financial position	Cost	Dep	NBV
<u>NCA</u>			
motor vehicle Equipment	80,000	70400	9600
Car Sales	32,000	21200	10800
Administration	20,000	15000	<u>5000</u>
			25400
<u>CA</u>			
closing Stock		137000	
Debtors	26400		
Provision	(2000)	24400	
Bank		12200	
Advertising		3000	<u>176600</u>
			<u>202000</u>
<u>CE</u>			
Capital		150,000	
Net Profit: mvr		29500	
: Car Sale		(7450)	
Drawings		(34000)	138050
<u>Dr</u>			

<u>NCL</u>			
5% Bank loan			30,000
loan interest			1500
<u>CL</u>			
Creditors			41000
loan interest			<u>1500</u>
			<u>210550</u>

The owner of Oaktree Garage is considering closing the Car Sales Department and concentrating on motor vehicle repairs. He has received an offer of £30 000 to rent the car sales showroom.

(b) Evaluate whether the owner of Oaktree Garage should accept the offer of £30 000 to rent the car sales showroom.

(8)

In favour

- It is better for oaktree garage to close car sale department because it has a net loss.
- Renting for 30,000 will bring him a fixed monthly income.
- It is better to concentrate on motor vehicle repair because it has high revenue 266,000

Against

- However oaktree may be able to earn high revenue by carrying out car sales department than £30,000 rent
- Sometimes the oaktree owner may have to repair the showroom. This may cause a cost to oaktree before renting



The income statement was substantially correct. The only issues were:

- Incomplete transfer of the £3 250 car parts to the car sale
- Advertising miscalculated
- Repair mechanics wages incorrect figure used
- The candidate gained 25 of the 29 marks available.

The financial position statement, again, was substantially correct. The only issues were:

- The prepaid advertising under other receivables was incorrect
- The 5% loan was not shown under current assets
- The candidate gained 13 of the 15 marks available.

The evaluation was brief, but gaining a fixed monthly income, ability to concentrate on the other area of the business, and loss of potential business were accepted as valid points for and against.

The candidate gained 6 of the 8 marks available.

44 marks

Question 2

Candidates' responses to the question were generally mixed. On balance, it was the least well-answered of the questions.

Responses generally took the following pattern:

The majority of the candidates who did attempt the question did not understand the meaning of the term 'job costing'.

Very few candidates were able to calculate the assembly department direct labour costs. Many candidates did not attempt this part but, of those who did, many arrived at £4.90, which was less than the basic wage rate of £5 per hour.

Most candidates could identify duties that could not be charged directly to the customer. However, there was a minority who listed only four categories of expenditure, such as depreciation, advertising etc.

The continuous allotment reapportionment of overheads was very well done by almost all candidates, who could then calculate accurately an overhead recovery rate.

The quotation was generally not well prepared by candidates. Many candidates omitted the direct labour cost and therefore only included raw materials and overheads.

Candidates were fully aware of the issues relating to payment by piecework and could evaluate the scenario set, producing generally excellent answers.

Question 3

The question was generally answered very well by candidates.

Candidates provided practical suggestions as to the action that should be taken when the trial balance failed to balance.

The journal entries were substantially correct, with no single set of journal entries causing particular difficulty to candidates.

The suspense account mirrored the journal entries and was generally accurate. A variety of wording was accepted for the original difference, but a significant number of candidates balanced the suspense account and carried down and brought down the balance. No mark was awarded for the balance when this was applied.

The adjustment to the draft profit for the year was generally not completed with substantial accuracy. Many candidates lost marks because they applied the incorrect orientation to the adjustment, increasing when it should be decreased, or *vice versa*.

The evaluation was generally good, and candidates were able to explain a number of benefits and issues in preparing financial statements with errors in the books.

3 (a) Briefly explain **two** actions that Waban could take when his trial balance failed to balance.

(4)

Firstly he has to recheck the figures/amounts and re-add them if necessary. This will reveal and transposition of errors.

Secondly he has to check the balances of the books of original entry. If there is an error from an original entry it has to be redone.

(b) Prepare the Journal entries to correct the errors in (1) to (8) shown in the source booklet. Narratives are **not** required.

(18)

Details		£	£
① Cash A/C	Dr	850	
Sales A/C	Cr		850
② Purchase Day book	Dr	450 440	
Net Suspence A/C	Cr		450
③ Motor vehicle A/C	Dr	8000	
Motor expenses A/C	Cr		8000
④ Suspence A/C	Dr	1260	
Interest Receivable A/C	Cr		1260
⑤ Electricity A/C	Dr	200	
Dalha Electric A/C	Cr		200
⑥ General expence	Dr	65	
Suspence A/C	Cr		65
⑦ Bad debts A/C	Dr	4100	
Mubib A/C	Cr		4100
⑧ TAJ A/C	Dr	85	
RAJ A/C	Cr		85
③ Motor vehicle A/C	Dr	8000	
Motor expenses A/C	Cr		8000
Depreciation A/C	Dr	2000	
Provision for depreciation	Cr		2000

(e) Evaluate preparing draft financial statements from books containing errors.

(8)

Preparing draft financial statements will give an opportunity to find and locate errors. It will give a rough idea of what the profits maybe. Small mistakes can also be recognised. Errors corrected out in the trial balance can be found in draft financial statements.

However, it is time consuming. It is costly to prepare draft statements. Errors made in the original entry cannot be found in the financial statements. It is time consuming as well.



ResultsPlus Examiner Comments

The candidate's response is typical of the responses received for this question.

The actions that should be taken when the trial balance does not agree.

The candidate discusses the checking and re-balancing of data

There was no mention of a suspense account or checking control accounts

The candidate is awarded 2 of the 4 marks available.

The journal entries are substantially correct: the only error is item (2), so the candidate is awarded 16 of the 18 marks available.

The suspense account is correct other than the debit purchases entry, which have been credited. The candidate is awarded 3 of the 4 marks available.

The correction of profit has five of the eight corrections made and, together with a revised profit, is awarded 11 of the 16 marks available.

The evaluation states that even with errors, the business could still establish a rough idea of profit obtained, and that would be of value. The counter argument is that reworking the accounts would be time-consuming and costly. These are two valid points and 4 of the 8 marks are awarded.

36 marks



ResultsPlus Examiner Tip

When preparing journals, candidates should ensure that the entry is made into an account, NOT a book of prime entry such as a day book or the cash book. These are not accounts, and double entry cannot apply.

Question 4

The question was answered very well.

Candidates could identify four non-financial factors. They could then proceed to calculate the four ratios for each business, with accuracy. The only difficulty was calculating the value of goodwill, which many candidates miscalculated.

The evaluation was generally well prepared. The financial advantages and disadvantages of the business selected by the candidates were detailed, and were rewarded with high marks.

Question 5

Candidates generally prepared good club accounts. Responses were full and reasonably accurate, but with some common errors.

Common errors were:

- The opening balance of the receipts and payments account was not recorded.
- In the subscriptions account the transfer was regularly to the income statement, not to the income and expenditure account. Other narratives were sometimes incorrect.
- The income and expenses account often included 'alien' items, such as the sale and purchase of capital sports equipment.

The evaluation was answered well, with candidates able to offer a number of advantages and disadvantages of offering the discounted membership.

5 (a) Prepare, for the year ended 30 April 2016, the:

(i) Receipts and Payments Account

(6)

Receipts and payments Acc.			
	£		£
1/1/15 Balance b/d	1600	Wages & salaries	8550
Subscriptions	24900	Insurance	1100
Bank interest	70	Electricity	690
Sale of sports equipment	1700	General expenses	3400
		Purchase of sports equipment	8500
		30/04/2016 Balance c/d	6030
	<u>28270</u>		<u>28270</u>
1/01/16 Balance b/d	6030		

(ii) Subscriptions Account

(10)

Subscriptions Alc for the year ended 30/04/16.

1/5/15 Balance b/d	560	1/5/15 Balance b/d	2100
		Receipts	24900
30/4/16 Transfer to Income & Expenditure A/c.	25530	Bad debts	240
30/4/16 Balance c/d	<u>1450</u>	30/4/16 Balance c/d	<u>300</u>
	<u>27540</u>		<u>27540</u>
1/5/16 Balance b/d	300	1/5/16 Balance b/d	1450

(iii) Income and Expenditure Account.

(12)

Income & expenditure A/c for year ended 30/4/2016

<u>Income</u>	£	£	£
Subscriptions		25530	
Bank interest received		<u>70</u>	
			25600
 <u>Expenditure</u>			
Wages & salaries (8550 - 880 - 750)		6920	
Insurance		1100	
Electricity (690 + 220)		910	
Depreciation: clubhouse 2%		800	
Sports equipment 25%			
$(20000 + 8500 - 1700) \times 25\%$		6700	
General expenses		3400	
Bad debts		<u>240</u>	
			<u>(20070)</u>
Surplus			<u><u>5530</u></u>

Topton Sports Club is proposing to offer a five-year membership at a discounted rate.

(b) Evaluate the proposal to offer a five-year membership at a discounted rate.

(4)

There are many benefit of accepting this as the club sports club can attract more members to the club.

They also can reduce their bad debts as they receive membership fee at once. Their short term cash flow into the club will increase.

Even though there are some drawbacks like^{as} the club will be committed to provide long term service to its members.



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Examiner Comments

The receipts and payments account is correct, with appropriate narratives. The closing balance is calculated. The candidate is awarded the full 6 marks.

The subscription account is correct and the narratives are appropriate. The candidate is awarded the full 10 marks.

The income and expenditure account is correct. There has been no inclusion of 'alien' items, therefore the candidate is awarded the full 12 marks.

The evaluation raised good points about attracting new members and avoiding bad debts. However, there are no counterbalancing arguments and therefore the candidate is awarded 2 marks of the 4 marks for the section.

30 marks



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Examiner Tip

In a subscriptions account, use the narrative 'Balance' and avoid the narratives 'Arrears' and 'Prepaid' for opening and closing balances.

Question 6

There was a great variability in candidates' responses to the question. Some candidates prepared comprehensive accurate answers and, for others, their lack of underpinning double entry knowledge was evident.

Candidates were aware of the reason for charging depreciation, but did not expand their answers with a rationale. Generally, answers were limited to a single statement, without expansion.

The calculation of the depreciation to be charged on the two types of non-current assets was often incorrect. Many candidates did not adjust the cost and the accumulated depreciation for the assets subject to disposal in the year, before applying the current year's depreciation.

The delivery vehicle account was well prepared, but the provision for the depreciation account often was less accurate. The disposal account was generally accurate but some candidates prepared a disposal account for each asset, when the question stated that there was a single disposal account.

Question 7

The question was very well answered, with only a few common errors.

Common errors were:

- The calculation of interest on capital for Molara.
- The opening balance on the capital account was regularly recorded as £30 000.
- The statement that a written partnership agreement is a legal requirement.

7 (a) State **two** advantages of trading as a partnership.

(2)

1 Losses can be shared among partners.

2 Decision-making process becomes easier since one of the partners can be expertise.

(b) Describe how the interest on the 5% long-term loan would be recorded in the Statement of Comprehensive Income of Molara and Zanita.

(2)

~~The 5% long-term loan~~

An amount of interest, £2000, would be recorded in every accounting year of the business as an expense in the Statement of Comprehensive Income of Molara and Zanita.

(c) Prepare, for the year ended 30 April 2016, the:

(i) Appropriation Account

(12)

Details	£	£
Profit for the year	25000	
Add Interest on drawings:		
Molara	760	
Zanita	<u>840</u>	
		26600
Less Interest on capital:		
Molara	1500	
Zanita	<u>2500</u>	
	4000	
Salaries:		
Molara	5000	
Zanita	<u>5000</u>	
		<u>(14000)</u>
		<u>12600</u>
Share of profit:		
Molara	7560	
Zanita	<u>5040</u>	
		<u>12600</u>

(ii) Capital Account of Molar

(3)

Capital			
Details	£	Details	£
Bank	20,000	Balance b/d	30,000
Balance c/d	<u>10,000</u>		
	<u>30,000</u>		<u>30,000</u>

(d) Evaluate the need for a formal partnership agreement.

(4)

A formal partnership agreement helps to reduce disputes between partners, regarding salaries and other issues.

However, making a formal partnership agreement might have cost be expensive and there might be a huge cash outflow.

Therefore, it is important to prepare a formal partnership agreement since it can help the to reduce the tendency of future close-down of the business.



The candidate details two advantages of trading as a partnership. 2 marks are awarded.

The correct treatment of the loan from Zanita is explained. 2 marks are awarded.

The appropriation account is substantially accurate, the only error being the interest on capital to Molara. There are no 'alien' items in the account, such as drawings, and therefore the own figure rule can apply. The candidate is awarded 11 of the 12 marks.

The opening balance of the capital account is incorrect, as is the balance brought down at the end of the year. Therefore, the candidate is only awarded 1 of the 3 marks available.

The evaluation puts forward points for and against. A reduction in disputes is counterbalanced against the cost and time. The candidate is awarded 4 marks.

Paper Summary

The October 2016 paper will be the last legacy paper of Accounting WAC01.

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>

Ofqual
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