

Level 3 Certificate in Accounting (IAS)



International
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Annual Qualification Review

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INTRODUCTION

The annual qualification review provides qualification-specific support and guidance to centres. This information is designed to help teachers preparing to teach the subject and to help candidates preparing to take the examination.

The reviews are published in September and, in this case, take into account candidate performance, demonstrated in the Series 3 2011 examination. Global pass rates are published so you can measure the performance of your centre against these.

The review identifies candidate strengths and weaknesses by syllabus topic area and provides examples of good and poorer candidate responses. It should therefore be read in conjunction with details of the structure and learning objectives contained within the syllabus for this qualification found on the website.

The review also identifies any actual or proposed changes to the syllabus or question types together with their implications.

PASS RATE STATISTICS

The following statistics are based on the performance of candidates who took this qualification between 1 October 2010 and 31 August 2011.

Global pass rate 36.21%

Grade distributions

Pass	52.92%
Credit	25.78%
Distinction	21.31%

GENERAL STRENGTHS AND WEAKNESSES

It is difficult to apply comments in general terms because the divergence in centre performance is very wide.

The best centres achieve consistently excellent results and candidates have few weaknesses. Less encouragingly poor centres produce candidates who are clearly unprepared for the exam.

In recent sittings there has however been a reduction in the number of totally unprepared candidates.

STRENGTHS

Consistently good at:

- valuation of stocks
- basic cash flow statements
- payback
- net present value

Improvements in:

- basic presentation
- written sections

What candidates seem to prefer:

- ratios
- cash flow statements
- decision making, especially payback and net present value
- questions with no or little written content (often ignoring the difficulty of the question as an entity)

WEAKNESSES

- where candidates consistently underperform/fail
- knowledge of Level 1 and 2 topics. Centres must be aware that the syllabus at Level 3 includes all topics in the Level 1 and 2 syllabuses, which are likely to be examined at a Level 3 standard.
- admission or retirement of partners
- accounting rate of return
- not answering written questions as set. Some sections will expect specific factual knowledge, but more will be looking for candidates to apply reasoned common sense, as such various answers will be acceptable, and sensible basic comments will score marks.

TEACHING POINTS BY SYLLABUS TOPIC

1. LEVELS 1 AND 2 REVISITED

The most likely areas to be tested are mentioned in the syllabus, but they are not the only areas. The examiner will normally include one entire question on this section.

The examiner does expect candidates attempting Level 3 to have passed, or be capable of passing Level 1 and 2.

2. VALUATION OF STOCKS

It is vital that candidates set out all stock calculations very clearly, to ensure that markers can follow what is going on, and to enable them to give own figure marks.

3. VALUATION OF FIXED ASSETS

Again clear calculations are vital. If asked for calculations in the form of ledger accounts - or journals, candidates (here and in other areas) must do as set in order for marks to be given.

4. PARTNERSHIPS

The biggest weakness here is that many candidates cannot sub-divide profits before and after a change of partnership agreement. In columnar form is a clear instruction as to how to set out.

5. COMPANIES

No detailed knowledge of presentational/legal requirements is needed, but candidates must set out accounts in a clear and practical way.

6. ACCOUNTING FOR GROUPS

Fair values are the area which causes most difficulty.

Candidates would also be well advised to study how model answers are laid out, especially for calculations of goodwill, minority interest and group retained earnings.

7. CASH FLOW STATEMENTS

A detailed knowledge of the layout of the statement is necessary.

Candidates should also be aware that questions may be set which only require parts of, or extracts from, statements.

8. ACCOUNTING RATIOS

The composition of the top and bottom lines of ratios must be shown (numerically). If asked for the calculation of ratios no marks will be given for written explanations of how ratios are derived.

9. BUDGETARY CONTROL

Cash budgets do NOT include depreciation.

10. INTRODUCTION TO DECISION MAKING

Discounted payback is NOT in the syllabus. The formula for calculating accounting rate of return is given in the syllabus, and must be used.

11. CONCEPTS AND ACCOUNTING FRAMEWORK

No fully written questions will be set in this exam, there is no intention to increase the amount of written content. Markers are asked to explicitly allow for the fact that English is not the first language of most candidates. Written sections are marked at the same standard as numerical sections. Candidates should NOT assume it is necessarily easier to score marks on numerical sections.

FURTHER GUIDANCE

WHAT CANDIDATES CAN DO TO IMPROVE PERFORMANCE

- (A) Ensure they allocate time correctly.
- (B) Choose which questions they attempt carefully.
- (C) Ensure they are up to the standards required at Level 1 and 2 before attempting Level 3.
- (D) Make use of past exam questions and 'Passport To Success'.

The examiner and his team have all worked for LCCI for many years. Their intention is to be fair to candidates, maintain the standard of the qualification at the same standard (no harder but no easier than in previous years) and to as such maintain a worthwhile and valued qualification. Those who succeed can say with confidence that they have attained a qualification which is not easy to achieve and hopefully will help them in their future careers.

EXAMPLES OF CANDIDATE RESPONSES

QUESTION 1

Towe is the manager of Nesco superstore in Brigg. Nesco has two hundred superstores in the country and expects managers to achieve results on its two main product lines as follows:

Electrical goods	-	50% mark up on cost
Food	-	12% gross profit on sales

Sales of electrical goods at the Brigg superstore for the six months ended 31 December 2010 were 20% above the budget of £140,000. However, on 31 December 2010, there was a burglary and all the electrical goods were stolen.

Towe was able to provide the following information in respect of electrical goods:

- (1) 1 July 2010, stock at cost was £20,700 and creditors were owed £17,200
- (2) during the six months to 31 December 2010, creditors were paid £105,400
- (3) 31 December 2010 creditors were owed £21,700.

REQUIRED

- (a) Calculate the cost of the electrical goods stolen, assuming that the 50% mark up on cost had been achieved. (9 marks)

Figures for the sale of food at the Brigg superstore, for the six months ended 31 December 2010, were as follows:

- (1) 1 July, stock at cost was £18,000 and at 31 December, stock at cost was 25% higher in value than it had been at 1 July
- (2) stock turnover ratio, based on the average cost of the opening stock and the closing stock, was 26 times
- (3) actual gross profit on sales was 10%, as opposed to the expected 12%.

REQUIRED

- (b) Prepare the Trading Account, for food, in respect of the six months ended 31 December 2010. (6 marks)
- (c) Calculate the difference between the actual gross profit on food and the expected gross profit on food, based on the sales figure from (b) above, for the six months ended 31 December 2010. (2 marks)

QUESTION 1 CONTINUED

On 1 January 2011 Towe was dismissed. She intends to claim compensation from Nesco for unfair dismissal, and provides the following information to her lawyer:

- (i) Because of the burglary it was not possible to accurately assess the performance of the electrical goods department
- (ii) The burglary took place while she was on annual leave. Closed circuit television showed that the security guards, recruited by her, were asleep when the burglary took place
- (iii) Bad weather, and fear that supplies would run out, had led to the panic buying of food in December. Towe had reduced the prices in order to reassure buyers
- (iv) Head office, without consulting Towe, had sent 5,000 frozen carp (a fish which they had imported) to be sold at the Brigg superstore. Local fishermen, who are not allowed to catch carp, organised a boycott of food sales at the superstore until the carp were withdrawn from sale.

REQUIRED

- (d) Discuss, whether or not, **each** of the four pieces of information provided by Towe will assist her compensation claim.

(8 marks)

(Total 25 marks)

CANDIDATE A - DISTINCTION GRADE

1)

a) ~~On 31 December 2010~~

On 31 December 2010, sales of electrical goods =

$$140000 \times (1 + 20\%)$$

$$= \$168000$$

Cost of electrical goods sold =

$$168000 \div (1 + 50\%)$$

$$= \$112000$$

Payables			
\$		\$	
Bank	105400	Balanced b/d	17200
Balanced c/d	21700	Purchases	109900
	127100		127100
	127100		127100

~~Statement for the cost~~

(a) Statement for cost of the electrical goods
stolen

	\$
Opening stocks inventory on 1 July 2010	20700
Add: purchases in 6 months to 30 December 2010	<u>109900</u> 130600
Less: amount cost of goods sold	<u>112000</u>
Closing inventory/goods stolen	<u><u>18600</u></u>

The cost of the electrical goods stolen
is \$18600.

9

1b) Closing inventory of Food :

$$18000 \times (1 + 25\%)$$

$$= \$22500$$

Cost of goods sold :

$$\frac{(18000 + 22500)}{2} \times 26 = 526500$$

Total gross profit as would appear

in the income statement for food =

$$\text{Sales} \times 10\% = \text{Sales} - 526500$$

$$0.1 \times \text{Sales} = \text{Sales} - 526500$$

$$526500 = 0.9 \times \text{Sales}$$

$$\text{Sales} = \$585000$$

$$\$585000 \times 10\% = \$58500 \quad 6$$

∴ \$58500 is the total gross profit.

(e) Actual gross profit

$$= \$58500$$

Expected gross profit

$$= 585000 \times 12\%$$

$$= \$70200$$

$$\text{Difference} = 70200 - 58500$$

$$= \$11700 \quad 2$$

(d) (i) Yes, the burglary is unexpected

and it ~~cannot be prevented~~ is not possible to be avoided by ~~manager~~

manager. This is not Towe's responsibility.

This is the security guards' responsibility.

"

(ii) No. Because whether the goods is being ~~stole~~ stolen or not, ~~it~~ it is

the closing stock. Although the amount of closing stock will be replaced by stock loss, it will not affect the gross profit.

"

1d iii) ^{No} Although fear of supplies would run out is reasonable, the price for selling should not be reduced. Because with the bad ~~we~~ weather, buyers will also buy more than normal. 1/1

iv) Yes. The decision of Head office should not be heard by Towe. 2
Towe has not responsibility on this ~~dec~~ decision.

23/2

This is an excellent example of a candidate who is competent in accounting at level 3. This candidate was well prepared for this examination paper, and has been able to fully demonstrate their knowledge and understanding by providing the workings for all calculations, and has a clear understanding of the discursive element.

Key Aspects

1. Neatly presented and well set out.
2. Consistently high standard answers
3. Clear ability on numbers and words.

CANDIDATE B - PASS GRADE

Question 1

50% mark-up = P/COGS. ~ Electrical good.
 12% GP ~ Food

electrical
 Budget \$140,000 \Rightarrow Cost of Goods (Budget) = $(140,000 \div 1.5) = 93333$
 Actual \$140,000 $\times 1.2 = 168,000 \Rightarrow$ Cost of goods sold.
 \Rightarrow Actual COGS:
 $168,000 \div 1.5 = 112,000$ // 3

~~Electrical Payables~~

2010	\$	2010	\$
1/7 Bal b/d	20,700	1/7 Payable	67,267
		(100,900 $\div 1.5$)	
		3/12 Budget	11

~~Payable~~

2010	\$	2010	\$
3/12 Electrical good	100,900	1/7 Bal b/d	17,200
		3/12 Bank	105,400
3/12 Bal b/d	21,700		
	122,600		122,600
		1/7 Bal b/d	21,700

~~100,900 $\div 1.5 = 67,267$ (cost on good sold)~~

~~$\therefore 20,700 + 67,267 = 87,967$~~

lay

~~Payable~~

2010	\$	2010	\$	
Bank	105,400	1/7 Bal b/d	17,200	Inventory: 20,700 $\div (109,900 \div 1.5)$ = 93,966 //
		3/12 Electrical	10,990	
				$\therefore 633$ lbs stolen //
3/12 Bal b/d	21,700			
	127,100		127,100	
		1/12 Bal b/d	21,700	

Question 1

1 b)

1 July cost \$19,000
31 Dec cost \$19,000 * 1.25 = 23,750 //

$$\text{Inventory turnover} = 26 \text{ times} = \frac{\text{Average Inventory} \cdot \text{COGS}}{\text{COGS} \cdot \text{Average inventory}}$$

$$\frac{\text{GP}}{\text{Sales}} = 0.1, \quad \text{expected} = 0.12 //$$

$$\frac{\text{Average inventory}}{\text{COGS}} = \frac{(19,000 + 23,750) \div 2}{\text{COGS}} = 26$$

$$\text{COGS} = \frac{\text{COGS}}{(19,000 + 23,750) \div 2} = 26$$

$$\text{COGS} = \$526,500 //$$

$$\begin{aligned} \text{Margin} = \frac{\text{GP}}{\text{Sales}} = 0.1 &= \frac{\text{Sales} - \text{COGS}}{\text{Sales}} = 0.1 \text{ Sales} \\ \Rightarrow (\text{Sales} - 0.1 \text{ Sales}) &= \text{COGS} \\ \Rightarrow \text{Sales} (0.9) &= \text{COGS} \\ \text{Sales} &= \frac{526,500}{0.9} \end{aligned}$$

$$\text{Sales} = 585,000$$

$$\text{COGS} = 526,500$$

$$\text{Gross profit} = 58,500$$

in Total gross profit is \$58,500 (actual)

$$\begin{aligned} \text{1c) Expected} &= \frac{\text{Sales} (1 - 0.12)}{\text{Sales}} = \text{COGS} \\ &= \frac{526,500}{0.88} \end{aligned}$$

$$\text{Sales} = \$598,295 //$$

$$\text{COGS} = 526,500$$

$$\text{expected GP} = \$71,795 //$$

2

in the difference between the actual and expected gross profit on food are 13,295, (Actual is less than expected)

1c) i) Burglary, similar as customer, who are feeling free to access the superstore, just he/she doesn't pay the selling price, so rejected.

ii) Worker on duty, fall in sleep, unacceptable who received salary, rejected

iii) He/she can wait for discount, or the ~~best~~ good is outdated, it is less than cost.

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This is an example of a candidate who has some understanding of accounting at level 3. The candidate has attempted to answer all parts of the question and has correctly calculated some basic elements. This is an example of a candidate who has moderate a level of knowledge and understanding at this level.

Key Aspects

1. Neatly presented and well laid out.
2. Reasonable answers.
3. Written sections lacking clarity.
4. Workings not always shown (e.g. 5(f))

CANDIDATE C - FAIL GRADE

		Towe		
Ques 1 a)	Electrical goods stolen =	$\$140,000 - \$20,700 + (\$17,200 + \$05,400 - \$21,700)$ $= \cancel{\$136,500} - \$220,200$		
b)		\$	\$	\$
	Revenue	22,500	22,500	22,500
	Cost of sales	(20,250)	(19,800)	(18,000)
	Gross Profit	2,250	2,700	4,500
c)	Actual gross profit:	\$		
	Revenue	<u>22,500</u>		
	Cost of sales	<u>(20,250)</u>		
	Gross Profit	2,250		
	Expected gross profit:	\$		
	Revenue	22,500		
	Cost of sales	(19,800)		
	Gross Profit	2,700		
d)	<p>Towe will assist her compensation claim by the burglary was not possible to accurately assess the performance of the electrical goods department. The burglary took place while she was on annual leave. Closed circuit television showed that the security guards recruited by her, were asleep when the burglary took place. The supplies would run out and had led to the panic buying of food in December. Head office was does not consulting Towe, had sent 5,000 froze carp and to be sold at the Brigg superstore. Local fisherman, who are not allowed to catch carp and organised a boycott of food sales at the superstore until the carp were withdrawn from sale.</p>			

(4)

This is an example of a candidate who is not competent at level 3 Accounting. There is no depth or detail in the response, the question has not been answered fully, with errors made in basic calculations. This candidate appears to have very little knowledge or understanding at this level.

1. Lacking depth and detail throughout.
2. Poorly laid out on occasion (e.g. 1(a)).
3. Numerous errors.
4. Tendency to copy out written questions and not answer the question (e.g. 1(d)).
5. Clear technical deficiencies. For instance in Q4 the candidate did not know how to calculate payback or accounting rate of return.

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