

## Level 2 Certificate in Book-Keeping and Accounts



International  
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Annual Qualification Review

2008



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## INTRODUCTION

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The purpose of the annual qualification review is to provide qualification-specific support and guidance to centres. This information is designed to help teachers in preparing to teach the subject and to aid candidates in preparing to sit the examination.

The review identifies candidate strengths and weaknesses by syllabus topic area and provides examples of good and poorer candidate responses. The review also identifies any changes to the syllabus or question types with their implications.

The reviews are published in September and take into account candidate performance, demonstrated in both on demand and series examinations, over the preceding 12 months.

## PASS RATE STATISTICS

The following statistics are based on the performance of candidates who took this qualification between 1 October 2007 and 30 September 2008.

Global pass rate            64.47%

Grade distributions

Pass                            14.77%

Credit                         24.29%

Distinction                 25.41%

## GENERAL STRENGTHS AND WEAKNESSES

### Strengths

- Most candidates have a reasonable understanding of final accounts, i.e Trading, Profit and Loss and Balance sheet
- Candidates tend to properly label accounts with the right headings, i.e names, dates etc.

### Weaknesses

- Poor understanding of basic book-keeping principles and concepts that should have been mastered at Level 1
- Poor response to the written components of questions

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## GENERAL STRENGTHS AND WEAKNESSES BY SYLLABUS TOPIC

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### NEW SYLLABUS

#### Syllabus topic 1: Advanced aspects of the syllabus for Level 1 Book-keeping

Provision for doubtful debts:

In the Provision for Doubtful Debts Account, many candidates deduct the bad debts already written off throughout the year from the debtors figure before calculating the provision for doubtful debts. On the Balance Sheet, many candidates deduct the bad debts already written off throughout the year from the debtors figure before deducting the provision for doubtful debts. Candidates need to read the question carefully to determine if the debtors figure is given before or after the bad debts have been written off.

Accruals and prepayments:

In the Balance Sheet, a number of candidates are able to provide the correct answers, even though their answers in the ledger accounts are incorrect. This shows that, while they understand how to calculate prepayments or accruals, they are unsure how they should be treated in the accounts. Teachers need to emphasise the double entry principles for accruals and prepayments.

Trial Balance:

When presented with a list of balances to adjust, several candidates fail to produce a correct trial balance, i.e. simply listing a column of figures.

Depreciation:

Many candidates continue to fail to label the purchase of fixed assets as “bank” or “cash” in the fixed assets account. A minority of candidates include the asset value in the fixed asset account or completely reverse the entries. It is clear that a large number of candidates are not familiar with the entries needed for both a provision for depreciation account and a depreciation account.

The majority of candidates are confused by how to deal with the “trade in”, rather than a sale of a vehicle and purchase of a new one. Many candidates are able to correctly identify the reasons for depreciation, which reflects the general weakness of candidates to answer written questions.

Books of Prime Entry:

As this is a level 1 topic, responses to those questions asking for the identification of books of prime entry are disappointingly poor indicating a fundamental lack of knowledge of basic concepts.

The Journal:

Weaker candidates reverse entries, choose the wrong account and fail to allow for adjustments.

#### Syllabus topic 2: Partnerships

It is common for good candidates to have a fair understanding of the principle of the Garner vs. Murray rule. In general, weaker candidates are not able to answer questions on this. These candidates either fail to prepare an answer or believe that the rule relates to the sharing of profits and losses where no partnership agreement exists. Teachers need to make a clear distinction between the purpose of the rule in Garner V Murray and the guidelines in the Partnership Act 1890.

Questions relating to the retirement of a partner and the Revaluation account are often well answered. The main error is that of including a credit entry for goodwill, when written off, in both the revaluation account and in the capital accounts.

A number of candidates lose marks by either omitting, or reversing, some or all of the entries relating to goodwill in the Capital accounts. Some candidates incorrectly include the current account items in the Capital accounts and subsequently lose marks by having no current account entry in the balance sheet. Nearly all candidates fail to bring down the capital account balances.

In preparing a Profit and Loss Appropriation Account of a partnership as it would appear in the absence of a partnership agreement, candidates fail to recognise that there will be no salaries, no interest on drawing, no interest on capital and the profit share will be equal for each partner. Emphasis should be placed on the provisions of the Partnership Act 1890.

### **Syllabus topic 3: Limited liability companies**

The majority of candidates continue to bring forward retained profit before the appropriation section, thus destroying the opportunity to obtain marks for the retained profit for the year. Very often debenture interest and/or loan interest is omitted from the Profit & Loss Account.

Proposed dividends are very often entered in the capital and reserves section of the Balance Sheet as opposed to the 'creditors due in less than 12 months' section. This indicates that candidates do not have a good understanding of what proposed dividends really are. The label 'net current assets' or alternative 'working capital' is often omitted, which is important for good presentation.

### **Syllabus topic 4: Incomplete records**

In preparing the Trading, Profit and Loss Account, the name of the business is often omitted from the heading. Many fail to include the purchases accruals in the calculation of purchases and often the expense items bought from takings are deducted from, rather than added to, the relevant expense items for the Profit and Loss account. Additionally, some candidates include the purchase of capital items, i.e. delivery van as an expense item in the Profit and Loss Account. This indicates a lack of understanding of how revenue and capital expenditure is treated in the accounts.

### **Syllabus topic 5: Manufacturing accounts**

Many are prepared for this question and achieve high marks, although most omit the inclusion of the profit on manufactured goods, where required. A few continue to deduct factory overheads from prime cost. Some start by including the sales figure and then deducting prime and indirect costs. Some fail to label Raw Materials Consumed and Prime Cost figures. In questions requiring a Trading Account, several include the carriage inwards and returns outwards of raw materials which should be entered in the manufacturing account. Few gain full marks for producing a provision for unrealised profit account, with many not able to provide their answer in an account format. In the profit and loss account, a number fail to use the balance of apportioned cost for expenses when requested and use the whole cost instead.

Teachers need to encourage a practical understanding of the manufacturing account rather than a rote learning approach of 'add these and subtract these'. Practical examples relevant to candidates' experiences should be used to explain the nature of the different costs and how they fit into the manufacturing account.

### **Syllabus topic 6: Stock valuation**

The most common error when candidates are asked to revise the stock valuation is that of treating goods on sale of return as a decrease, instead of an increase, to the given stock in trade valuation. Additionally, some candidates forget to adjust selling price to calculate cost price before mark-up. Teachers need to emphasise the concept of Net Realisable Value (NRV) and encourage practice on past questions.

### **Syllabus topic 7: Non-trading organisations**

Most candidates are able to correctly calculate the Accumulated fund. In the Income & Expenditure Account, weaker candidates continue to call the surplus a profit and conversely the deficit a loss. Questions on lifetime subscriptions are poorly answered with no evidence that very many candidates have ever studied this topic, and application of the general principle of accruals / prepayments is not attempted, resulting in very low marks. Teachers must give attention to this area of the topic.

Very few are able to use the Subscriptions Account to correctly calculate the subscriptions to be written off and many are unaware that prepaid subscriptions income is treated as a liability (crediting the account) and accrued income is treated as an asset (debiting the account). Incorrect narratives are used throughout – very few use the correct narratives of balance b/d and balance c/d. Some think that the balance goes to the P&L A/c rather than the Income & Expenditure A/c.

### **Syllabus topic 8: Control accounts**

The Purchases Ledger Control Accounts usually gain high or full marks. Marks are generally lost in both the Purchases Ledger Control Account and Sales Ledger Control Accounts for failing to bring down the balances at the beginning of the next month.

If provided with bad debts recovered, it is often omitted from the debit side of the Sales Ledger Control Account or erroneously deducted from or added to the bank figure on the credit side. Dishonoured cheques are often entered on the wrong side of the Sales Ledger Control Account. A number of weaker candidates make the usual mistakes of reversing entries, including cash purchases/sales and including the bad debt provision.

It is pleasing to note that a number of candidates are able to correctly identify reasons why there might be a debit balance on the purchases ledger.

### **Syllabus topic 9: Suspense accounts**

For candidates to do well at this topic they need to have a very good understanding of double entry. While many candidates do fairly well with recording the journal entries to correct the errors, some struggle with errors that require two journal entries. Additionally, some candidates struggle to calculate an emended profit figure. In calculating suspense account balance, many are able to do this but incorrectly label the opening balance as balance c/d rather than balance b/d.

### **Syllabus topic 10: Calculation and interpretation of ratios**

For most candidates these prove relatively straightforward and easy questions. The greatest number of errors relate to the calculation of the debtors' collection period and the creditors' settlement period, which is a new area on the syllabus. Commonly marks are lost for failing to include a correct "suffix", i.e. %, times or :1 on the calculated answers.



Generally, there is a failure to use average stock in calculating the rate of stock turnover and average capital in calculating return on average capital employed.

The ratios asking for the return on Ordinary Shareholders and Total Capital Employed ratios are often incorrect.

When asked to compare ratios with two companies, a minority of candidates simply repeat the figures calculated without offering a comparison.

### **Syllabus topic 11: Preparation, by the use of ratios, of simple financial statements**

This topic not particularly well attempted with candidates experiencing difficulty in calculating cost of sales where the gross profit mark-up was given in the question.

### **OLD SYLLABUS TOPICS**

#### **Branch Accounts:**

The most common error is reversing the accounts or using incorrect narratives for the account entries. The Branch Adjustment Accounts are particularly badly attempted with very few gaining high marks. Branch Debtors Account sees variation by centre but many achieve full marks. The entries in the Branch Profit & Loss Account are limited in many cases to expense items only. As a large proportion of candidates fail to calculate Gross Profit in the Branch Account, few are able to calculate the net profit correctly.

#### **Consignment Account:**

Candidates performed well, with a high percentage gaining the full marks for producing a consignment account. The most common error was that of failing to calculate the selling costs by multiplying the number of items by the unit cost. When asked for simply a consignment account, some candidates waste time by producing accounts that are not required. Some calculate the closing stock by omitting the carriage & insurance and landing & import costs.

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## **FURTHER GUIDANCE**

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- Candidates are expected to complete the front cover of the answer booklet indicating questions answered – many ignore this.
- On the new syllabus papers, several candidates attempt all 5 questions without indicating which questions they wish to be marked.
- Centres need to remind candidates to show their workings.
- Candidates should not only be encouraged to practise the application of the accounting principles but should also be encouraged to explain their meanings and why/how they are used. Whether verbally or in writing, this practice will give candidates the confidence and ability to answer exam questions that require written answers.

### **Changes to syllabus or question types with implications (current and/or next year)**

A revised syllabus was introduced and came into effect for examinations held after 1 January 2008.

Consignment Accounts, Branch Accounts and Bills of Exchange are all topics that have been removed from the revised syllabus, all of which previously proved taxing for the majority of candidates.

Debtors' collection period and creditors' settlement period are two ratios that have been introduced into syllabus topic 10: Calculation and interpretation of ratios.

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## EXAMPLES OF CANDIDATE RESPONSES

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### Examples of candidate responses

This example is taken from the series 3 2008 (Hong Kong) question paper. The question is as follows:

P Chang asks her book-keeper to prepare a trial balance at 31 December 2007 from the list of balances which are shown below:

	£
Purchases	93,000
Sales	155,250
Carriage in	750
Carriage out	600
Rent & Rates	18,000
General expenses	5,400
Capital	81,300
Motor vehicle	83,700
Debtors	18,000
Creditors	7,500
Cash	300
Provision for depreciation	10,800
Stock at 1 January 2007	6,000
Drawings	12,000
Bank overdraft	3,600
Salaries	21,900

As she determines that the trial balance does not balance, P Chang opens a suspense account for the difference. She subsequently finds and corrects the following errors:

- (i) Capital of £375 introduced during the year was correctly entered in the Capital Account but entered on the wrong side in the Cash Book.
- (ii) P Chang had taken £1,800 of goods for her own use. This transaction was correctly entered in the drawings account but no other entries were made.
- (iii) An invoice for the purchase of a new motor vehicle for £3,000 was incorrectly entered in the purchases account.
- (iv) In extracting the creditors balance, one supplier's balance of £1,620 was omitted.
- (v) General expenses of £525 were correctly entered in the Cash Book but were debited as £255 in the general expenses account.
- (vi) A customer had gone into liquidation owing P Chang £1,200. The debtors figure had been reduced by that amount but no other entries had been made.

### REQUIRED

Prepare a corrected Trial Balance for P Chang at 31 December 2007.

**FAIL RESPONSE:**

**P Chang  
Trial Balance at 31 December 2007**

	£
Purchases (93,000 + 1,800 + 3,000)	97,800
Sales	155,250
Carriage in	750
Carriage out	600
Rent & Rates	18,000
General expenses (5,400 - 270)	5,130
Capital	81,300
Motor vehicle (83,700 - 3,000)	80,700
Debtors	18,000
Creditors (7,500 + 1,620)	9,120
Cash	300
Provision for depreciation	10,800
Stock at 1 January 2007	6,000
Drawings	12,000
Bank overdraft (3,600 + 750)	4,350
Salaries	21,900
Bad debts	1,200

**Examiner comments:**

- While the candidate has made an attempt to adjust the figures, most of the adjusted figures are incorrect. This indicates that the candidate has a limited understanding of error correction and likely problems with double entry rules relative to certain accounts.
- The account balances have all been listed in one column with no indication if it is a Dr or Cr column, therefore no marks would be awarded for the trial balance.
- The Trial Balance is one of those basic Level 1 principles that candidates at Level 2 sometimes show a lack of understanding of.

**DISTINCTION RESPONSE:**

**P Chang**  
**Trial Balance at 31 December 2007**

	<b>Dr</b>	<b>Cr</b>
	<b>£</b>	<b>£</b>
Purchases (93,000 - 1,800 - 3,000)	88,200	
Sales		155,250
Carriage in	750	
Carriage out	600	
Rent & Rates	18,000	
General expenses (5,400 + 270)	5,670	
Capital		81,300
Motor vehicle (83,700 + 3,000)	86,700	
Debtors	18,000	
Creditors (7,500 + 1,620)		9,120
Cash	300	
Provision for depreciation		10,800
Stock at 1 January 2007	6,000	
Drawings	12,000	
Bank overdraft (3,600 - 750)		2,850
Salaries	21,900	
Bad debts	1,200	
	<u>259,320</u>	<u>259,320</u>

**Examiner comments:**

- The candidate has made all the adjustments correctly, which shows a good understanding of error correction and the basic double entry principles.
- The Trial Balance is correctly laid out with both a Dr and Cr column, showing account balances in the appropriate column.

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