

Level 2 Certificate in Book Keeping and Accounts



International
Qualifications from EDI

Annual Qualification Review

2009

CONTENTS

Introduction	1
Pass Rate Statistics	1
General Strengths and Weaknesses by Syllabus Topic	1
Further Guidance	5
Examples of Candidate Responses	6

INTRODUCTION

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 2008 and 30 September 2009.

Global pass rate 60.81%

Grade distributions

Pass 16.29%

Credit 22.92%

Distinction 21.60%

GENERAL STRENGTHS AND WEAKNESSES

Strengths

- Generally, high marks are gained for control account questions requesting the preparation of purchases and sales ledger control accounts
- Trading and profit & loss accounts and balance sheets are usually well presented and accurate
- In non trading organisations, an increasing number of candidates are producing accurate manufacturing accounts (i.e. fewer erroneously deducting factory overheads from prime cost)

Weaknesses

- Failure to show workings, particularly in incomplete records questions
- Ignoring the rubric and attempting all 5 questions
- Poor grasp of level 1 topics, e.g. books of prime entry (day books), trial balance, journal entries
- Questions on stock valuation are poorly done with candidates demonstrating a poor knowledge of the basic rule to be applied to the valuation of stock
- In limited liability companies accounts, dividends proposed are commonly shown in the 'financed by' section of the balance sheet

TEACHING POINTS BY SYLLABUS TOPIC

Syllabus Topic Area 1 – Advanced aspects of the syllabus for Level 1 Book-keeping.

A good grasp of all the level 1 Book-keeping topics must be achieved in order to be successful at attaining the level 2 Book-keeping & Accounts qualification.

Specific recommendations are that candidates need to:

- Understand that there are other methods of depreciation i.e. Revaluation and Machine hours
- Make accurate adjustments for accrual and prepayment income and expenses
- Distinguish between a specific provision and a general provision for doubtful debts

Syllabus Topic Area 2 – Partnerships.

Specific recommendations are that candidates must:

- Correctly prepare journal and ledger entries for the formation and retirement of a new partnership including the adjustments for goodwill
- Accurately prepare the entries necessary to deal with outstanding debit balances on partners' personal accounts, demonstrating a sound understanding of the Garner v Murray rule

Syllabus Topic Area 3 – Limited liability companies

Specific recommendations are that candidates must understand that:

- loan interest is an expense item, therefore should be shown as expense in the Profit & Loss Account
- proposed dividends should be entered in the 'creditors falling due within one year' section of the balance sheet and not the 'financed by' section

Syllabus Topic Area 4 – Incomplete records

This question required candidates to show their workings in calculating the net sales and net purchases figures. If workings are not shown, valuable marks could be lost.

Specific recommendations are to:

- Read the given information carefully and determining which adjustments need to be added and which should be deducted
- Include cash sales and cash purchases in the calculation of net sales and purchases

Syllabus Topic Area 5 – Manufacturing accounts

Specific recommendations are:

- When making a provision for unrealised manufacturing profit, to ensure that the correct adjustments are made to the opening and closing stock
- When asked to transfer the completed production at cost plus a margin of profit, to ensure that the profit is added to the production cost in the manufacturing account (and added to the gross profit in the trading account)
- The final figure on the manufacturing account should be labelled 'transfer to trading account'
- Ensure that factory overheads are added to prime cost

Syllabus Topic Area 6 – Stock valuation

Specific recommendations are ensuring an understanding that:

- The basic rule to be applied to the valuation of stock is that it should be valued at the lower of cost and net realisable value
- Any expenses of sale should be added to the expected sales value (as opposed to adding it to the original cost, which is a common error of candidates)

Syllabus Topic Area 7 – Non-trading organisations

Specific recommendations are:

- Show workings when asked to calculate the accumulated fund
- Correctly label the final figure in the income & expenditure account as 'surplus' or 'deficit'

Syllabus Topic Area 8 – Control accounts

When asked to prepare straightforward control accounts, this topic is usually well attempted with high marks being achieved. The most common error on the balance sheet is that of deducting any credit balances on the sales ledger control account from current assets; and deducting any debit balances on the purchases ledger control account from current liabilities.

When asked to reconcile the balance on the control account with the total of the list of balances in the subsidiary ledger, candidates tend to struggle. There is a lack of understanding of which errors and omissions impact on the ledger and/or the control accounts.

Syllabus Topic Area 9 – Suspense accounts

In preparing journal entries, candidates often transpose the entries required to be entered in the suspense account.

If a question asks for a corrected trial balance and then a suspense account, candidates often do not link the two together and consequently do not use their balance on the trial balance (suspense account) as the opening balance on the suspense account.

Syllabus Topic Area 10 – Calculation and interpretation of ratios

Candidates generally fair well with ratio questions, however the most common error is that of omitting:

- the suffix '%' when calculating profit ratios,
- the suffix 'days' when calculating the debtors' collection period and the creditors' settlement period and;
- the suffix ':1' when calculating liquidity ratios.

Often, the return on ordinary shareholders' funds and return on total capital employed cause the most difficulties for candidates.

Syllabus Topic Area 11 – Preparation, by the use of ratios, of simple financial statements

This topic is generally well attempted with no significant issues.

FURTHER GUIDANCE

TIME MANAGEMENT OF THE EXAMINATION.

Candidates must plan their work according to the time allowed and the total marks for each question. Tutors should give practice exercises to develop this management of time, the candidate should be encouraged to spare 10 minutes at the end for checking and **re-checking** for that elusive error. Finding it could make the difference between reaching and not reaching a higher grade.

EXAMPLES OF CANDIDATE RESPONSES

QUESTION 1

The following Sales Ledger Control Account was prepared by an inexperienced accounts assistant for the month of March 2009:

Sales Ledger Control Account			
	£		£
Balance b/d	43,000	Cash received	206,000
Credit sales	640,000	Bad debts written off	9,000
Discounts allowed	5,000	Sales returns	1,600
Allowances to customers	<u>5,920</u>	Interest charged	6,000
	<u>693,920</u>	Balance c/d	<u>471,320</u>
			<u>693,920</u>

The list of balances extracted from the Sales Ledger at 31 March 2009 totalled £455,082.

In addition to the errors in the above Sales Ledger Control Account, the following errors and omissions were discovered:

- (1) An invoice for £1,200 was entered in the Sales Daybook but had not been posted to the customer's account in the Sales Ledger.
- (2) The discount allowed column in the business's cash book was over-added by £400.
- (3) The allowances to customers figure of £5,920, appearing in the above Control Account, includes £300 which has yet to be posted to the personal account of the customer.
- (4) The list of debtors' balances includes £500 which was incorrectly listed as a credit balance
- (5) The debit side of one customer's account has been under-added by £100
- (6) A debit balance of £1,318 has been omitted from the list of debtors' balances
- (7) A purchase ledger contra of £1,600 had been recorded in the account of the customer but not in the Control Account
- (8) The business bank statement showed a credit transfer of £4,000 from a customer which has been omitted from the books
- (9) The Sales Daybook was over-added by £3,500
- (10) A cheque for £5,800, received from a customer, has been incorrectly posted to the customer's account as £4,180
- (11) A sales invoice for £11,000 was omitted from the Sales Daybook.

REQUIRED

(a) Commencing with the balance of £471,320, prepare a statement showing the revised balance on the Sales Ledger Control Account following correction of the various errors and omissions.

(13 marks)

(b) Commencing with the balance of £455,082, prepare a statement showing the revised total of the Sales Ledger balances following correction of the various errors and omissions.

(12 marks)

(Total 25 marks)

Question 1 Control Accounts

Answer A - Distinction Response

(a)		£	£
	Original balance		471,320
Add:			
	Interest charged (6,000 x 2)		12,000
	Discounts allowed		400
	Sales invoice omitted		<u>11,000</u>
			494,720
Less:			
	Discounts allowed (5,000 x 2)	10,000	
	Allowances to customers (5,920 x 2)	11,840	
	Purchase ledger contra	1,600	
	Credit transfer	4,000	
	Sales Daybook correction	<u>3,500</u>	
			<u>30,940</u>
	Revised balance		<u><u>463,780</u></u>
(b)		£	£
	Original balance		455,082
Add:			
	Sales invoice omitted		1,200
	Incorrectly listed balance (500 x 2)		1,000
	Under-added debit side		100
	Omitted debit balance		1,318
	Sales invoice omitted		<u>11,000</u>
			469,700
Less:			
	Allowance to customer omitted	300	
	Credit transfer	4,000	
	Error in posting of cheque (5,800 - 4,180)	<u>1,620</u>	
			<u>5,920</u>
	Revised balance		<u><u>463,780</u></u>

Comments A (Distinction Response)

This answer could have been presented in an account format for both sections of the question.

If in account format, the entries need not have been on the 'correct' side of the account as the question asked for a revised balance on the accounts.

If the answer is shown in tabular form, the adjustments need to be correctly applied.

Question 1 – Control Accounts
Answer B - Pass Response

(a)		£	£
	Original balance		471,320
Add:	Discounts allowed		400
	Sales invoice omitted		<u>11,000</u>
			482,720
Less:	Purchase ledger contra	1,600	
	Credit transfer	4,000	
	Sales Daybook correction	<u>3,500</u>	
			<u>9,100</u>
	Revised balance		<u>473,620</u>
(b)		£	£
	Original balance		455,082
Add:	Under-added debit side		100
	Omitted debit balance		1,318
	Sales invoice omitted		<u>11,000</u>
			467,500
Less:	Sales invoice omitted	1,200	
	Allowance to customer omitted	300	
	Credit transfer	<u>4,000</u>	
			<u>5,500</u>
	Revised balance		<u>462,000</u>

Comments on Control Accounts B (Pass)

- Several of the adjustments have been omitted
- No extraneous items have been included, therefore the revised balance marks would be awarded

Question 1 Control Accounts.

Answer C – Fail response.

(a)

	£		£
Balance b/d	43,000	Cash received	206,000
Credit sales	640,000	Bad debts written off	9,000
Discounts allowed	5,000	Sales returns	1,600
Allowances to customers	5,920	Interest charged	6,000
		Balance c/d	
	471,320		

(b)

	£	£
Original balance		455,082
Add:		
Discounts allowed		400
Sales invoice omitted		<u>11,000</u>
		466,482
Less:		
Sales Daybook correction	<u>3,500</u>	
		<u>3,500</u>
Revised balance		<u><u>462,982</u></u>

Comments on Control Accounts C (Fail)

- The candidate has not commenced the calculation of the revised balance with the figure of £471,320, as requested in the question, but simply copied the question and made a poor attempt at part (b). Extraneous items appear in part (b) that should be entered in part (a). No marks would be gained for part (a) and only a few marks for part (b).

The candidate does not have the necessary knowledge to answer this question.

EDI

International House
Siskin Parkway East
Middlemarch Business Park
Coventry CV3 4PE
UK

Tel. +44 (0) 8707 202909

Fax. +44 (0) 2476 516505

Email. enquiries@ediplc.com

www.ediplc.com

© Education Development International Plc 2009.
All rights reserved. This publication in its entirety is
the copyright of Education Development
International Plc. Reproduction either in whole or
in part is forbidden without the written permission
from Education Development International Plc.



Supporting learning
and performance