

Level 2 Book-keeping & Accounts



International
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Annual Qualification Review 2010

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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 take into account candidate performance, demonstrated in both on demand and series examinations, over the preceding 12 months. 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 2009 and 31 August 2010.

Global pass rate 64.65%

Grade distributions

Pass	20.47%
Credit	36.59%
Distinction	42.94%

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, provision for depreciation, bad debts.
- 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
- Including and applying sales in the manufacturing account
- 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.

1.1 Advanced aspects of the syllabus for Level 1 Book-keeping

Candidates must be able to undertake more advanced examples of any topic contained in the syllabus at Level 1 and not covered elsewhere in the level 2 Book-keeping & Accounts syllabus. Specific reference is made to the following:

- Recording transactions through double entry
- The Journal
- Errors in the accounts
- Trading and Profit and Loss Accounts
- The Balance Sheet.

As a result, 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.

1.2 Advanced Aspects of Depreciation (including Disposal) Methods include: Straight-line and Reducing/Diminishing Balance

1.3 Adjusting for accruals and prepayments

1.4 Bad debts and provision for doubtful debts

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.

2.1 The formation of a partnership and the partnership agreement

2.2 Preparation of partnership final accounts

2.3 Retirement of a partner at the end of a financial year

2.4 Admission of a new partner at the beginning of a financial year

2.5 Change in the ratio in which profits and losses are shared

2.6 Dissolution of partnership

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

3.1 Formation of a company - meaning, purpose and effect

3.2 Preparation of final accounts for a limited company

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

4.1 Calculation of net profit in the absence of proper records

4.2 Factors in the production of detailed final accounts from incomplete records

This question requires 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
- Sales should **not** be included in the manufacturing account

Syllabus Topic Area 6 – Stock valuation

6.2 Physical stocktaking as a basis for stock valuation

6.3 Stock losses

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

7.1 Receipts and payments account

7.2 The accumulated fund

7.3 Trading activities within a non-trading organisation, e.g. a restaurant trading account

7.4 Income and expenditure account

7.5 Balance Sheet

Specific recommendations are:

- The receipts and payments account needs to be shown in an account format
- Show workings when asked to calculate the accumulated fund
- Subscriptions accrued should be shown in the current assets section of the balance sheet and subscriptions prepaid should be shown in the current liabilities section of the balance sheet.

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.

In calculating the provision for doubtful debts, only the debit balance on the sales ledger control account should be used (and not the debit balance on the purchases ledger control account)

Syllabus Topic Area 9 – Suspense accounts

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

Candidates have a poor grasp of the use of purchases and sales ledger control accounts when correcting errors.

If a question asks for a corrected trial balance and then a suspense account, candidates often do not the link to 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

10.1 Accounting Ratio Formulae

10.2 ROCE (Return on Capital employed) for a sole trader or partnership

10.3 ROCE for a limited company

10.4 Profit to sales

10.5 Sales to capital employed

10.6 Current/Working Capital ratio

10.7 Liquidity/Acid Test ratio

10.8 Rate of stock turnover

10.9 Debtors' collection period

10.10 Creditors' settlement period

10.11 Interpret 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 plan should be to have 10 minutes to spare at the end. This is for checking and **re-checking** for that elusive error. Finding it could make the difference between reaching and not reaching a higher grade.

Workings must be shown to enable candidates to gain marks for the correct approach where their final answer is incorrect.

EXAMPLES OF CANDIDATE RESPONSES

QUESTION 1

Syllabus Topic 3: Limited liability companies (3.2)

The following list of balances was extracted from the books of Gregg Ltd on 30 September 2009:

	£
400,000 Ordinary share capital – issued and fully paid	400,000
80,000 8% Preference share capital – issued and fully paid	80,000
Premises	664,000
Motor vehicles	200,000
Office equipment	70,000
Provision for depreciation on motor vehicles	150,000
Provision for depreciation on office equipment	28,000
Gross profit	504,400
Stock at 30 September 2009	90,000
Administrative expenses	85,500
Selling expenses	60,000
Distribution expenses	130,000
5% Debentures (repayable 2017)	80,000
Interest paid to debenture holders	2,000
Profit on sale of vehicle	1,500
Profit & loss account – 1 October 2008	83,500 (Cr)
6% Deposit account – invested by Gregg Ltd on 1 June 2009	50,000
Debtors	62,000
Creditors	45,000
Cash at bank	6,800 (Cr)
Share premium	40,000
Interim dividend – ordinary shares	4,000
Interim dividend – preference shares	3,200
Provision for doubtful debts	1,500

The following additional information is also available at 30 September 2009:

- (1) The first year's deposit account interest was not due to be received until 30 May 2010.
- (2) The provision for doubtful debts is to be maintained at 2% of debtors.
- (3) Depreciation is to be provided as follows:
 - motor vehicles – 25% reducing balance method
 - office equipment – 20% per annum on cost.
- (4) The directors propose:
 - (i) A final dividend to the ordinary shareholders of £0.10 per share
 - (ii) To create a general reserve of £25,000.

REQUIRED

- (a) Prepare the Profit and Loss & Appropriation Account for the year ended 30 September 2009.
- (b) Prepare the Balance Sheet at 30 September 2009.

Answer A - Distinction Response

(a)

Gregg Ltd Profit & Loss and Appropriation Account for the year ended 30 September 2009

	£	£
Gross Profit		504,400
Profit on vehicle sale		1,500
Deposit interest accrued (50,000 x 6%) x 1/3		1,000
Decrease in doubtful debts provision (1,500 - 1,240)		<u>260</u>
		507,160
Less:		
Administrative expenses	85,500	
Selling expenses	60,000	
Distribution expenses	130,000	
Debenture interest (2,000 + 2,000)	4,000	
Depreciation:		
Vehicles [(200,000 - 150,000) x 25%]	12,500	
Office equipment (70,000 x 20%)	14,000	
		<u>306,000</u>
Net Profit		201,160
Less:		
Preference dividend - interim	3,200	
Preference dividend - proposed [(80,000 x 0.8) - 3,200]	3,200	
Ordinary dividend - interim	4,000	
Ordinary dividend - proposed (400,000 x 0.10)	40,000	
Transfer to general reserve	25,000	
		<u>75,400</u>
Retained profit for year		125,760
Retained profit b/fwd		<u>83,500</u>
Retained profit c/fwd		<u><u>209,260</u></u>

QUESTION 1 CONTINUED

(b)

**Gregg Ltd
Balance Sheet at 30 September 2009**

	£	£	£
	Cost	Acc'd Dep'n	NBV
Fixed Assets			
Premises	664,000		664,000
Motor vehicles	200,000	162,500	37,500
Office equipment	<u>70,000</u>	<u>42,000</u>	<u>28,000</u>
	<u>934,000</u>	<u>204,500</u>	729,500
Current Assets			
Stock	90,000		
Debtors	62,000		
Less: Provision	<u>1,240</u>		
Interest accrued	1,000		
Deposit account	<u>50,000</u>	201,760	
Creditors falling due within 1 year			
Creditors	45,000		
Accrual	2,000		
Proposed dividends (40,000 + 3,200)	43,200		
Bank overdraft	<u>6,800</u>	<u>97,000</u>	
Net current assets			<u>104,760</u>
			834,260
Creditors falling due after more than 1 year			
5% Debenture loan			<u>80,000</u>
			<u>754,260</u>
Capital and reserves			
Issued and fully paid share capital			
400,000 Ordinary shares of £1 each			400,000
80,000 8% Preference shares of £1 each			<u>80,000</u>
			480,000
Reserves			
Share premium		40,000	
Profit & loss		209,260	
General reserve		<u>25,000</u>	
			<u>274,260</u>
Total shareholders' funds			<u>754,260</u>

Comments A (Distinction Response)

The candidate has demonstrated an excellent understanding of this topic.

Answer B - Pass Response

Gregg Ltd
Profit & Loss and Appropriation Account
for the year ended 30 September 2009

	£	£
Gross Profit		504,400
Profit on vehicle sale		1,500
Deposit interest accrued (50,000 x 6%)		<u>3,000</u>
		508,900
Less:		
Increase in doubtful debts provision	1,240	
Administrative expenses	85,500	
Selling expenses	60,000	
Distribution expenses	130,000	
Debenture interest (2,000 + 2,000)	4,000	
Depreciation:		
Vehicles [(200,000 - 150,000) x 25%]	12,500	
Office equipment (70,000 x 20%)	14,000	
		<u>307,240</u>
Net Profit		201,660
Less: Retained profit b/fwd		83,500
Less:		
Preference dividend - interim	3,200	
Ordinary dividend - interim	4,000	
Ordinary dividend - proposed (400,000 x 0.10)	40,000	
Transfer to general reserve	25,000	
		<u>72,200</u>
Retained profit c/fwd		<u>45,960</u>

QUESTION 1 CONTINUED

(b)

**Gregg Ltd
Balance Sheet at 30 September 2009**

	£	£	£
Fixed Assets	Cost	Acc'd Dep'n	NBV
Motor vehicles	200,000	162,500	37,500
Office equipment	<u>70,000</u>	<u>42,000</u>	<u>28,000</u>
	<u>270,000</u>	<u>204,500</u>	65,500
 Current Assets			
Stock	90,000		
Debtors	62,000		
Less: Provision	<u>2,740</u>	59,260	
Deposit account	<u>50,000</u>	199,260	
 Creditors falling due within 1 year			
Creditors	45,000		
Accrual	2,000		
Bank overdraft	<u>6,800</u>	<u>53,800</u>	
Net current assets			<u>145,460</u>
			210,960
 Creditors falling due after more than 1 year			
5% Debenture loan			<u>80,000</u>
			<u>130,960</u>
 Capital and reserves			
Issued and fully paid share capital			
Ordinary shares			400,000
8% Preference shares			<u>80,000</u>
			480,000
Reserves			
Share premium		40,000	
Profit & loss		45,960	
Proposed dividends		40,000	
General reserve		<u>25,000</u>	
			<u>150,960</u>
Total shareholders' funds			<u>630,960</u>

Comments on Control Accounts B (Pass)

The candidate has shown a fair grasp of this topic.

The debenture interest has been incorrectly calculated.

The proposed dividends have erroneously been entered in the capital and reserves section of the balance sheet rather than the creditors falling due within 1 year section.

The proposed preference dividends have been omitted from the appropriation account and balance sheet.

The provision for doubtful debts has been incorrectly applied in the Profit & Loss Account.

The premises value has been omitted from the balance sheet, thereby losing the mark for the total of net book value.

The debenture interest has been omitted from the balance sheet.

Answer C – Fail response.

Gregg Ltd
Profit & Loss and Appropriation Account
for the year ended 30 September 2009

	£	£
Gross Profit		504,400
Profit on vehicle sale		<u>1,500</u>
		505,900
Less:		
Increase in doubtful debts provision	1,240	
Administrative expenses	85,500	
Selling expenses	60,000	
Distribution expenses	130,000	
Debenture interest (2,000 + 2,000)	4,000	
Interest paid to debenture holders	2,000	
Depreciation:		
Vehicles (200,000 x 25%)	50,000	
Office equipment (70,000 x 20%)	14,000	
		<u>346,740</u>
Net Profit		159,160
Less: Retained profit b/fwd		83,500
Less:		
Preference dividend - interim	3,200	
Ordinary dividend - interim	4,000	
Ordinary dividend - proposed (400,000 x 0.10)	40,000	
Transfer to general reserve	25,000	
Retained profit c/fwd		<u>72,200</u> <u>45,960</u>

QUESTION 1 CONTINUED

(b)

Gregg Ltd Balance Sheet at 30 September 2009

	£	£	£
Fixed Assets	Cost	Acc'd Dep'n	NBV
Motor vehicles	200,000	200,000	0
Office equipment	<u>70,000</u>	<u>42,000</u>	<u>28,000</u>
	<u>270,000</u>	<u>242,000</u>	28,000
Current Assets			
Stock	90,000		
Debtors	62,000		
Less: Provision	<u>2,740</u>		
Deposit account	<u>50,000</u>	199,260	
Creditors falling due within 1 year			
Creditors	45,000		
Accrual	2,000		
Bank overdraft	<u>6,800</u>	<u>53,800</u>	
Net current assets			<u>145,460</u>
			210,960
Creditors falling due after more than 1 year			
5% Debenture loan			<u>80,000</u>
			<u>290,960</u>
Capital and reserves			
Issued and fully paid share capital			
Ordinary shares			400,000
8% Preference shares			<u>80,000</u>
			480,000
Reserves			
Share premium		40,000	
Profit & loss		45,960	
Proposed dividends		40,000	
General reserve		<u>25,000</u>	
			<u>150,960</u>
Total shareholders' funds			<u>630,960</u>

Comments on Control Accounts C (Fail)

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

The debenture interest has been omitted.

The proposed dividends have erroneously been entered in the capital and reserves section of the balance sheet rather than the creditors falling due within 1 year section.

The proposed preference dividends have been omitted from the appropriation account and balance sheet.

The provision for doubtful debts has been incorrectly applied in the Profit & Loss Account.

The premises value has been omitted from the balance sheet, thereby losing the mark for the total of net book value.

The depreciation for motor vehicles has been incorrectly calculated.

The debenture interest has been incorrectly applied.

The debenture interest has been omitted from the balance sheet.

The debenture interest has been **added** to net assets.

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



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