Examiners' Report/
Principal Examiner Feedback

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GCE Accounting (6002)
Paper 01

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General comments

The level of responses for this paper covered a wide range of marks. Where a particular style of question had been asked before, candidates answered well and scored quite highly. It is clear that some areas of the syllabus, and particular techniques, have been learnt and practiced well. If a question, or part of a question, appeared new, or different, candidates struggled to apply their knowledge to the scenario. Candidates must think carefully about what the question requires them to do, not just apply a previously learnt technique.

The general points listed below, could be addressed by candidates and centres in order to improve performance.

- This was the second paper where candidates **had to** answer using IAS 1 instead of the Companies Act 1985. Centres should be aware that candidates **have to** answer using IAS 1 (or IAS 7 for a Cash Flow Statement question). Centres will benefit by ensuring IAS 1 (and IAS 7) are taught, and looking at the mark scheme for this paper and other guidance examples and notes on the Edexcel website.
- Careful reading of the question is advised, as some candidates may fail to answer the question. This is particularly important in the evaluation section. Answers to question 1 (b) were a good example of not answering the question.
- In this paper, it is still possible that candidates will be tested on knowledge of double entry e.g. to complete Journal entries. Therefore, they should still maintain this type of basic building block of knowledge taught for AS, when sitting an A2 paper.

Specific comments

Question 1

This was a very popular question, and it was good to see most candidates were able to answer using IAS 1, and marks were fairly high. However, a number of answers still had the accounts drawn up as using the Companies Act format, with inappropriate headings and layout. The mark scheme gives a good example of an IAS format, with required headings and sub-headings, many of which gained marks. Candidates should also be aware that some adjustments are likely to involve a debit and credit entry, **not** just one entry e.g. revaluing property.

Section (b) was often poorly done, as candidates failed to answer the question. Many answers involved a discussion as to the importance of liquidity for a business, or which is the most important, liquidity or profitability. Careful reading of the question should have meant candidates could see that the question involved evaluating the liquidity position of Channel Oil plc.

Common errors:

- Omission of a heading for the Statement of Financial position, required by IAS 1, a good example being shown in the mark scheme.
- Omission of sub-headings.
- Failure to include a Revaluation Reserve, showing the amounts for Buildings and Investment Property.
- Not spotting that the Retained Earnings balance was a debit balance, so was a "minus" and should be deducted.
- Omitting the effect on Retained Earnings of the revaluation of the Inventories.
- Failing to split the Taxation due between Non-Current and Current Liabilities.
- In (b), candidates did not calculate or comment on Current or Acid ratios, which would have scored well.

Question 2

This was another popular question that was answered fairly well. However, a large number of candidates were unable to select the necessary information to calculate (a) correctly. Often (b) was answered better, especially where candidates had learnt the formulas, and was able to apply them to the question. It was good to see that only a few candidates omitted to state the formulas. Others were unable to get started in this section, not being able to see a way through the information and figures given. Profit for the month was usually accurate in (c). Answers for (d) were good, with scripts showing arguments on both sides and a conclusion given.

Common errors:

- Not calculating the variances for production of **one** carpet, but calculating the variances for **all** (480) carpets produced.
- In (b) where the candidate added Material Usage Variance and Material Price Variance to give Material Cost Variance, (similarly for Total Labour Variance) this should have been shown as a formula.
- Failing to state if variance was Adverse or Favourable.
- Forgetting to subtract Fixed Costs to calculate Profit in (c)

Question 3

This was not a popular question, and the marks achieved were poor. This was the first question on the IAS Statement of Changes in Equity, although an example is on the website. Answers in (a) were good, as only additions were required. Disappointingly, few were able to offer a suggestion for a use of the Fixed Asset Replacement Reserve in (b) (i). Better answers were given in (b) (ii) for the transfer. The remainder of section (b) saw very weak answers, with candidates unable to start calculations or give explanations. It would appear candidates need to improve their knowledge of the Capital Structure for Limited Companies section of the Specification. Answers in (c) were better, with some reasonable attempts at comparing Bonus Shares with a Rights Issue.

Common errors:

- Stating the transfer was from Retained Earnings to General Reserve, instead of the other way round.
- Answering (c) from the point of view of a shareholder, despite the question stating the evaluation must be "on behalf of Med Isle Travel plc".

Question 4

This was a fairly popular question, which saw candidates generally score very well on section (a) but struggle on (b). Most of the figures for the Income and Expenditure sections were usually correct, with sales proving the most difficult. Many, however, left out the Total Payments or the Monthly Balance. Candidates should realise that the Cash Budget is an internal document, so rows such as Monthly Balance would be very useful for management. The document is not just produced with an intention of arriving at a closing balance for the final month. Answers for (b) failed to develop much depth, with many stating that reducing drawings would increase profit.

Common errors:

- Failing to realise that £3597 was paid for rent in the first month, and inserting £1 199 for each of the first three months.
- In (b), confusing cash flow with profit. Candidates failed to realise that drawings are not deducted before arriving at profit, but are an appropriation, or use of profit.

Question 5

This was a popular question that scored reasonably well. Candidates were able to correctly calculate Cash Inflows and Net Cash Flows, using the own figure rule. However, often depreciation was omitted, and few managed to include the Lorries being sold after five years (although this did not affect payback). Getting the correct year for the payback was usually achieved. The Accounting Rate of Return saw the usual array of calculations. Although a number of formulae were accepted, some were still wide of the mark. Answers in (b) were generally strong, giving both sides of the argument, and coming to a conclusion.

Common errors:

- Omitting the Year 0 cost of the project of £1 900 000 from the payback period table.
- Failing to multiply the fraction by 12, to find the number of months for the payback.
- Despite the firm stating they will invest in projects with a payback of less than three years, many felt a payback of 3 years and 5 months meant the project would go ahead.

Question 6

A very popular question, which saw candidates score well. In (b), break-even, margin of safety, and profit were often calculated accurately. Answers from (b) were then applied correctly to the scenario in (c), with the correct shop being chosen to stay open or close. It was good to see a thorough understanding and application of break-even analysis. Surprisingly, (a) was found quite tricky, with very few identifying four other fixed costs successfully. Definitions of semi-variable costs were pretty good, but some struggled to give two examples.

Common errors:

- Inaccurate examples of fixed costs given e.g. wages, utility bills, salaries (not **other**).
- Incorrect examples of semi-variable costs given e.g. wages, salaries.

Question 7

This question was not answered well by candidates. Most candidates failed to correctly identify all of the accounts to be debited and credited in (a). Section (b) was found tricky, with many candidates trying to calculate the purchase price using the value of assets and liabilities. The answer was arrived at using the amount each shareholder receives. Candidates often had almost a second attempt at trying to calculate the purchase price in (c), and most picked up some marks using adjustments to values etc. Answers to (d) were often quite vague and lacked depth, just scratching the surface.

Common errors:

- Using figures in (a) that applied **after** revaluations, although the question clearly stated **before** revaluations.
- Not spotting the shares were £1.20 each, so this had to be divided into 6 000 000 to arrive at the number of shares.
- Omitting to adjust for the bank balance not included in the purchase.

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