

Examiners' Report  
June 2014

IAL Accounting WAC01 01

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## **Introduction**

Centres are to be congratulated on the preparation of their students for this examination series. Students generally demonstrated a wide range of accounting knowledge, application and could evaluate scenarios contained within the paper.

It was encouraging to see that the vast majority of centres and students have transferred from UK (GAAP) accounting terminology to IAS terminology. To complete the transition centres should work upon the presentation of the statement of financial position preparing totals for total assets and total liabilities.

The balancing of accounts and the evaluation of accounting scenarios set in the questions continues to improve.

## Question 1

Students generally prepared good answers to the question. Answers to the preparation of the Statement of Comprehensive Income and the Financial Position Statement were full and substantially accurate. Centres should consider making the change from the UK (GAAP) layout in the Statement of Financial Position, to that required by the IAS.

Students could generally evaluate the use of accounting concepts in the preparation of financial statements. However, some students described the main accounting concepts instead of evaluating their usefulness.

Common errors were:

- Inaccurate preparation of the Commission Received from Software Sales Account.
- The treatment of a long term loan in the statement of financial position where this is repaid by instalments.
- Describing accounting concepts instead of evaluating their usefulness.

Many students are preparing evaluations using bullet points.

(e) Evaluate the use of accounting concepts in the preparation of financial statements.

*In favour*

- *Provides framework of consistency in preparing all financial statement*
- *Profit can be relied upon*
- *meets legal requirements*

*against*

- *concepts are contradictory*
- *open to wide interpretations.*



**ResultsPlus**  
Examiner Comments

This approach is accepted by the examiners if students have clearly stated the points in favour and against. Here the student had completed that labelling and therefore was awarded 8 marks.



**ResultsPlus**  
Examiner Tip

If students use a bullet point format they must state which items are in favour/advantages and which are not in favour/against.

This example demonstrates how students failed to answer the question.

(e) Evaluate the use of accounting concepts in the preparation of financial statements.

The money measurement concept tells you  
to take the items only which can be  
measured in terms of money.

Prudence concept tells us not to overstate  
your assets. Because this would increase  
the profits, showing unrealistic figures when  
compared with actual.



**ResultsPlus**  
Examiner Comments

The student has described two accounting concepts and has not answered the question. The answer gained 0 marks.



**ResultsPlus**  
Examiner Tip

For evaluation sections ensure that students do evaluate and not explain or describe.

## Question 2

Students generally prepared accurately calculated ratios. However, students still lacked a good understanding of return on capital employed. Significant numbers of students could not identify the component elements and were unaware of what might be acceptable as a return.

Students could generally calculate liquidity ratios, but could not describe the term 'idle funds' or identify how this might have happened from comparison of two statements of financial position.

Common errors were:

- Lack of accurate description of the return on capital employed
- Commenting on the sufficiency of the returns on capital employed calculated.
- Lack of understanding of 'idle funds'.

Return on capital employed regularly causes issues. The examiners will accept a range of valid definitions but the one most commonly used is profit for the year before interest, divided by owners capital plus non-current liabilities.

<p>(c) (i) Explain the term <b>return on capital employed</b>.</p> <p>.....return.....on.....capital.....employed.....mean.....</p> <p>.....what.....are.....owner.....get.....back.....</p> <p>.....the.....formula.....is.....:.....<math>\frac{\text{Net profit before interest}}{\text{Capital employed}}</math>.....%</p> <p>.....</p> <p>.....It.....also.....mean.....the.....net.....profit.....as.....</p> <p>.....the.....percentage.....of.....capital.....employed.....</p>	<p>MARK</p>
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### ResultsPlus Examiner Comments

Students often fail to explain what capital employed is. In this answer the student states that it is net profit plus interest payments which was worth 2 marks. The explanation then goes onto say that this is then divided by capital employed, but that was the question - what is capital employed? The student was awarded no further marks.



### ResultsPlus Examiner Tip

Ensure that students:

- Can define the components of capital employed.
- Can apply this to scenarios.

### Question 3

Student responses to this question were substantially accurate. Students were able to apply the principles of errors of commission and errors of principle. Journal entries and the preparation of the trial balance were substantially accurate. Students could evaluate the usefulness of the trial balance.

Common errors were:

- The Journal treatment of the disposal of the non-current asset.
- Calculating the balance of the bank account and inclusion of the Disposal Account in the Revised Trial Balance.

In Question 1, we saw an example of an evaluation which was in bullet point format whilst this one is in continuous prose. Both are equally valid and acceptable.

(d) Evaluate the usefulness to a business of preparing a trial balance.

Trial balance check the accuracy of the bookkeeping. It checks whether the double entry in all the accounts is correct. If all the records were correct trial balance should agree. It checks if there are errors as both sides won't agree. Also, it identifies important accounting information. It's easy to be prepared and no high accounting knowledge is needed. Also it helps for the preparation of the financial statements. It helps for the preparation of statement of comprehensive income and pre statement of financial position as all the balances are ready. It's not time consuming and ~~easy~~ easy. However, errors are not identified. It doesn't identify the location of errors and if so all the double entry should be checked again. Errors therefore are not revealed. Also a little accounting knowledge is needed and it might need some time in order to balance all accounts.



**ResultsPlus**  
**Examiner Comments**

The answer is good in that it clearly stated the advantages, but the weaknesses are not as strong. The student was awarded 6 marks.



**ResultsPlus**  
**Examiner Tip**

Students should judge which type of response would be most appropriate - bullets or prose.



## **Question 4**

This was a popular question with students who generally prepared accurate answers. The Appropriation Account and Current Accounts were accurately prepared, but many students failed to prepare an accurate Goodwill Account. The Statement of Financial Position was substantially correct but some students failed to adjust for the changes in the Cash and bank and the Capital Accounts. Evaluation of the scenario set of Jila becoming a partner was well answered.

Common errors were:

- The preparation of the Goodwill Account where businesses revalue goodwill and then remove it from the books.

## Question 5

Students were aware of, and could describe, fixed and variable costs. They were however, not able to describe a semi-fixed cost. Most students described semi-variable costs and students will need to be aware of the difference between the two.

The calculation of the profit for the year generally contained most of the required elements but students were often unaware of how to prepare a quotation.

Most students could identify activities which would not be directly chargeable to the customer, but some students just identified expense categories such as depreciation.

Common errors were:

- Failure to describe a semi-fixed cost.
- Preparation of a quotation for works to be completed.
- Identifying activities which would not be directly chargeable to the customer.

Introduction to costing is a topic that still causes difficulty for students.

(b) Calculate Aminath's profit/loss for the year ended 31 January 2014.

Aminath's profit/loss for the year.		
	£	£
Raw materials: (103000 - 90000)	13000	
charges of work (50x50x60% x 30)	45000	
		63000
less: overhead costs:		
advertising	8500	
Rent of premises	10000	
Motor vehicle running costs	11300	
		29800
profit for the year		33200

(c) Prepare a job cost quotation for a customer where:

Raw materials cost Aminath      £1 200  
 Chargeable hours                      20

Job Quotation		£	£
Raw materials charges	<del>1200</del>		
(1200 X 1.2)		1440	
Charges of works			
(20 X 60% X 30)		360	
<u>Total charged customer:</u>			<u>1800</u>



### ResultsPlus

#### Examiner Comments

In this answer the student has made the calculations and clearly set out the answer. The answer was awarded 9 marks for Part (b) and 3 marks for Part (c), the only error being the calculation of the labour and overheads.



### ResultsPlus

#### Examiner Tip

Questions on costing are designed to be straightforward. Students should think through the process of raw materials, labour, overheads and mark-up in building the cost.

When asked for activities carried out by the owner which could not be directly charged to customers, students give varied answers.

- (d) Identify **three** business duties or tasks undertaken by Aminath that are not directly chargeable to the customer.

Time taken for illness & holidays  
Advertising cost  
Time taken to prepare accounts



**ResultsPlus**  
Examiner Comments

In this case there are two acceptable answers but the reference to advertising is not valid. Some students list expenditure items not activities.



**ResultsPlus**  
Examiner Tip

Ensure that students are aware of the difference between an expenditure item and an activity that might be undertaken by the owner.

## Question 6

Students were not all confident in preparing a double entry Bank Account which was often incomplete. The financial statements of the business were well prepared and were substantially accurate.

Most students could evaluate why a business would maintain a provision for doubtful debts.

Common errors were:

- Preparation of the Bank Account.

The preparation of a summarized Bank Account is really an International GCSE topic but can become important as the platform for preparing incomplete records.

6. (a) Prepare for Apostolou the:

(i) summarised Bank Account for the year ended 30 April 2014

2013-2014		2014-2015	
May 1 Capital	1000	30 Apr Bad debts	1700
Trade Receiv	55600	30 Apr trade payables	43000
<del>Cash sales</del>	<del>12500</del>	30 Apr Fixtures	6000
credit sales	65000	31 July Rent	5000
		30 Apr bal c/d	900
	<u>56600</u>		<u>56600</u>
1 May bal b/d	900		



### ResultsPlus Examiner Comments

The preparation of summarized Bank Accounts varies in quality. Here, the student has included bad debts, but omitted several items including cash sales and wages. The answer was awarded 5 marks. The result limits the ability of the student to prepare the financial statements from this account.



### ResultsPlus Examiner Tip

Ensure that when preparing incomplete records, students can complete a substantially accurate Bank Account. Teachers may wish to practice this, using this question and previous examples from questions set.

## **Question 7**

Students did not prepare reliable answers to this question. Generally the calculation of depreciation over the two years and for the four vehicles was inaccurate. The ledger accounts were also inaccurate and lacking in a two year structure.

Students were often not clear about the non-current assets which would be best suited to the use of the straight line method, or the advantages and disadvantages of its use.

Common errors were:

- The calculation of depreciation per vehicle for part years of ownership.
- Preparation of the Delivery Vehicles Account and the Delivery Vehicles - Provision for Depreciation Account.
- Situations which would be best suited to the straight line method of depreciation.

## **Paper Summary**

Students should read the advice already given under the common errors section for each question. Also, based on their performance on this paper, students are offered the following advice:

- There still remains an underlying weakness in the preparation of double entry accounts. Centres may wish to consider refreshing this knowledge throughout the students course of study.
- Students remain weak in an understanding and the application of basic costing techniques.

## **Grade Boundaries**

Grade boundaries for this, and all other papers, can be found on the website on this link:

<http://www.edexcel.com/iwantto/Pages/grade-boundaries.aspx>

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