Examiners' Report Summer 2007

GCE

GCE Accounting (8011/9011)

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GCE Accounting 6001 – The Accounting System and Costing

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General Comments

Candidates were again generally well prepared for the examination, being able to demonstrate the application of a full range of accounting skills. Candidates were particularly strong in the topics examined in Section A, where candidates were able to apply their knowledge and skills to the scenarios set. Within Section B, candidates were less confidant with costing concepts and application, but also with the dissolution of a partnership, which was examined for the first time. Candidates continue to demonstrate improved evaluation skills, but generally expand upon the advantages of the option and are less incline to consider the disadvantages in making their decision.

Specific Comments

Question 1

Candidates generally prepared the trading, income and expenditure accounts and balance sheet in good format. Candidates showed great variation in response demonstrating their understanding of net realisable value. Although candidates could describe the accrual concept, a majority were unable to identify whether the extension and redecoration were revenue or capital expenditure.

Common errors were:

- Failure to adjust book purchases for creditors in the trading account.
- Calculation of investment income and recording of the income as expenditure.
- Inclusion of the extension as a revenue expenditure.
- Understanding of net realisable value.
- Identification of redecoration and extension as revenue and capital expenditure and the implications for the income and expenditure account and the balance sheet.

Question 2

Candidates generally prepared the manufacturing account in good columnar format. The machinery accounts were generally well prepared with many correct answers. Few candidates could identify more than one characteristic of an overhead. Most candidates could describe straight line depreciation but few were familiar with the scenarios where it would be the most applicable method to use.

Common errors were:

- Preparation of provision for depreciation account.
- Knowledge of the characteristics of overheads.
- Situations where straight line depreciation would be the most appropriate method.

Question 3

Candidates generally prepared accurate journals and then prepared the purchases and sales ledger control accounts incorporating the adjustments within those accounts. Limitations of the trial balance were generally restricted to one limitation. Candidates were clear about the difference between errors in principle and errors of reversal. Candidates understood the contribution played by control accounts in ensuring accuracy.

Common errors were:

- Understanding the limitation of trial balances.

Question 4

This was the first time that dissolution of partnerships had been tested under the revised syllabus. The responses of candidates varied greatly in quality of answer. Candidates understood the concept of goodwill and why it needed to be recorded on dissolution. Candidates could also evaluate the need for formality in a partnership agreement.

Common errors were:

- The accounting entries to record the dissolution of a partnership.

Question 5

Candidates generally were able to calculate the required ratios although candidates were less able to calculate or explain the value of the fixed assets to sales ratio. Profitability was generally well explained by candidates. Although candidates could identify differences between the two businesses from a creditors' perspective, greater difficulty occurred in explaining possible differences from a customers' perspective.

Common errors were:

- Calculation of explanation of fixed assets to sales.
- Distinguishing the business from a customer's perspective.

Question 6

Candidates could explain fixed and semi-fixed costs. Few candidates could prepare accurate calculations of the two daily rates, often confusing income with costs. Many candidates established the daily rate based upon 365 days and not the days hired in a year.

Common errors were:

- Identification of the cost of each expenditure heading.
- Establishment of cost per day.
- Failure to identify potential changes to the pricing policy.

Question 7

Candidates prepared much improved double entry ledger accounts from previous examinations. Candidates could explain the concepts of accruals and materiality but were less able to explain how they might be in conflict.

Common errors were:

- An understanding of the conflict between the concepts of accruals and materiality.

GCE Accounting 6002 – Corporate and Management Accounting

Examiners' Report June 2007

General Comments

Candidates achieved in line with expectations and marks covered the full range up and into the 90's. It is good to see that candidates have clearly grasped some aspects of the syllabus. Other areas still require more practice to develop a full understanding.

Whilst overall standards were quite good, the points listed below are general areas where candidates may look to improve performance.

- Candidates are advised to show all workings, as marks are available for the stages in the workings. Showing the answers only is a "high risk strategy", as a wrong answer results in no marks.

- Careful reading of the question is advised, as some candidates may arrive at a wrong conclusion. For example, "project is not worth undertaking", yet the payback period falls within the directors requirements stated in the question.

- Evaluation usually involves a judgement on figures already calculated, rather than mere repetition of those figures without judgement on their meaning. At the end of an evaluation, the candidate may have to form an overall conclusion e.g. the merger is good from the point of view of the shareholder in Company Z.

Specific Comments

Question 1

This was not a very popular question, although marks were usually reasonable. Journal entries in (a) were often weak, although the number of candidates who adjusted stock correctly was surprisingly high. Few answers for (b) were correct, with the Capital Redemption Reserve often omitted. However, the gearing ratio in (c) was attempted well, with a number of formulae accepted, as long as this was stated. Very few answers in (d) achieved much depth. Candidates would be advised that the directors are acting on behalf of the company, as Company Law dictates, and have the same interest as the company. Many candidates felt the directors had bought the shares for themselves and could now “control” the plc. They failed to realise these shares would now be cancelled by the plc. Other answers felt the share price would now fall, but the market value of the plc is now divided by a smaller number of shares, so the share price rises.

Common errors were:

- Failure to distinguish between “providing” and “paying” dividends in (a).
- Crediting the Profit and Loss, instead of debiting, when transfers or provisions were made from the Profit and Loss.
- Omitting Authorised Share Capital from the balance sheet.
- Including debentures in the Shareholders Interest / Capital and Reserves section of the balance sheet.
- Thinking that redeeming shares was a way of raising capital for a company, instead of an outflow of funds.

Question 2

This was very popular question, with some good answers for (a). Students will benefit from trying to learn the exact headings on the face of the profit and loss account. For example, Profit on Ordinary Activities after Tax, could not be labelled as Retained Profit. Learning the order is also important, for example Corporation Tax needs to be the last deduction. Answers for (b) were weak, with few spotting that the book shops should be treated as Discontinued Operations. This meant that (b) (ii) answers were poor, with many discussing the advantages of a Realisation Account.

Common errors were:

- Failure to distinguish between what should be shown on the face of the profit and loss account, and what should be in the workings, although this year marks were not lost for this error.
- Items placed under the wrong heading e.g. Advertising wrongly placed under Administrative Expenses, instead Distribution Costs.
- Incorrect headings used e.g. Cost of Sales referred to as Cost of Goods Sold
- The answer to (b) (ii) was often from the point of view of the company, not the users of the accounts, such as shareholders, potential investors, or banks.

Question 3

This was a popular question and answers were generally good, as students appear to have learnt the accounting procedures for mergers well. This meant answers for (a) (b) and (c) were pleasing, but this was not the case for (d). Many just assumed that because the shares in Femme Fatalle were £1 shares, and the shares in the new company were valued at £1.25, this meant Sharmin was better off. These values are not as important as market values which must be considered and mentioned. The stronger candidates were able to look at the balance sheet of The Looke Limited, and indicate the weakness of this balance sheet. For example, creditors and stock were high, but cash and bank were low. This indicated liquidity problems, and assets of The Looke were overvalued on the balance sheet, always a worrying sign.

Common errors:

- Entering items in the Realisation Account at the revalued amount, not the book value.
- Failure to enter the balances on Share Capital, Share Premium, and Profit and Loss Account in the Sundry Shareholders Account.
- Trying to calculate a balancing figure for the purchase price of Femme Fatalle in the Sundry Shareholders Account, when the figure of £764 000 was given in the question.
- Not splitting the Capital and Reserves section of the new company balance sheet between Ordinary Shares and Share Premium.

Question 4

This was another popular question, which saw many candidates able to successfully calculate the payback period in (a). As usual however, depreciation was left out of the workings by many candidates. When included, depreciation was often deducted from normal matches, and then deducted from special matches, which meant it was deducted twice! It was good to see many answers refer to Net Present Value as a useful additional method to judge the investment.

Common errors were:

- Inability to correctly treat depreciation i.e. deduct £316 000 per year from running expenses to give net cash flow.
- Not taking the residual value of the stand of £100 000 into account, when calculating depreciation per year.
- Ignoring the directors requirements with regard to the investment decision i.e. does it payback within the 5 years they require?

Question 5

This question was not so popular, but candidates answered fairly well. Most were able to identify machine hours as the limiting factor in (a). Many students were able to work out (b) correctly, but some forgot to calculate the contribution per machine hour, which is crucial in this type of question, to determine the order of production. For (d), not that many candidates were able to grasp that there was too much labour, so numbers or hours had to be reduced. Too many answers concentrated on various incentives to make labour work harder.

Common errors :

- Failure to calculate contribution per machine hour, merely relying on contribution per unit, to determine production order.
- In (c), deducting the fixed costs of £2500 from each product, instead of just once overall.
- Not realising that there was excess labour, which now had to be reduced.

Question 6

A question on budgets, which was not popular, with answers of variable standards. Sales budgets in (a) were good, but many struggled with the Production budget in (b). Candidates did not appreciate that Production needed to be juggled in order to minimise stocks. Too many were concerned with constructing a mini trading account for the month. Answers for (c) were disappointing, given that all that was required was to multiply (b) answers by 2. However, (d) saw mostly accurate responses, with reasons identified for and against keeping stocks low. Candidates lost one mark if they failed to give an overall evaluation as to whether the policy was good or bad policy.

Common errors:

- Adding to find a total for each product, rather than a total for each month, in (a) and (b).
- Assuming the production capacity was the production figure for each product for each month.

Question 7

This was a popular question with a mixture of responses. Most candidates were able to flex the budget to get the correct figures for (a). In (b), many were able to state the formula accurately, but a much smaller number were able to substitute figures to arrive at the correct variance. Students need to realise they must find eg the Standard Price for 1 metre of material, and the actual price of 1 metre. Generally, answers for (c) were good, with a range of sensible reasons for the variance given. Answers for (d) tended to be vague, but strong candidates calculated the error rate.eg overall variance for output of 6600 was only £660, an error rate of less than 1%.

Common errors were:

- Not flexing the budget, just calculating a variance between the budget output of 5500 units and the actual output of 6600 units.
- Failure to find and use the Standard and Actual figures for (b).

8011-9011 Statistics

Unit 6001

Grade	Max Mark	A	B	C	D	E
Grade boundary Marks	100	60	52	45	38	31
UMS Marks	300	240	210	180	150	120

Unit 6002

Grade	Max Mark	A	B	C	D	E
Grade boundary Marks	100	57	49	41	33	26
UMS Marks	300	240	210	180	150	120

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