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# Examiners' Report January 2007

GCE

# GCE Accounting (8011/9011)

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## Examiners' Report

### Unit 1 – The Accounting System and Costing
### January 2007

### General Comments

Candidates were generally well prepared for the examination and successfully demonstrated the application of a range of accounting skills. That range of skills was particularly well demonstrated in Section A, where candidates were able to apply their knowledge and skills to questions requiring the application to more than one area of the syllabus. Candidates continue to demonstrate improved evaluation skills.

### Specific Comments

#### Question 1

Candidates generally prepared the journal entries, profit and loss account and balance sheet in good format and with accuracy. Candidates could accurately calculate the alternative remuneration to be paid and were aware of the advantages and disadvantages of the alternative method.

Common errors were:

- Failure to adjust for the trade discount on the holiday prize.
- The provision for doubtful debts increased by the value of the revised provision, rather than adjusted to the value of the revised provision.
- Failure to accrue loan interest.
- Depreciation for the year was deducted from fixed asset cost. Depreciation related to previous years was not deducted.

#### Question 2

Candidates could apply the principles of overhead apportionment and continuous depletion with great accuracy. The final calculation of the overhead recovery rate was often incorrect as the hours of recovery were based upon staff total work hours and not hours chargeable to customers. Candidates were generally less able in the preparation of the provision for doubtful debts account, the adjusted provision was generally miscalculated and the account inaccurately prepared. Candidates were generally able to suggest a range of improvements to the credit control policy of the business.

Common errors were:

- Calculation of the hourly overhead recovery rate based upon staff total work hours and not hours chargeable to customers.
- Preparation of and adjustment to the provision for doubtful debts account.

## Question 3

Candidates calculated sales and purchases with considerable accuracy, but with the common omission of the discount allowed and discount received. The value of the closing stock was accurately calculated. This information was then accurately included in the trading and profit and loss account. Calculations of interest receivable and loan interest were often inaccurate. Candidates were often unsure of the difference between perpetual inventory and periodic inventory and the impact of Last In First Out (LIFO) on profit in inflationary times.

Common errors were:

- Failure to include discount received and discount allowed in the calculation of sales and purchases.
- Adjustment for interest receivable due.
- Calculation of loan interest payable for the year.
- Distinction between perpetual inventory and periodic inventory.

## Question 4

Candidates' knowledge and application of accounting concepts was less evident than in previous examinations. Few candidates could correctly identify the correct accounting concepts to be applied in the three scenarios set. Candidates therefore often failed to adjust the net loss for each of those scenarios.

Common errors were:

- Understanding of depreciation as an application of the accruals concept.
- Identification and application of accounting concepts to scenarios set.
- Failure to adjust the initial net loss for the three scenarios set.

## Question 5

Candidates could accurately calculate the five ratios required, but generally restricted their comments to only the current ratio and the liquid (acid test) ratio. Candidates generally failed to comment upon the impact of the debtors collection and creditors payment periods upon liquidity. Candidates could calculate the impact of the two options on the liquid (acid test) ratio and the creditors' payment period, but were less able to make the correct adjustments to the calculation of return on capital employed.

Common errors were:

- Comment upon impact of debtors' collection and creditors' payment periods on the liquidity of the business.
- Adjustment of return on capital employed to the two scenarios set.

**Question 6**

Candidates were fully aware of the distinction between fixed and semi fixed costs and could also identify a range of additional adjustments which might be required to ensure an accurate profit statement. Many candidates calculated the manufacturing cost and total cost for the production as a whole and not for each table.

Common errors were:

- Failure to calculate the cost for each table.

**Question 7**

Most candidates were unsure of the difference between fixed and floating capital accounts. Candidates generally prepared accurate appropriation, current and capital accounts. A minority of candidates did, incorrectly, include goodwill in the current account. The balance sheet was generally prepared accurately and in good format, although some candidates failed to correctly adjust the fixed assets and bank account for the retirement of the partner.

Common errors were:

- Failure to distinguish between fixed and floating capital accounts.
- Inclusion of goodwill in the current account.
- In the balance sheet, failure to adjust the fixed assets of the new partnership for the vehicle taken by the retiring partner.
- In the balance sheet, failure to adjust the bank account for the long term loan and payment made to the retiring partner.

## Examiner's Report

## Unit 2 – Corporate and Management Accounting
## January 2007

### General Comments

Candidates achieved in line with expectations and marks covered the full range up to the mid-80s. Marks achieved were equally distributed between the two sections. Whilst standards were satisfactory, the points listed below are areas where candidates may look to improve performance.

- Candidates need to show all workings whenever possible, as the marks for some figures are broken down into stages or workings. Just writing down a final figure results in an "all or nothing strategy" for marks.

- At the end of an evaluation, the candidate may have to form an overall conclusion e.g. the liquidity position at the moment is good..

### Question 1

Generally, the reconciliation in (a) was done well, with the exception of the bank loan interest. Often this figure was left out, or candidates had problems calculating an accurate figure. The cash flow statement in (b) was usually in a fairly accurate format, with a small number of candidates achieving full marks. With part (c), candidates often became confused when having to bring an overdraft into the calculations. Candidates would be advised to work from the two balance sheets, rather than try to manipulate figures to arrive at their balance from the cash flow statement.
Part (d) allowed candidates to argue the strong and the weak points of the liquidity position and most were able to score marks here. It was good to see that most spotted the high debtors figure, but disappointing that very few noticed the extravagant dividend policy.

Common errors were :

- Failure to add back bank loan interest to the net profit when reconciling to net cash flow from operating activities.
- Incorrect calculation of bank loan interest.
- Inaccurate calculation of Preference dividend in the cash flow statement.
- Failure to notice the firm was a delivery company and would not be relying on the sale of stock to improve the position.

### Question 2

Many candidates were able to successfully calculate the weighted average cost of capital in (a) which was pleasing, as this was examined for the first time.
In (b), candidates correctly scored well, with some achieving full marks for this section. Most candidates in (c) correctly linked a positive NPV to going ahead with the project. The last section, (d) was disappointing as few realised that the gearing ratio needed to be calculated in order to evaluate the capital structure.

Common errors were:

- Inability to correctly treat depreciation ie deduct 20% of £120 000 per year from running expenses to give cash outflow.
- Despite calculating the weighted average cost of capital correctly at 10%, some candidates used another discount factor from the table in (b)
- In (d) returning to discuss the overall weighted average cost of capital found in (a) rather than consider gearing and the individual components.

**Question 3**

Not a popular question, perhaps because a question in this style had yet to appear on the three previous papers in the new syllabus. In (a) candidates found calculating the subscriptions tricky, but answered well when dealing with the cafeteria and the expenses. The balance sheet in (b) was well structured, but current asset figures were often wrong, and the bank loan in the wrong section. Section (c) was a little disappointing, as candidates could have used any of the theoretical advantages or disadvantages and applied them to Lifestyle Gymnasiums.

Common errors were :

- Treating the conversion costs as revenue expenditure, instead of capital expenditure.
- Omitting the loan interest from, or including the loan repayment in, the profit and loss account.
- On the balance sheet, placing the Bank Loan in the Shareholders Interest section, or in Current Liabilities, when it clearly was a long term loan.
- Failing to include a figure for Bank on the balance sheet.

**Question 4**

The marks achieved by candidates in this question were generally disappointing. The formula for Dividend Cover in (a) had not been learnt by many candidates, neither were there many attempts at explaining the term. However, scores for part (b) were much better. Many answers to (c) saw confusion as to the dividend in pence for the final dividend, probably due to not understanding the term dividend yield. Some answers to (d) scored all marks available, but some responses for (e) were weak.
Too many candidates felt the overriding factor was the price of the share on the market.

Common errors were:

- Incorrect formula given in (a)
- Final dividend per share for Pacific Chemicals taken as 12.5 p instead of 9.5p.
- Failure to take account of the nominal value of a share, or the purchase price of the share, when considering the performance of a share.
- Taking the market price of the share as the most important factor when assessing how well a share had performed.

**Question 5**

A popular question, usually answered well. Candidates were generally good at finding the break even point in (a), with the correct formula used. However, not all the items classed as variable costs were included in the calculation of variable costs. Margin of safety was usually accurate for (b) as was the profit for the year in (c). Candidates found good reasons for the better choice of factory in (d).

Common errors were :

- Failure to include the royalty fee in variable costs.
- Expressing break even point in units, instead of sales revenue, as required.
- Omitting to multiply the monthly fixed costs figure from (a) by twelve, to give a figure for the year, when calculating profit in (c).
- Incorrect calculation of the margin of safety for the year, if using this to calculate profit.

**Question 6**

This was a popular question, but the marks achieved were disappointing. However, candidates scored well in (a) drawing up an accurate profit calculation, including a closing stock. Relatively few candidates used marginal costing a basis for the decision making required in (b) and (c). This remains an area of weakness for candidates. The majority of candidates came up with some reasons to consider in (d), but failed to develop these points in any depth.

Common errors were:

- Failure to make a decision based on marginal costing in (b).
- Inaccurate calculation of the marginal cost in (c) and/or failure to use marginal costing for the decision.
- Repeating the figures previously calculated, when answering (d), instead of explaining two **other** factors.

**Question 7**

Not a popular question, but the scores achieved were reasonably pleasing. A good number of candidates managed to correctly calculate the purchase price in (a). Unfortunately, many were confused when drawing up the Realisation Account in (b). Many candidates just divided Wei Lun's 10 000 by £1.40 for (c) which was not correct. Few were able to develop reasons for or against the merger. This showed a better knowledge of the accounting mechanics of a merger, than the context or reasons for or against.

Common errors were:

- Failure to put assets in the Realisation Account at Book Value.
- Profit on Realisation left out of Realisation account.
- Incorrect calculation of Wei Lun's proportion of shares in Le Chic, and his holding in the new company.
- Lack of awareness of the basic reasons firms may merge.
- Failure to appreciate the difference between the nominal price of a share and the market price of a share.

## Statistics - Grade Boundaries

### 6001 - The Accounting System and Costing:

| Grade | Max. Marks | A | B | C | D | E |
|---|---|---|---|---|---|---|
| Raw Boundary Marks | 100 | 57 | 50 | 43 | 36 | 30 |
| Uniform Boundary Marks | 300 | 240 | 210 | 180 | 150 | 120 |

### 6002 - Corporate and Management Accounting:

| Grade | Max. Marks | A | B | C | D | E |
|---|---|---|---|---|---|---|
| Raw Boundary Marks | 100 | 62 | 54 | 47 | 40 | 33 |
| Uniform Boundary Marks | 300 | 240 | 210 | 180 | 150 | 120 |

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