

# Examiners' Report Summer 2007

GCE O Level

## GCE O Level Accounting (7011)

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## General Comments

This was the first time that the paper had been marked online and presented in its current format. A number of students did not confine their answers to the boxes provided and/or they used continuation sheets.

The overall level of performance was quite good. Most candidates answered all the questions on the paper. The general picture which emerges is one where candidates are strongest on the questions involving financial statements, do reasonably well on the bookkeeping question and less well on the written questions and sections. Teachers should emphasise the conceptual basis of the topics learned so that students can write informed comments on the accounting procedures they are carrying out.

The following is a detailed breakdown of candidates' performance in individual questions and contains advice on areas which cause difficulty and which need improvement. Teachers should note these areas and stress them in the classroom.

## Question 1

Many candidates are now dealing more proficiently with the bookkeeping question but a number of points need attention.

- Trade discount must be shown in the day books - marks are lost for showing the post-discount figure only. Cash discount must be deducted before VAT is calculated.
- Purchases of fixed assets do not go in the Purchases Day Book but in the General Journal.
- Day Books must not be ruled up in the style of ledger accounts.
- The Cash Book was done well, as in previous examinations, and most candidates entered items on the correct sides. But marks are being lost for incorrect narrations even though the rule is simple to teach and to learn: each narration should be the name of the account where the double entry is recorded. For example, 'dishonoured cheque' is not acceptable as a narration. Balances should be named in full and the c/f distinguished from the b/f balance. The dividends received were often given as a credit.
- The General Journal was either omitted or done incorrectly by most candidates - it was often ruled up in the style of Sales or Purchases Day Book. It should show the debit and credit in each case and must contain a clear narration.

- A large number of candidates managed to rule up the customers' accounts correctly in the Sales Ledger and many gave the opening balances and the sales figures. But the majority failed to give the bank and discount entries and this seems to be an area to concentrate on in the classroom - a customer's or a supplier's account tells the story of the transactions with that person and it should be clearly understood.
- The VAT account, as in the previous examination, was not done very well and there was confusion between the debit and credit sides and the correct narrations. The VAT rule can be taught quite easily by stressing that the customer or supplier account contains goods plus VAT whereas in the nominal ledger the total is split into goods (sales or purchases account) and VAT (VAT account). The VAT account should be balanced and students should understand the meaning of the final balance; all that was needed in the interpretation was to say who owes how much to whom.

## Question 2

The final accounts question is always well done and this was no exception. Since the business was in the service sector, there was no need to do a trading account or to find the gross profit. A lot of candidates did do this and gained marks for every correct figure they used but it should be stressed that calculations should always be shown. A correct gross profit would have scored the commensurate marks but an incorrect one which was not explained would not have scored any marks. The best way is always to show every item separately. The appropriation account, current accounts and balance sheet were all well understood. Here are the main points for teachers to note and correct:

- The drawing of stationery should have been deducted from the purchases of stationery.
- The interest on the loan from Taka should have been shown in the profit and loss account but not in the appropriation account.
- The insurance owing was for only half the year.
- The main error which candidates make in the appropriation account involves an incorrect description of the profit or loss. The correct answer was a loss in this case but some described it as a profit. It is also necessary to show under each heading how much is being paid by and to each partner by name.
- The stationery drawing was often omitted from the drawings figure in Taka's current account.
- The share of loss should have been debited to the current accounts; but 'own figure' marks were given to candidates whose calculations gave them a profit, as long as they treated it correctly. Interest on the loan is credited to the partner and is not a current liability.

- The current account balances taken into the balance sheet must have the correct arithmetical signs - in this case one was a positive and the other a negative balance. Again candidates are given 'own figure' marks but they must record their own current account balances correctly.
- The capital and current account balances must show the amount belonging to each partner by name and there should be a sub-total for each. The loan must be attributed to Taka by name.

### Question 3

(a) This question distinguished clearly between stronger and weaker candidates and required understanding rather than application of a mechanical format. Those who had clearly understood the relationships between the various accounting items scored well but it proved to be a hard question for those who did not have this understanding. Teachers need to give their students a lot of practice in looking at balance sheets and in examining the relationships between the various items and sections so that they understand the consequences for liquidity and profitability of a range of transactions. The concept of working capital is not clearly understood and it needs more attention.

Marks were available for giving the correct outcome in each case and in explaining this outcome. There are two main points to make:

- The correct outcome meant saying what the effect on working capital would be together with a figure - no marks were scored by candidates who gave no figures, with the exception of (ii) where there was no effect.
- The explanation required the candidates to state the effects of each transaction on the working capital. To do this they needed to give the effects on those items which comprise the working capital ie stock, debtors, bank/cash and creditors.

(b) There were 3 marks available for assessing the importance of a healthy current ratio. The use of the word 'assess' in the question means that some evaluation is being asked for. A 3-mark answer would have shown that a 2:1 ratio is ideal by showing that a lower ratio means an inability to pay short-term obligations whereas a higher ratio means an inefficient use of resources. Teachers need to show their students how to write a balanced answer by giving both sides of a question and then making some compromise comment.

### Question 4

(a) This part of the question required knowledge of three formulae and most candidates scored well.

(b) This part required two calculations to be made. Candidates must show their workings, as a wrong answer supported by a correct method scores something whereas a wrong answer with no workings scores nothing. A point to stress in teaching which spans (a) and (b) is the correct distinction between mark-up and margin.

(c) The third part required a written answer and the word 'evaluate' was included in the instruction. A good answer would have referred to actual profitability and liquidity figures from the ratios and would have made a comparison in each case between the two years. (Sales, rate of stock turnover and net profit are not measurements of profitability). It would have made some comment on each and would have finished with an evaluative conclusion as to which year showed the stronger performance. It is not enough just to say which items have increased and which have decreased. Students need practice in evaluating performance from ratios and other data.

### Question 5

(a) This was a fairly straightforward question on final accounts for a non-profit-making organisation. Most candidates did reasonably well with it although there were a number of errors.

- The trading account for the shop should have been prepared separately from the income and expenditure account and the shop profit should have been transferred to the latter account.
- Subscriptions always cause problems and this was no exception. There were 4 different elements and marks were scored for all the elements which were treated correctly. Thus a correct final answer would have scored the full subscription mark but an incorrect final answer with no calculations would have scored no mark at all. Candidates who showed their workings scored marks for the figures which were used correctly.
- A lot of candidates included the full £40,000 for donations whereas 90% of this sum was to be capitalised, leaving £4,000 as the figure to include in the income and expenditure account.
- The purchase of new shop fittings is a piece of capital expenditure and does not go in the income and expenditure at all - too many candidates are still making this mistake but it is an easy one to correct and should be stressed in the classroom.
- The mark for the surplus was lost if it was described as a loss.

(b) This written part of the question again contained the word 'assess' and so marks were available for some evaluation. The question asked for a difference between the accounts of the two types of organisation eg the difference between the income and expenditure account and the profit and loss account. The importance of the difference which most candidates named was the difference in the objectives of the organisations. Weaker candidates thought that a profit-making organisation is one which makes a profit and a non-profit-making organisation is one which makes a loss; this is clearly not the point and was not credited.

## Question 6

This question elicited some good answers and the balance sheet format is familiar to almost all candidates. There are however some areas to correct.

- The question presented a balance sheet which had errors and some candidates simply copied it, together with the errors.
- Each sub-section of the balance sheet should be headed clearly and there should be a sub-total.
- The current assets were mostly correct but a lot of candidates omitted some of the current liabilities, in particular the debenture interest and preference share dividend accrued. The income received in advance was often given as a current asset.
- Unfortunately even good candidates missed out on marks in the capital section by omitting the details of the shares and debentures. This point has been made in past examiners' reports but it has not yet been picked up on. In order to earn marks, shares and debentures must be accompanied by full descriptions eg 'Issued ordinary shares (£1 each, fully paid)' plus a correct figure scores a mark but no mark would be scored for 'Ordinary shares' even when accompanied by a correct figure. Debentures must be described by their date of maturity and percentage interest. All this detail is copied from the question so it is not hard to score full marks on this section.
- Debentures must not be included in the shareholders' funds.



## 7100 Statistics

Grade	A	B	C	D	E
Grade Boundaries	69	57	45	40	25

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