

Examiners' Report January 2008

GCE O Level

GCE O Level Accounting (7011)

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General Comments

The paper was a good test of the syllabus and it discriminated between strong, average and weak candidates.

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 candidates can write informed comments on the accounting procedures they are carrying out.

Where possible, candidates should use the space provided in the answer booklet. This includes any blank space at the end of each question. Candidates may rule their own lines if they wish.

The following is a detailed breakdown of candidates' performance on 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

The bookkeeping question was done quite well and very well by many candidates but errors continue to be made in a number of areas. The preparation of day books and ledger accounts is a basic topic and, once candidates have grasped the main ideas, it is a matter of attention to detail; and the details should be emphasised in the classroom. Here are the main errors which candidates made.

Part (a)

- The general journal was the weakest part of this section, with a number of candidates being unable to set it out correctly; some followed the instructions for the columns in the purchases day book. A general journal must always have a debit column and a credit column and must describe the entries which will be made in the relevant ledger accounts. Many candidates omitted to write a narration but this is the easy part of the general journal and this mark should never be lost.
- The purchases day book, however, must not be ruled up in debit and credit columns. Despite the fact that the question paper gave explicit instructions on the column headings, some candidates did not put these into practice. They should be taught to take time at the beginning of the examination to read and absorb the instructions carefully before beginning to write.

- The trade discount figure must be shown in the day book and marks are lost for showing the post-discount figure only. Cash discount must be deducted before VAT is calculated, although the cash discount is not shown. A common error was calculating VAT at £800. The column totals were often omitted and marks were lost for this.
- Some candidates included the purchase of the fittings in the purchases journal. This is incorrect and not only are the marks lost for the entries themselves but this also contaminates the column totals.
- The cash book was well done on the whole and even by weak candidates. Marks were mostly lost for giving the wrong bank and discount figures for the payments to the supplier; the correct figures were bank £3,381 / discount £69 and bank £8,624 / discount £160. In the latter, the 2% cash discount should have been calculated on the £8,000 but a common error was giving bank as £8,784 and discount as £176 ie the candidates had taken the discount as 2% of £8,784. This is an admittedly tricky calculation and candidates need to practise it. The discount column should have been totalled and there was a mark for this. Some candidates included a discounts allowed column on the debit side and attempted to balance the discounts received total against this - discounts are never balanced against each other in the cash book.

Part (b)

In general terms, there were a lot of omissions and errors in this part of the question and only the strongest candidates succeeded in preparing a full set of ledger accounts.

- Despite the fact that a cash book had been prepared and that the petty cash book was given in the question, a large number of candidates did a bank account and a petty cash account among the ledger accounts. This was entirely unnecessary and, although marks were not taken off, valuable time was lost.
- There was a mixture of responses as regards the ledger accounts. To gain marks, entries had to be for the correct figure, with the correct narration and on the correct side of each account. Where a figure was taken from the day books or the cash book in (a), a mark was given if candidates used their own figure correctly.
- The correct narration in each case is the name of the account where the double entry is recorded; this is a simple rule to follow but candidates should be made aware of it. Where a total is taken from a day book, the name of the day book can be used, or 'sundries' is acceptable.
- VAT is not included in entries in nominal ledger accounts eg purchases, sales and expense accounts, as it goes in the VAT account, but it is included in the entries in customers' and suppliers' accounts.
- In Zak Account, the discount received should have been entered separately from the bank payment in each case.

- Where figures are taken from a day book or from the petty cash book, totals should be shown and not individual items. In this particular question, this applied in the VAT account, the purchases account, the discounts received account and in the double entry accounts from the petty cash book (see next bullet point).
- The accounts to complete the double entry from the petty cash book should have reflected the analysis columns in the petty cash book. Thus there should have been just two accounts (for cleaning and postage) and the column total should have been shown in each case. Marks were not given to answers which gave separate accounts for the individual transactions.
- Balances on accounts should be clearly shown and described. Candidates should be able to distinguish between a b/d and a c/d balance and should be taught to give the narration in full ie 'bbd' or 'bcd' is not enough.

Question 2

This was the usual final accounts question but with an added extra in that candidates had to correct a gross profit which had been given and to prepare the expense accounts before using the corrected figures in the profit and loss account. As might have been expected, most errors were made in parts (a) and (b) but the profit and loss account and balance sheet were generally well done, even by weak candidates. The answers confirm the impression that candidates are well prepared for final accounts questions but there were errors to note and correct.

Part (a)

The gross profit had to be corrected for two errors. Many candidates confined themselves to these figures but some reversed the procedures and deducted the drawings and added the carriage. Weaker candidates also corrected the gross profit for stock, but this would have already been taken into account in the original calculation of the gross profit. Some marks were earned for an incorrect answer as long as the workings were shown; an incorrect figure without workings will never be awarded marks. Correcting errors is not easy and requires clear thinking - the more practice candidates can have in this sort of exercise, the better. Whatever gross profit a candidate arrived at, an own figure mark was given in the profit and loss account if this figure was used correctly.

Part (b)

A variety of errors was made in the preparation of the four 'expense' accounts. I cannot list them all but I can give some general advice on the steps to take in the preparation of expense accounts. (Everything given below would be reversed in the case of an income account eg commission received).

- In the rates and insurance accounts, the procedure is to begin with the balance b/d - candidates must learn to distinguish between a prepayment (an asset and so a debit balance) and an accrual (a liability and so a credit balance). Next debit any payment made; in the case of the rates and the insurance accounts, the one figure was given for the whole year and this could have been described either as a balance or as bank. Credit the account with the amount to be transferred to the profit and loss account. This is a crucial entry and candidates should learn how to calculate the amount which belongs to the year. If they can do this, then the final entry will be the balancing item. The key to doing these accounts correctly is calculating the amount which should be transferred to the profit and loss account.
- In the case of the provision for depreciation account, candidates should remember that this is a cumulative account which increases over the years of the asset's life. The amount of depreciation to be transferred to the profit and loss account will normally be a smaller figure than the final balance, which is the total depreciation to be deducted from the asset in the balance sheet.
- In the case of the provision for bad debts account, the opening balance is adjusted by the amount of any change, which is the figure transferred to the profit and loss account; the final balance is either larger or smaller than the opening balance according to the instructions in the question and this is the figure to be deducted from the debtors in the balance sheet. The most common error was crediting the balance c/d with the result that the profit & loss figure was incorrectly given as £915.

Part (c)

Most candidates are familiar with the format of the profit and loss account and so most scored some marks here. However there were some errors:

- The gross profit should have been the corrected figure calculated in (a).
- The provision for bad debts had to be added to the gross profit, since it was a decrease and not an increase; a number of candidates treated it as an expense. It is the amount of the decrease which is added to the gross profit and not the final provision figure.
- The figures for rates, insurance, depreciation and provision for bad debts should have been taken from the accounts prepared in (b) and marks were given for own figures.
- The carriage outwards was not always adjusted.

Part (d)

The balance sheet is also familiar and allowed even weak candidates to score some marks. Here are the main errors which were made:

- Some candidates were unsure as to which depreciation figure to deduct from the fixed assets and I repeat that this is the final balance on the provision for depreciation account ie the accumulated figure of the old and the new depreciation.
- The provision for bad debts figure was often given wrongly - this should have been the new, lower figure which was the final balance on the account in (b).
- There was some confusion on whether prepaid insurance and accrued rates were current assets or current liabilities.
- A mark was given for each correct sub-heading as long as no contaminating item was included in the section. Some candidates omitted their sub-headings.

Question 3

Part (a)

Most candidates attempted to complete at least some of the table and some did very well. Some candidates were unable to express the effect on the trial balance in the first column; the question required an answer which made it clear which side of the trial balance exceeded which. Answers were clearer as regards the net profit. Marks were given for stating the correct effect and for the correct figure in each case. In some cases the original figure has to be doubled and in others it remains the same; this is a tricky point and teachers need to stress the effects of errors on the amount as well as the consequences for the trial balance and the profit. Where there was no effect, a candidate had to state 'no effect' to score marks.

The most common errors were doubling the £600 to £1,200 in (iii) and not doubling the £150 to £300 in (v).

Part (b)

Stronger candidates were able to give a correct answer to the suspense account balance and gain full marks but many were not. Unfortunately workings were usually omitted - this is an example of a question where some marks could have been scored for workings even if the final figure was incorrect.

Part (c)

Those candidates who found the right answer to (b) were often able to produce a correct suspense account. Others made a variety of errors, with relevant figures being on the wrong sides and with some irrelevant figures being included. Credit was given for an own figure opening balance as long as the suspense account agreed - there can be no final balance on a suspense account. The discount received and discount allowed should have been shown separately and not in one total figure of £300.

Question 4

Part (a) and part (b)

This question on a bank reconciliation statement caused a lot of problems for many candidates and it was only the really good candidates who were able to score well on it. Many candidates included the same items in both the reconciliation statement and the cash book but this is classed as duplication and no marks were scored for any of these items. This question tests whether candidates know where to put the items. There was a lot of duplication in the answers and this leads to the conclusion that they have not really understood the situation being tested. It is important for teachers to stress that there are two versions of the same account (ie by the bank and by the business itself) and that these versions do not always match because of timing problems, errors and omissions. It is important for candidates to consider which problem affects which version of the account in order to avoid adjusting a balance for an item which has already been included in that balance.

There was much confusion among the candidates as to whether they were starting with the cash book total or with the bank statement balance. The distinction was not always made clear (eg balance b/d is not clear) but, even where the opening balance was correctly described, a lot of candidates were unsure of which items to add and which to subtract.

The key to doing this question correctly is to identify those items which have already gone in the cash book but are unknown to the bank and those in which the opposite has happened. Only one final balance was given so candidates had to calculate the correct balance for themselves. It is advisable to begin the reconciliation statement with the bank statement balance, which is incorrect, and to finish with the corrected balance. This is then taken into the cash book as the final balance c/d and the original cash book balance can be calculated as the balancing item after the other missing items have been included.

This is a topic which needs more emphasis and practice in the classroom and it will be tested again.

Part (c)

The written part of this question asked candidates to evaluate the usefulness of the bank reconciliation statement. Most answers looked at only the points in favour and very few were able to think of points against the statement. Thus, not only should the usefulness be explained, but some point must also be made against eg that costly resources have to be used or that its usefulness is limited since errors can still be made. Candidates must be taught to look at both sides of an issue and the use of the word 'evaluate' in the question is a sure sign that a balanced answer is required.

Question 5

Part (a)(i), (ii), (iii)

- The debtors account was quite well done and many candidates got it completely right. The opening and closing balances and the bank payment are given and the sales is the balancing figure.
- The calculation for total sales was not done by every candidate but many did make a reasonable attempt at it. The key to this type of question is understanding the meaning of 'sales' and realising which items contribute to the total. Where the proceeds of cash sales are used by the business to pay another expense or for drawings, the total of these proceeds must be added to sales.
- Similar comments to those made in Question 1 apply to the rent account and it is the profit and loss figure which is the key to getting this account right. The bank entry was often wrongly included on the credit side instead of the debit side.
- Although stronger candidates got the stock account right, a number of candidates omitted to do it and others attempted it but did not really understand it. A lot of answers balanced the stock figures to give a final balance of £4,800 and this is incorrect. This is not a difficult account to do but it needs to be learned.

Part (b)

This question asked candidates to evaluate the value of the accruals concept. Candidates should have given a brief explanation, using examples from the question, and should then have shown how this enables a business to declare a correct profit and a true and fair balance sheet. In order to evaluate, they needed to show what happens if the accruals concept is not used. Answers were generally poor, with little or no balance being brought in and I repeat the comment I made earlier in Question 4(c). Some candidates explained the prudence concept and such an answer naturally scored no marks.

Question 6

This question was well done by many candidates and this was to be expected, as it is part of the final accounts format with which many candidates are familiar.

Part (a)

The appropriation account did not present much difficulty and most candidates were able to arrive at a profit share, although not always with the correct figures. The main error was omitting to adjust the interest on capital and salary for the 8-month period. Some candidates confused interest on drawings and interest on capital, deducting the former from and adding the latter to net profit; this is a point to stress with candidates as it is not hard to get this the right way round. Some weak candidates included drawings but I am pleased to say that this was not a common error.

Part (b)

The current account was also done reasonably well and many candidates used their own figures on the correct sides. The main difficulty came in the transfer of money to the capital account so that there would be a balance on £5,000 on the current account. This was a point which discriminated between stronger and weaker candidates but it is one which could easily be practised in the classroom. Quite a lot of candidates omitted to bring down the final balance.

Part (c)

The capital account was omitted by a number of candidates and others were unsure of the transfer from the current account. Where items were included in both the current and capital accounts, this was a case of duplication and marks were lost for both entries in each case.

7011 Statistics

Grade	A	B	C	D	E
Lowest mark award for of grade	70	58	47	42	28

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