

Examiners' Report Summer 2008

GCE

GCE O Level Accounting (7011)

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GCE O Level Accounting

7011/01 Examiner's Report

General

The paper covered a wide area of the syllabus and was able to discriminate between strong, average and weak candidates.

As is usually the case, candidates do best on questions involving financial statements, do reasonably well on bookkeeping questions and less well on written questions. Teachers should emphasise the conceptual basis of the topics so that students can write informed comments on the accounting procedures they are carrying out. They need to understand the ideas they are dealing with and not just learn procedures in rote fashion.

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

This question tested knowledge of day books, the journal, the cash book and ledger accounts. This is a very fundamental topic and should be familiar to all students studying this subject. It is a 'set piece' question and should be immediately familiar to those students who have prepared well for the examination. Attention to detail is important and marks are lost for failing to include the necessary details. It is a pity when a candidate who obviously understands the topic loses marks for not including full information. The following points need to be made:

Question 1 (a)

The purchases, sales and returns inwards day books are not ledger accounts and must be ruled up as day books, in the way indicated in the question; marks were not given to answers which were ruled up as ledger accounts. Students need to be taught to take the time at the beginning of the examination, and before beginning to write, to read the instructions carefully; these instructions have been made as clear as possible and are meant to help candidates to know what to do.

A lot of candidates began their day books with the figure after trade discount; however, trade discount should be shown in the day book and marks are allocated for the original figure and for the amount of the discount. A candidate who went straight to the net figure thus lost 6 marks (out of 200) in the three day books. Some candidates used 25% for Harmony instead of 20% and this is due to not reading the question carefully. Another common error was leaving out the trade discount on the sales returns altogether; since the original sale was subject to a discount, the sales return must be reduced by the same percentage discount.

The narration in the day book should have been the name of the customer or supplier and not a description of the goods. Thus 'Superstrings' was correct but 'Electric guitars' was not.

The VAT figure should have been 10% of the net figure and the total was the sum of the net figure and the VAT. Unnecessary errors were made here as this is only basic arithmetic.

A variety of other items were included in the day books by some candidates e.g. the purchase of fittings and the cash sales. Only purchases, sales and returns of the goods being traded may be included in the day books and only when the transactions are on credit. Marks were not deducted on this occasion for the inclusion of extraneous items but they may be deducted in future papers.

The general journal was once again the weakest part of this section, with a number of candidates showing that they did not know how to set it out. There was a variety of answers, from ledger accounts to day books, but a correct journal must have a debit and a credit column; the description of each item must be the names of the accounts which will be debited and credited and there must be a final narration.

Question 1 (b)

The cash book caused some problems and yet this is a very basic account and one which students should be given a lot of practice on. The following errors were made in the cash book:

- The narration for the opening capital of £6,000 was usually given as 'Balance b/f' but the correct narration was 'Capital'.
- A number of candidates put items on the wrong sides - receipts should be debited and payments credited.
- The transfers between bank and cash should have been described by the name of the other account in each case ('Cash' and 'Bank'), although 'Contra' was accepted. Contra entries must have two elements but some answers included only one.
- The receipt from Harmony and the payment to Superstrings were in full settlement of a higher amount and the difference is the cash discount; candidates had to look back to their day book entries to find out how much was owing. This was not well done and was a discriminating point. Actually a lot of candidates missed out the discount column altogether.
- The point which caused the most problems was the instruction to transfer all the cash to the bank except for £100. To do this, a candidate had to calculate the cash balance at the end, subtract £100 and transfer the remainder to the bank account. I suggest that this should be taught as it is common practice in businesses to leave a cash float in the till and take the rest to the bank.

Question 1 (c)

In the ledger accounts, a lot of candidates put the entries on the correct sides but some did not and I suggest that the double entry rules are stressed in the classroom. There were a lot of errors in the narrations. 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 once students have been 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. The discounts were not always recognised and were often given as the balance on the accounts; this was not awarded a mark in either case.

I would ask that teachers encourage their students not to use 'B b/f' or 'Bal b/f' but write the whole word 'Balance b/f'.

Question 1 (d) (i)

This short question proved to be a good discriminator and highlighted those candidates who really understood the nature of the balances in the cash book. The main error was to say that the cash balance could not be a credit because this was the first year of trading but this showed that the question had not been understood.

Question 1 (d) (ii)

The answer to this short question was 'Drawings' and nothing else. A lot of candidates got it right.

Question 2

This was another 'set piece' question, this time on the usual topic of final accounts. In addition the candidates had to make some corrections in the journal before preparing the final accounts. The journal entries were not well done but the rest of the question was familiar and most candidates scored well. Here are the main points to note.

Question 2 (a)

The journal was not done well by a large number of candidates. This was disappointing as the use of the journal for the correction of errors is a very normal piece of bookkeeping. A number of candidates misunderstood what they had to do, or simply did not know what to do, and produced a trial balance; this not only scored no marks but it was also a waste of valuable time.

The journal entries were not always correct and wrong accounts were sometimes given; the most common error was in (iii), where the stock account was quoted instead of the purchases account.

A lot of those candidates who did produce a journal omitted the narrations. A journal entry should always have a narration to explain what has happened. Those who did try to give the type of error sometimes chose the wrong type.

Question 2 (b)

The profit and loss account was well answered by a large number of candidates and this is pleasing. The main errors were the following:

- The insurance figure involved using three numbers. Candidates did not always get the right answer but those who showed their workings were awarded marks for those parts of the working which were correct.
- Returns and carriage were sometimes confused.
- Some candidates deducted the stock drawing from one of the stock figures but the correct treatment is to deduct it from purchases.

Question 2 (c)

The balance sheet was also well handled and most candidates are clearly very familiar with it. It was generally well set-out with the correct sub-sections and sub-headings. The main errors were:

- Incorrect accumulated depreciation - this should be the total of the original depreciation in the trial balance and the new depreciation figure in each case.
- Incorrect bank account - this proved to be a good discriminator and only the best candidates were able to arrive at the correct figure. The problem was that a bank overdraft was converted into a positive balance by the receipt of money from a debtor. The correct arithmetical signs had to be used to arrive at the correct answer.
- The prepayment and the accrual were confused between the current assets and liabilities.

Question 3

This was a manufacturing and trading account - a topic which has not come up on the paper for a while. Nevertheless a large number of candidates were able to deal with it very efficiently and many arrived at the correct final figure, or something near to this.

Question 3 (a)

The manufacturing and trading accounts were very well done by many candidates. The main errors were as follows:

Figures were put into the wrong sections of the manufacturing account. In particular, factory wages were not included in the prime cost but were included in the overheads; factory wages would always be a direct cost unless the question states otherwise. And carriage on sales is a profit and loss item and not a direct cost.

The question included some figures which were not needed at all in the answer e.g. selling and administration expenses. Such figures are included so as to test whether candidates know which ones to choose. Any figure inserted into the wrong section is considered as a contaminating item and the mark for the sub-heading is lost.

Sub-heading totals were not always identified, despite there being an instruction to this effect in the question, and marks were lost accordingly.

A number of candidates are still including sales in the manufacturing account. A manufacturing account is an accumulating list of costs and no income is mentioned in it. This is simple to teach and should be stressed.

There was some duplication between the two accounts i.e. some figures were included in both. Where this happens, marks are lost for both attempts at a figure since the candidate clearly does not know where it should go.

Question 3 (b)

This part of the question asked the candidates to explain why it is necessary to depreciate equipment. The answer given most often concerned wear and tear over time and this was given some marks. Better answers also said that depreciation gives a better picture of the business by giving correct values of assets and by not overstating profit. The best answers also included some reference to the accruals concept and the need to spread the cost of a fixed asset over the years of its useful life - and this is the most fundamental reason for the practice of depreciation. Some candidates said that depreciation is a way of calculating the current value or replacement value of an asset, or so that the business can know what price to charge for it when it is sold, and both of these answers are incorrect.

Question 4

This was a question on ratio analysis and on the evaluation of the performance of two businesses. Ratio analysis always comes up on the paper in some form and, given that this is so, a significant number of candidates were unprepared for this question.

Question 4 (a)

Past examination papers have shown that candidates know the meaning of the return on capital employed and of the acid test ratio and yet in this question many of them were unable to use the figures given to find these ratios.

To find the ROCE, candidates had to do a short calculation to find the profit and then express it as a percentage of the capital, which was given in the question. While many did manage to arrive at the correct answers, many others did not know what to do. Some confused ROCE with stock-turnover and used some sort of average stock in their answer.

To find the acid test ratio, candidates simply had to find the ratio between the current assets not including the stock figure and the current liabilities. A very common error was to add the debtors and the bank balance and then to deduct the stock from this; but the stock should be deducted only if it has already been included. So, for example, in the case of Lagos, the correct answer was simply $(10 + 5) : 15 = 1 : 1$; but many candidates gave $(10 + 5 - 12) : 15$, giving $3 : 15$ or $1 : 5$. When this was done for Nairobi, the answer came out as a negative figure, which is clearly meaningless in this context.

Question 4 (b)

The answer to this part of the question depended on the candidates being able to use the figures they had already calculated and the 'own figure' rule was used in the marking; however, it was hard to make conclusions which depended on a 'negative' acid test ratio. Marks were awarded to candidates who also calculated the current ratio and included comments on this in their answers. Marks were not awarded for any comments on profitability as this was not asked for in the question.

Question 4 (c)

This final part of the question asked candidates to discuss the relative importance of cash and profit to a business. A good answer should have looked at both and then given an overall conclusion; but many candidates only looked at the one side and failed to give a conclusion. Weak answers thought that cash and profit are more or less the same thing but strong answers were able to show the difference and the importance of each.

I suggest that, every time that students prepare a profit and loss account and balance sheet for a business, whether in the classroom or in their homework, they stop before leaving the question and take a look at the figures they have produced to make a quick mental and oral assessment of the firm's position. This would involve comparing the net profit with the capital, the current assets with the current liabilities etc and coming to conclusions on the performance and position of the business. If this were done as a matter of course, students would become more familiar with the idea of assessment and of using the ratios.

Question 5

This question consisted of a series of small sub-questions on the subject of debtors. It was not done well and many candidates failed even to attempt some parts of the question. It was not a 'set piece' question and so perhaps it is not taught extensively but it required candidates to show understanding of a very important topic which concerns all businesses.

Question 5 (a) (i)

Most candidates knew the prudence concept.

Question 5 (a) (ii)

The bad debts and provision for doubtful debts accounts were not badly done, although the balance on the PDD account was often given as £375 instead of the correct £350. The profit and loss entry was given an own figure mark.

Question 5 (a) (iii)

Candidates had to say how they would treat the change in the PDD and marks were given either for a correct description or for extracts from the financial statements. Some candidates lost marks for not including the figures even though they knew what to do, and this is a pity.

Question 5 (b)

This part of the question asked the candidates to calculate the debtors' collection period and this was probably the least known topic on the whole paper, as the vast majority were unable to arrive at the right answer or, in many cases, at any answer at all. There is a simple formula which candidates should learn and they should also become aware of what the answer means.

Question 5 (c)

This part of the question on debt recovery was answered quite well and actually it was based on common sense. 'Giving more time to pay' was clearly incorrect. 'Trade discount' was also incorrect but 'cash discount' was correct and was the most popular answer.

Question 6

This question was the preparation of the balance sheet of a limited company and has often been on the paper in the past. It also asked for explanations of some terms. The balance sheet was very well done by many candidates but not so the explanations.

Question 6 (a)

This was well answered by most candidates. Marks were lost for the following reasons:

- Incorrect (usually incomplete) narrations for shares and debentures; this is an old problem and the question even gave a hint this time but was not picked up by the majority. Full descriptions must be given and candidates have only to copy the descriptions given in the question, but in full.
- Omission of the working capital and the shareholders' funds figures - these must be the relevant sub-totals and must be correctly identified.
- Placing debentures in current liabilities.

Question 6 (b)

This was not known by all candidates and some common errors were:

- 8% interest to be paid at the end of the life of the debentures
- 8% not being related to interest at all
- 2015 being a code number or the number of debentures or debenture-holders

Question 6 (c)

This was also not very well answered and the errors were:

- £1 is the cost of buying the shares
- Fully paid means the dividends have been paid in full

These points should be stressed in the classroom and students should know the meanings of the capital of a limited company.

7011 Statistics

Grade	A	B	C	D	E
Grade Boundaries	134	112	90	80	58

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