

Examiners' Report January 2009

GCE O Level

GCE O Level Accounting (7011)

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General Comments

Candidates did well on the formulaic questions involving financial statements, reasonably on the bookkeeping questions but not very well on some other parts of the paper, including written sections. It seems that certain topics were not well known and yet all parts of all questions were based on the specification. I urge teachers to cover the whole specification and to give their students practice in composing written answers. It is important for students of accounting to understand the conceptual base of the subject and the significance of the accounting identities they are dealing with. Learning and applying a formula is less valuable when the meaning of the procedure is not appreciated.

The following is a detailed report 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 required candidates to prepare ledger accounts and to extract a trial balance and then to write answers to several points concerning the treatment of errors. This is a very fundamental topic and should be familiar to all candidates studying this subject. It is a 'set piece' question and writing up ledger accounts is probably the most basic of all. Attention to detail is very important and marks are lost for failing to include correct details. It is a pity when a candidate who obviously understands the topic loses marks for presentational reasons. The following points need to be made:

(a)

- The vast majority of candidates were able to open and write up at least some ledger accounts. Some did this very well and a large number of candidates were able to include entries on the correct sides.
- The handling of VAT was probably the issue which caused the most problems. Teachers should put emphasis on this in the classroom. VAT should have been included in the customers' accounts but not in the nominal ledger accounts, since it goes in its own account. Quite a lot of candidates either excluded it from the customers' accounts or included it in the nominal ledger accounts or both; such entries scored no marks. Candidates who showed the VAT separately in the customers' accounts were credited with the same mark as if they had written one total figure. Marks for entries in the VAT account were not given for incorrect own figures and this was a discriminating item.
- Each mark in the ledger accounts was given for the figure plus the narration. I have been slightly more lenient on narrations than in the past but I would like to stress the main rule: each narration should be the name of the account where the double entry is recorded. This is not difficult to learn and it also emphasises the concept of the double entry when candidates are learning to do ledger accounts. In the purchases, sales and VAT accounts, the name of the day book or of the supplier or customer were accepted. Where the double entry was in the cash book, the correct account name had to be given i.e. cash or bank; so for example, the entry in the drawings account had to be described as 'cash'; 'bank' did not score a mark. 'Cash book' was acceptable.
- A few weak candidates included trade discount in the customers' accounts; trade discount never goes in the ledger accounts.
- Some candidates omitted the capital account. Others included the drawings in the capital account but this was not credited.

(b)

- The trial balance should have been compiled from the candidates' accounts and 'own figure' marks were given for all entries except the bank and cash balances, which were given in the question.
- Some candidates failed to draw up the trial balance correctly. It is not difficult to draw up a two-column table but it is vital that the columns should be correctly headed with 'debit' and 'credit'.

(c)

The various parts of this section of the question were about errors and their correction. This is a vital part of any bookkeeper's work and it should be stressed in the classroom, both to help candidates in the examination room and to prepare them for the workplace.

(i)

- A lot of candidates scored a mark for naming the suspense account. There was no alternative answer, although some candidates gave 'capital account' or 'trial balance'. This was something that they either knew or they did not.

(ii)

- 3 marks were available for naming three actions to discover errors and examiners were quite flexible on what to accept. However, vague statements such as 'check again' were not credited. Quite a lot of candidates gave 'open a suspense account' but this was clearly not the answer as the suspense account does not help a bookkeeper to discover errors. We were looking for some specific actions, as shown in the mark scheme.

(d)

(i)

- A lot of candidates left this question blank. Others described an error of omission. An error of commission is one where the correct accounts are entered with the wrong figure. Stronger candidates were able to explain this and to give an example.

(ii)

- A large number of candidates were able to give two other types of error, although those who gave 'error of commission' had failed to read the question.

Question 2

This was another 'set piece' question on partnership final accounts and it was every candidate's favourite. While it is pleasing to see that final accounts are so well taught, I would stress that teaching timetables must also give the appropriate emphasis to other topics. Someone who can produce a perfect set of final accounts but does not know how to do the other questions will score fewer marks than someone who has a few gaps in the final accounts but can perform satisfactorily on the other topics as well.

This question was about a partnership who produced a service but who also traded in certain goods. There should have been a trading account for the goods and a profit and loss account for the service.

Here are the main points of error to note:

(a)

- The trading account was done well by the stronger candidates although weaker candidates were unsure as to what to include. The income from car repairs should not have been included until after the gross profit had been calculated; a mark was given for this figure when it was added to the gross profit, either in the trading account or in the profit and loss account. Carriage inwards should be an expense in the trading account. As far as presentation is concerned, marks were awarded for either statement or 'T' account format.

(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 provision for doubtful debts had to be changed and this involved a decrease of £75, which should have added to the income side. Only the strongest candidates got this right and it proved to be a good discriminator. Marks were given to those candidates who added £720 to the income and £645 to the expenses; but nothing was awarded if the only entry was £645 on the expense side.
- Most candidates got the correct figures for rent and wages although a few did the calculations the wrong way round and some failed to make the adjustments at all.
- The depreciation figure for the motor van was not difficult to calculate but that on equipment caused more problems. Some candidates omitted depreciation altogether.

(c)

The appropriation account was well handled and was obviously familiar to most candidates. Own figures were accepted. Nearly all candidates have understood the mechanism of making additions to and deductions from the net profit and then dividing the difference between the partners. The main errors were the following:

- The interest on drawings must be added to the net profit and the interest on capital and salaries must be deducted.
- One problem which occurred was due to the nature of the question. The partners had made a considerable amount of income from doing car repairs but a lot of candidates omitted this in their profit and loss account. Their calculations thus resulted in a loss, which was transferred to the appropriation account. It was therefore important to be aware of the mathematical signs when doing the calculations; the interest on drawings made the loss smaller and the interest on capital and salaries made it larger. Marks were awarded for the correct arithmetic.

(d)

The partners' current accounts were very well done. Candidates had obviously been taught to draw them up correctly and most knew the correct sides for the various entries. The following were the main errors:

- Some candidates confused the two opening balances, which were on different sides.
- A share of loss should be debited to the current accounts and not deducted from the credit side. This is not a correct action in a 'T' account.
- Weaker candidates included the capital figures and this contaminated the final balances, which were otherwise given an 'own figure' mark.

(e)

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:

- The accumulated depreciation on the equipment was not always correct.
- An incorrect figure was deducted from debtors for the provision for doubtful debts. This should always be the new figure and in this case was £645.
- Weaker candidates incorrectly included the rent prepaid as a current liability and the wages owing as a current asset.
- The capital section of the balance sheet should have included just two capital account balances and two current account balances, with the partners' names identified in each case. The inclusion of any other information eg of drawings, salary etc. contaminated the current account balances and there was an instruction to this effect in the question.

Question 3

This question required candidates to assess the performance of a business over two years using ratios and this is a question which is invariably present on this paper. The business was a small one which produced a service and so the costs were small compared to sales, as would be the case in a business run from someone's home. The question indicated to the candidates that the return on capital would be a large figure.

(a)

(i)

- Only the stronger candidates managed to reach the correct answer for 2007 and very few found it for 2008. The main error was to fail to realise that the business capital had increased over the year, since the owner had taken on a bank loan; this was a medium-term one and should have been included in the capital figure.
- A mark was awarded in each case for a correct profit, since this had to be calculated, another mark for the correct method and the third mark for the correct answer. The profit was often incorrectly calculated.
- The answer should have been given as a percentage, either with a percentage sign or as a decimal. Some candidates forgot to divide by 100 and lost a mark.

(ii)

- The current ratios were better handled although some candidates were unable to pick out the correct current assets and liabilities. One mark was given in each case for correct asset and liability totals and the other mark for the correct answer. For 2007, 6 : 5 was accepted and for 2008 49 : 19 was accepted.

(b)

This part of the question should have been familiar as it asked the candidates to compare the performance of the business over the two years. 8 marks were available for this section but very few scored anything near to this. An average answer made reference to the ratios which had been calculated (own figures were credited) and commented on whether the state of the business had improved as far as liquidity and profitability were concerned. This was credited, as was the statement of a final conclusion, as this showed an ability to evaluate.

(c)

This part of the question tested for the first time Section 10.3 of the specification which specifies 'Explain the advantages and disadvantages of using computers in accounting'. Perhaps it has not been stressed because the topic has not been tested before. Computers are very much a part of modern business life and this is a topic which should definitely be taught and which will likely be tested again.

The most usual answers to this question were to say that computers make work quicker and easier, although 'easier' should have been explained, and enable a business to cut costs. These points were credited but examiners were disappointed at the lack of application to accounting. For example, there could have been specific mention of some of the work that can be done by a computer software package e.g. it can keep an aged debtors' analysis and an audit trail and it can produce financial reports automatically.

The other point I want to stress is that the question asked candidates to 'evaluate' the benefits to small businesses of using computerised packages. The word 'evaluation' gives a signal that both sides of the question should be discussed and a conclusion should be reached. However, most candidates only considered the benefits and failed to mention some of the disadvantages e.g. the initial cost of purchase, the threat of viruses, systems breakdowns and the cost of training staff. Teachers should make their candidates aware that the instruction to 'evaluate' means that the examiner is looking for both sides of the question.

Question 4

This was a question which combined knowledge of error correction in the journal and of accounting concepts.

(a)

A lot of candidates omitted this section altogether. Of those who did attempt it, most knew how to set out journal entries; some did not rule up columns but were credited as long as they showed which entry was debit and which was credit. I do recommend that candidates be taught to draw up proper columns when doing journals.

There were quite a lot of errors in the journal entries:

- Some were given the wrong way round. Candidates must think out what has happened and then correct the errors; admittedly this is not easy, although some did it quite well.
- Some narrations were incorrect, although examiners were lenient here. 'Cheque' is not acceptable instead of 'bank'; but 'customer' was accepted instead of the customer's name; and 'fixed assets' instead of 'equipment'.
- Many candidates lost up to 4 marks for omitting the narrations or for writing incorrect ones. The correct narration in each case should have pointed out that an error was being corrected and should have said something brief about the error - either a brief reference to what happened or the name of the error type.

(b)

This was not very well answered. Examiners were looking for reasons why a bank balance might deteriorate even though the business has made a profit. It is very important that candidates should realise the difference between cash and profit.

The main errors were:

- Some candidates included reasons which did not fit the case e.g. giving reasons why the profit might have been lower.
- Others got the point the wrong way round e.g. selling off fixed assets.
- Some mentioned that an error might have been made in the bank account and, if they specified that this could have been unrepresented cheques, for example, they scored 1 mark.

(c)

Here candidates were asked to consider five situations and to say in each case which accounting concept was being transgressed.

- Prudence, accruals and consistency were quite well-known but not money measurement and materiality.
- Some candidates wrote the name of a concept at the head of their answer and then proceeded to explain what should have happened. The question asked them to name the concept in each case and giving one at the beginning was not complying with the instruction. However, one mark was given if the concept named occurred in the question.

Question 5

This question on club accounts was very well answered for the reason that it is a formulaic question. Those who did well on Q2 did well here too.

(a)

The candidates were asked to do a subscriptions account. While this is not an easy exercise, the vast majority of candidates did well on it and many scored full marks. This leads me to the conclusion that time is being spent on this topic in the classroom. The main errors were:

- The balances were confused. I did not insist on the balances being named 'Balance b/f' and 'Balance c/f' but we accepted 'Arrears' and 'Prepaid' instead of 'Balance'. The income and expenditure figure was the balancing item and one mark was given for an own figure, as long as there was no contaminating item.

(b)

This asked for the income and expenditure account which again did not trouble the candidates. The main errors were:

- Some failed to use their own figure for subscriptions but included the £2,400 given in the question; this was incorrect.
- The question has asked candidates to give the profit or loss on the sale of refreshments and on the day-trip but some gave the figures separately. These were credited but a third mark for the profit or loss was lost. If a separate profit and loss calculation was done, this was credited with the 3 marks as long as the profit or loss was brought into the account.
- Some candidates omitted the depreciation on the kitchen equipment. This had to be deduced by deducting the valuation at the end of the year from the one at the beginning.
- Others included the purchase of the laptop computer as an expense. This was a capital item and should not have been included in this account at all. Its inclusion contaminated the final surplus and the mark was thus lost.
- The final figure is an own figure surplus or a deficit; describing it as a profit or a loss meant that the mark was lost.

(c)

This asked for the balance sheet which again was quite well done. The main errors were:

- The kitchen equipment was given by some candidates as £350 but this was its value at the beginning of the year and not at the end.
- The subscriptions due and prepaid were sometimes confused.
- The cash at bank was either omitted or incorrectly calculated. The candidates had to balance the receipts and payments account to arrive at this figure. Two marks were awarded for a correct figure and this was a good point of discrimination.
- The surplus or deficit should have been transferred to the balance sheet and the accumulated fund should have been the balancing figure. Two marks were given for the correct £620 and one mark for an own figure.

Question 6

This question was on the very basic topic of the meaning and formatting of ledger accounts but unfortunately it was not well done.

(a)

This asked the candidates to explain the meaning of entries in an account. There were a lot of errors.

- Many candidates got the relationship between the two traders the wrong way round. It is important firstly to see whose ledger the account is in and to think of the transactions from that person's point of view. The other person thus becomes the debtor or creditor accordingly. This requires some clear thinking.
- Many other candidates did not attempt to show who was who and this scored no marks. For example 'Paid a cheque' was not credited. It was vital in each explanation to say **who** was doing what to **whom**.
- It was not necessary to give the money figure as this was in the question - examiners were looking for an appreciation of the identity of each of the parties and of who was paying or owing whom.

(b)

This part of the question asked candidates to rewrite a 'T' account in running balance format and it caused all sorts of problems. Bank statements and all other computerised accounts are always formatted nowadays in running balance format and it is vital that candidates should know how to do this presentation. The answer was actually in the question itself and candidates just had to reformat; the account had even been ruled up on the question-book. The main errors were:

- Some candidates put the entries in the wrong columns, although most did not.
- A large number of candidates were unable to handle the balance column. A new balance must be given each time there is a new transaction and this involves adding or subtracting the new transaction from the preceding balance. It is not difficult to do if candidates have had practice at it and I strongly suggest that some classroom time be devoted to this topic.
- Each balance should be clearly marked as either DR or CR. Marks were lost if the opening and closing balances were not so marked, but on the interim balances and marks were given even if the DR/CR was not specified. Balances were marked on an own figure basis, which meant that examiners had to check each balance with the previous one to be fair to the candidates.
- The opening balance should have been written only in the balance column; the mark was lost if it was also written in the credit column.
- The final balance had to be the same as the one in the question.

- Marks were also lost for incorrect narrations. The question explained that the account had been prepared by an inexperienced bookkeeper, and this is a signal that the narrations are incorrect and that candidates should correct them in their own version of the account. Thus the narrations should have been the names of the accounts where the double entries would have been recorded; 'discount allowed' and 'returns inwards' were incorrect. Candidates who described their entries as 'cheque', 'credit note' etc lost marks.

(c)

This asked for an advantage of using the running balance format and the correct answer was that there is a new balance after each entry. This is really the only answer, although we did credit any answer which said that it was suitable for computerised accounting. But vague comments such as 'easier to set out' or 'more accurate' were incorrect.

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