



GCE

# Accounting

Advanced GCE **A2 H411**

Advanced Subsidiary GCE **AS H011**

## Report on the Units

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**June 2010**

**H011/H411/R/10**

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Reports should be read in conjunction with the published question papers and mark schemes for the Examination.

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# Chief Examiner's Report

## General Comments

This was the first June series of the new specification with all units examined. The examiners were particularly encouraged by the number of entries and new centres to the specification. The standards varied and some excellent scripts were presented. Lack of completion where it occurred, appeared to be due to lack of knowledge and ability, rather than time.

Quality of written communication marks are built into the mark schemes and some candidates did not gain the marks available due to poor presentation of accounting statements. Presentation would be improved for some candidates with statements presented to good accounting format and with the use of a ruler.

Frequently, values in accounting statements are made up of various calculations, with marks being awarded for the calculations leading to a final value. Some candidates omitted calculations and lost marks for presenting an incorrect final value only. It is possible that candidates are using the resource booklet rather than the answer booklet for their calculations.

Some candidates responded to questions they would have liked to have been asked rather than the actual questions asked. In addition, some candidates answered with more than the question requirements; for example, presenting a Trading and Profit and Loss Account, whereas the question requirement was for a Trading Account only.

Finally, it was evident that centre's had used past paper material as a teaching resource and this continues to be encouraged, with the legacy qualification questions continuing to be useful.

# F011: Accounting principles

## General Comments

Overall many candidates demonstrated a good level of competence in this paper, in particular in respect to the Trading, Profit and Loss Account and Balance Sheet. Most difficulties appeared when answering the questions requiring ledger accounts or written solutions.

## Comments on individual questions

**1** Often this question was very well answered by candidates.

Common mistakes were omission of the adjustments for equipment and drawings in the Trading Account.

The accruals and prepayments adjustments were usually made correctly in the Profit and Loss Account. However, the provision for doubtful debts and the loan interest were often incorrect. A very common mistake was the interpretation of the full settlement of a debt as a partial bad debt.

The most common errors in the Balance Sheet were the incorrect calculation of debtors, bank and loan interest due and incorrect placement or omission of the adjustment for accruals and prepayments.

**2(a)(i),(ii) and (iii)** were often well answered but many candidates had difficulties with part (iv) – Provision for Depreciation of Motor Vehicles and part (v) – Disposal of Motor Vehicles. Within all the sub-parts of this question some candidates failed to gain marks due to poor or incorrect descriptions.

**2(b)** Explaining/evaluating the appropriateness of the reducing balance method of depreciation often caused difficulties for candidates.

**2(c)** Some candidates demonstrated confusion regarding the correct treatment of capital and revenue expenditure and sometimes were unable to express clearly the consequences of incorrect treatment.

With respect to both Questions 2 (b) and (c) many answers were wholly descriptive rather than evaluative and quite a number of candidates did not attempt these questions at all.

# F012: Accounting applications

## General Comments

There were a wide range of marks in the examination and a small number of well-prepared candidates were able to gain almost full marks. Generally, however, most candidates gained the higher marks on the final account question and the budget question

There was a significant minority of candidates who appeared to be unprepared for the examination and who found it difficult to achieve more than a few marks.

It is worth stressing the often repeated advice that candidates should read the question paper carefully. A number of marks were lost from simply not following instructions

## Comments on individual questions

- 1(a)** This part of the question proved quite challenging for a number of candidates, with few fully correct accounts; however, many achieved reasonable marks. Common errors included incorrect narrative for bank, failing to enter the contra entry or using an incorrect figure, or a reversal of the entries.
- 1(b)** This part of the question was answered better than in some previous sessions, but there were few perfect answers. Many candidates included extra items which did not affect the schedule of creditors and, therefore, lost out on the final correct answer mark. Few candidates correctly adjusted the purchase return of £900 which had been entered on the wrong side of the account.
- 1(c)** There was quite a wide range of answers, with many candidates gaining marks on this part of the question. However, in order to gain full marks candidates must describe the situations, not just state them.
- 2(a)** This part of the question was very well answered with many candidates being able to produce a perfect subscriptions account with correct narratives. Where candidates did not produce a correct subscriptions account common errors included incorrect narratives, entries made on the incorrect side of the account and adjustments to the opening debit balance and taking off the bad debts rather than making a separate entry on the credit side.
- 2(b)** Few candidates were able to produce a perfect Income and Expenditure Account and Balance Sheet, although many gained quite high marks. Candidates must remember to net off profit from fundraising activities in the income section rather than split it up between the income and expenditure. This has been highlighted in previous reports. Many candidates were unable to correctly calculate the interest from the deposit account, allowing a full years' interest rather than half a year. In the expenditure section most candidates were able to correctly adjust the accrual on the general expenses, although many omitted the loss on sale of fixed assets and few were able to correctly calculate the correct figure for depreciation. Candidates should also remember to use the correct terminology, using surplus rather than profit.

On the Balance Sheet, the majority of candidates correctly calculated the fixed assets. Errors on the current assets included an incorrect figure for subscriptions and failure to

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calculate the closing bank balance. A number of candidates incorrectly showed the closing bank balance of £10,500 in the current liabilities. Many also forgot to include the interest owing. Errors in the current liability section often included an incorrect subscription figure. Few candidates were able to correctly calculate the correct accumulated fund figure. Many just inserted a balancing figure rather than calculating it from the opening assets and liabilities. Candidates must also remember to use the correct terminology on the Balance Sheet – ‘accumulated fund’ rather than capital, and ‘surplus’ rather than profit. Marks for the quality of written communication were awarded on this part of the question and many candidates lost marks as they had not put titles on their account, and had not underlined titles and sub-headings with a ruler or ruled off their accounts. Candidates must remember the importance of good presentation of their accounts.

- 2(c)** Few candidates were able to score full marks on this part of the question as many explained the different terms used in a non-profit making organisation as against a sole trader, rather than explaining the differences in the capital structures.
  
- 3(a)** The majority of the candidates were able to correctly calculate the ratios from the information given. The ROCE proved a little more challenging, with many candidates using the opening capital balance rather than the closing capital balance (as instructed in the question). A number of candidates lost marks by failing to round the figures to two decimal places, as instructed by the question, or showing any signage on the ratios. A number of candidates achieved no credit as they had obviously not learnt the formulas. Candidates must read the requirements of questions carefully.
  
- 3(b)** There were some excellent answers on this part of the question demonstrating good knowledge and analysis of the ratios, and being able to explain and evaluate why the changes had occurred. However, a number of candidates repeated what they had calculated and failed to move onto analysis of the ratios.
  
- 4(a)** This part of the question was very well answered with the majority of candidates being able to produce a perfect budget, showing a correct calculation for purchases and sales. Candidates must ensure that they follow a good format on this type of question and set their work out clearly.
  
- 4(b)** Again, this part of the question was well answered and many candidates gained high marks as they were able to correctly explain the role of budgeting.

# F013: Company accounts and interpretation

## General Comments

The standard of response was generally good for the majority of candidates and high ability candidates performed well on all three questions.

Weaker candidates were not prepared for the examination and did not perform well on the narrative questions.

Presentation was generally good with the majority of candidates showing clear workings and well presented answers.

There was no evidence that candidates had been short of time in the examination.

## Comments on individual questions

**1(a)** This part of the question was very well answered by the more able candidates who showed the correct calculation of net cash flow from operating activities. A majority of candidates could not calculate the depreciation of £88,000 and the purchase of fixed assets at £201,000. Weaker candidates did not calculate the correct net profit of £45,000. A common error for many weaker candidates was to show the corporation tax and dividends for the current balance sheet and not the correct amounts of £32,000 and £28,000.

**1(b)** This part of the question was well answered by many candidates with reference to the liquidity position and the high amount of stock. Weaker candidates often failed to answer the question and produced a general answer referring to how the company could expand in the future and did not relate their answer to Crystal plc and its expansion.

**2** This question was well answered by many candidates. There were often good layouts of the Manufacturing Account and the Profit and Loss Account. A common mistake by candidates was the incorrect calculation of manufacturing profit and the transfer to the Trading Account. Weaker candidates, although showing the correct amount of factory indirect costs, failed to deduct in order to show the production cost. Weaker candidates also showed an incorrect treatment of the reduction in the provision for bad debts and the commission received.

**3(a)(i)** This part of the question was very well answered

**3(a)(ii)** This part of the question was very well answered

**3(a)(iii)** This part of the question was very well answered

**3(a)(iv)** This part of the question was well answered by good candidates, but very poorly answered by weaker candidates

**3(a)(v)** This part of the question was well answered by good candidates. Although many candidates did not use the £25,000 and failed to calculate 24 times.

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**3(b)(i)** There were any good answers to this part of the question which made reference to how many times the dividend could be covered from the profits of the company. Many candidates did not make reference to risk and a high and low dividend cover.

**3(b)(ii)** This part of the question was not well answered by many candidates. Candidates did not refer to the fact that a low interest cover is a high risk if profits decline or interest rates increase.

**3(c)** This part of the question was generally well answered with reference to comparison and different accounting policies such as depreciation. High ability candidates made reference to historic costs and non-financial factors. Weaker candidates were not well prepared for this question.

# F014: Management accounting

## General Comments

Standards varied from excellent to very poor; however, it was pleasing to note the quality of work from some candidates. Most candidates completed the paper in the allocated time. Lack of completion where it occurred, appeared to be due to lack of ability and knowledge, rather than time.

## Comments on individual questions

- 1(a)** Few candidates correctly calculated all variances. The material price and labour rate variances were correctly calculated by most candidates. Frequently candidates did not use the actual quantity for the period for material usage and labour efficiency variances, often using the standard quantity in error. Very few candidates calculated the correct sales variances and frequently failed to calculate the standard selling price.
- 1(b)** Few candidates presented a reconciliation statement and those who did frequently included sales variances. Many candidates presented standard cost based on standard production rather than on actual production.
- 1(c)** Most candidates were aware of the problems involved when introducing a standard costing system.
- 2(a)** Most candidates calculated the correct sales receipts; however, many were unable to calculate the correct purchase payments over a three monthly cycle. Whilst many candidates showed calculations for purchase payments and gained some marks, other candidates lost marks by not showing calculations. Most candidates entered the correct expenses; however, some entered rates on a monthly rather than a quarterly basis. Few candidates calculated the correct dividend and frequently based it on a £1 par value rather than £0.50. The Trading Account was well answered; however, many candidates unnecessarily also presented a Profit and Loss Account.
- 2(b)** Many candidates presented general responses rather than specifically relating to their cash budgets.

Quality of written communication marks were awarded on this part of the question to candidates presenting answers in a clear and fluent style with good spelling, punctuation and grammar.

- 3(a)** Most candidates calculated the correct annual profit, including contribution per unit in their answers.
- 3(b)** Candidates who adopted the limiting factor approach gained high marks. Many, however, calculated profit without taking the limiting factor into account. Some candidates prioritised in line with contribution per unit rather than relating it to the limiting factor.
- 3(c)** Whilst most candidates commented on the profit implications, few mentioned the diversification with the introduction of a new product.

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**4(a)** This part of the question was well answered with many candidates gaining high marks. Some candidates reapportioned overheads but did not show an overhead rate.

Quality of written communication marks were awarded on this part of the question to candidates presenting answers to good accounting format.

**4(b)** Whilst most candidates included the direct costs, few apportioned overheads correctly.

**4(c)** Very few candidates were able to provide relevant reasons for under absorption. Frequently, responses related to the treatment in the final accounts.

**4(d)** Whilst some candidates responded with the limitations of activity based costing, too many responses focussed on traditional time based overhead absorption methods.

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