

Examiners' Report/  
Principal Examiner Feedback

January 2012

GCE Accounting (6002) Paper 01

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## ACCOUNTING 6002

### General Comments

The level of responses at this sitting appeared to be reasonable.

Some topics still require a little more practice to ensure higher marks are achieved in the examination. Working through past papers that can be found on the Edexcel website, if necessary, is highly recommended.

The general points listed below could be addressed by candidates and centres, in order to improve performance.

- Careful reading of the question is advised, as some candidates may fail to answer the question. This is particularly important in the evaluation section.
- Where the candidate shows no workings but gets the correct answer they will obtain all the marks available. However, candidates are advised to show all workings, as marks are available for the stages in the workings. Showing the answers only is a "high risk strategy", as a wrong answer results in no marks.
- The next point follows on from the point above. Candidates are more successful when they break down calculations into a series of logical stages, rather than trying one long calculation to arrive at the final answer.
- This paper was the second paper where candidates could answer using IAS 1 instead of the Companies Act 1985, (or IAS 7 instead of FRS1 for Cash Flow Statements). This possible dual response will not continue for June 2012. In the June 2012 paper, candidates will have to answer using IAS 1 or IAS 7. Centres will benefit by ensuring IAS 1 and IAS 7 are taught, and looking at the mark scheme for this paper and other guidance notes and examples on the Edexcel website.

### Question 1

This was a very popular question, and where candidates answered using Format 1 of the Companies Act, marks were usually fairly good. The Appropriation Account (Statement of Changes in Equity) in (a) caused problems as many candidates failed to start with a debit (minus) balance, and also were not sure about which items to include in the account (statement). The Balance Sheet (Statement of Financial Position) provided generally good answers, with most items under the correct headings. The final section, (c), was answered quite poorly as many candidates did not address the question, and wrote vaguely about balance sheets or liquidity.

Common errors were:

- Including incorrect items or excluding required items in (a)
- Failing to show headings and figures at key stages in (b) such as Net Current Assets (Liabilities) or Total Assets less Current Liabilities

- Describing Net Current Assets (Liabilities) in (c), rather than evaluating whether they should be shown on the Balance Sheet. (Statement of Financial Position)

## Question 2

Not a very popular question that was answered only reasonably.

Candidates were usually able to correctly answer (a) (i) and therefore (a) (ii) and (iii), although some were confused by computers and freezers due to floor space. Those who calculated (a) correctly were often able to carry on successfully to (b), although some were confused by the quantity of figures. A reasonable number of candidates were able to work to the right answer in (c), with those adopting a “per oven” approach to start with, being more successful than those who tried an “overall” approach. The “overall” approach saw one long calculation that was supposed to lead to the right answer. Whilst all were able to make a recommendation in (d), a smaller number supported this with any worthwhile argument.

Common errors:

- Failure to take into account the fact that computers covered only 0.5 metres of floor space and freezers covered 2 metres in (a)
- Not including all the necessary figures in the calculations in (b).
- In (c), not taking into account the number of ovens that could be sold in the department (40).
- When answering (d), merely restating figures from the question e.g. different selling prices, without making any reference to the consequences of this. Or reference to previous calculations e.g. contribution, without making reference to consequences.

## Question 3

This was not a popular question, and the marks achieved were poor. This was disappointing, as similar questions of this nature have been asked before. Answers to (a) were quite good, often the correct account being chosen. Many candidates chose the wrong method for (b), trying to calculate the value of assets and liabilities. Successful candidates answered the question from the angle of what was being paid to the shareholders. Answers to (c) also often took the wrong direction, again trying calculate values of individual assets and liabilities. The correct method was to subtract the adjusted total values of assets and liabilities. Many scripts scored low marks in (d), as a number of items were omitted from the account. A few marks were picked up in (e) as many candidates knew the correct basic treatment of goodwill. However, despite the problems of earlier parts of the question, some decent answers were given to (f), as candidates were aware of the theoretical advantages and disadvantages of take-overs.

Common errors:

- Not calculating the number of shares in Rowlands plc and then multiplying this by the amount each shareholder receives in (b).
- Failure to adjust total assets and liabilities in (c), - it was not possible to find the adjusted value of all individual assets e.g. stock.

- Omission of some (or all) of the items from the Sundry Shareholders Account in (d).
- Failure to mention “useful economic life” in (e)

#### **Question 4**

Surprisingly, this was not a popular question although candidates generally scored well.

Most budgets were prepared accurately, except for the Stock budget. Candidates often repeated the Production and the Sales budgets figures, but failed to subtract Sales from Production to arrive at the amount entering Stock each month. This made it impossible to give a figure for Total in Stock each month. Answers to 4 (b) were weak, as many candidates evaluated cash budgeting as a process, rather than evaluating the system applied by Narayang doors.

Common errors:

- Incorrect treatment and calculation of the first month’s figure in many of the budgets.
- Failure to arrive at a figure going into stock for each month.
- In (b) too many candidates evaluated buying and selling on credit in general, rather than the specific method used by Narayang.

#### **Question 5**

A popular question that was not answered particularly well. Answers to (a) often had the correct formula, but the figures inserted into the formula were wrong. Most candidates were able to evaluate the gearing ratio calculated, and suggest how to improve it. Earnings per share in (c) (i) very often did not take account of the preference dividend that had to be deducted first. However, the rest of (c) was good, and units were usually included in the answer. The majority of scripts showed a decent evaluation in (d) of ratios found in (c). Answers to (e) often included some good suggestions to improve ratios, but it was rare to see two suggestions for each ratio.

Common errors:

- Not including Preference shares under Debt in (a).
- Adding Net Profit for the Year to the Profit and Loss Reserve, despite the question stating that the final accounts had been drawn up, when calculating Gearing Ratio.
- In (c), not deducting the Preference Dividend from the Net Profit after Interest and Tax.

#### **Question 6**

This popular question saw answers that were reasonably good. However, answers to (a) were poor, as candidates discussed standard costing in general, without answering the question. Answers to (b) were good, with relatively few candidates not indicating if the variance was adverse or variable. Attempts at (c) were variable, with most or some of the figures included being correct, but not always all the figures being correct.

Formulas stated had usually been learnt well. Most candidates were able to score reasonable marks in (d) when evaluating standard costing systems.

Common errors:

- Not answering the question i.e. describing the stages, in (a).
- Incorrect figures inserted into formulae e.g. Actual Labour Rate was not accurately calculated.
- Making vague statements in (d) rather than specific points, and failing to evaluate.

### **Question 7**

A popular question, and the marks were reasonably good. Most candidates were able to give clear definitions for (a) and arrive at the conclusion that profit was not the same as margin of safety. Some accurate answers were given for (b), but others got confused between which were fixed or variable costs, and converting some costs to monthly amounts. A pleasing number of candidates arrived at the correct answer for profit. Candidates should always be aware of the "short cut" to arrive at profit, using Total Contribution – Fixed Costs. Answers to (d) were often confused. Candidates should structure their answer into two clear paragraphs, "for" and "against" their argument, with a concluding sentence/paragraph at the end.

Common errors:

- Not converting fixed costs figures to monthly values in (b).
- Failure to arrive at a conclusion in (d).

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