

NQF unit: Introduction to Accounting
Examination Session: 9th June 2015
<p>Introduction/General comments:</p> <p>There was a wide range of ability demonstrated in the examination. A significant minority appeared to be unprepared to tackle an examination of this standard. In contrast, a few well-prepared candidates were able to achieve very high marks. Their answers were characterised by good knowledge and a well-rehearsed understanding of accounting techniques.</p> <p>As has been noted in most examinations of this syllabus the most popular and successful question for candidates was that on final accounts. This examination tested final accounts of a sole trader which was very well answered by well-prepared candidates.</p> <p>No specific question caused candidates particular difficulties and it is pleasing to see candidates embracing the syllabus as a whole. All questions were answered by the candidate population and most were able to obtain some marks on each question attempted.</p> <p>Candidates are usually well prepared for a narrative question on budgets and this time was no exception. However, as the budget question also included the preparation of a cash budget results were not as strong on the question overall than would be expected on a purely narrative budget question. All aspects of topics on the syllabus should be understood and practiced.</p> <p>In this examination, however, candidates seemed more prepared to tackle the questions as asked rather than simply to write down a pre-prepared answer and hope that it fitted the question asked. Again perhaps this is because of the improved appreciation of the syllabus as a whole.</p> <p>To conclude these general comments, the general understanding of the syllabus clearly enhanced by practice on past questions enabled just under half of those who took the examination to pass. By building a solid foundation of knowledge and through applying that knowledge and understanding the number of candidates passing the exam in future could easily increase. Practice is key to success.</p>
<p>Question 1:</p> <p>There was a wide range of understanding seen in this question. In (a), candidates who showed an understanding of management needs in respect of finance scored well. However, many did not recognise management needs such as having to communicate with shareholders and others and to draw up plans. Some discussed non-financial points and so were unsuccessful.</p> <p>(b) saw confusion between financial accounting and management accounting. Financial accounting is concerned with day to day recording of transactions and the preparation of financial reports. This contrasts with management accounting linked to matters such as budgets and giving management information generally in numerical form on which to take decisions. Comments on general management matters did not gain credit. It is important that answers in this examination address accounting and finance.</p> <p>Part (c) was poorly answered. Most answers about objectivity focused on the objectives of an organisation. However, in accounting, objectivity is concerned with verifiable information that is reliable and not subjective.</p> <p>Surprisingly, the concepts of consistency and going concern were not explained as clearly as has been seen in past examinations. For instance going concern was often addressed in terms of the concerns of management and not business survival.</p>
<p>Question 2:</p> <p>Most candidates were able to explain the principles of double-entry and discuss the use of debits and credits. However, ledger accounts were less well described. Answers tended to focus on specific examples, e.g. rent and rates, as compared with classes of accounts such as impersonal accounts</p>

or the accounts in the sales ledger. A common misconception was that the sales account was in the sales ledger instead of the nominal ledger.

Most candidates rewrote the cash book and bank statement information in (b) and (c). This took up time when it was unnecessary. The cash book simply needed to be balanced and the balances shown as the first items in a updated cash book in the answer. The updating of a cash book and bank reconciliation is a topic that is well covered in text books and the approach used in such texts is exactly what this question was seeking. There are numerous examples of appropriate questions available for practice.

Question 3:

This question was a traditional style of final accounts for a sole trader. It was pleasing to see candidates generally placing the adjustments for sales returns, carriage and discounts correctly in the appropriate sections of the Statement of Comprehensive Income. Candidates were able to make calculations for prepayments and accruals well. However, they often experienced difficulties with depreciation. This should be based on the asset cost or net book value depending on the method of depreciation used.

Turning to the Statement of Financial Position, again the presentation was good. However, candidates experienced some difficulties with depreciation under the non-current assets. Many simply used one year's depreciation as calculated in the Statement of Comprehensive Income or the figure from the trial balance for accumulated depreciation at the start of the year. The adjustment to the equipment account was rarely recognised by candidates. Nevertheless, despite these difficulties, most candidates performed well in this question.

Question 4:

It is pleasing to see how candidates have steadily improved in answering questions on Statement of Cash Flow over time. Good points were made in explaining cash and profit in (a). However, some answers could have been clearer and the example of immediate payment for cash or payment in advance or in arrears was less successfully described. The uses of a cash flow statement were also well explained in (c).

Candidates with a clear understanding of Statements of Cash Flow were able to include the information in an appropriate format. The less successful answered included the figures for opening and closing items for inventory, accounts receivable and so on rather than the net difference between start and end of year. There was also some repetition of items in both the reconciliation of operating profit to net cash flow and the financial statement itself. Questions on this topic demand an understanding of the format of a Statement of Cash Flows so practice is valuable on this topic as it is with final accounts.

Question 5:

Most candidates were able to calculate some ratios and were better in calculating those relating to net profit, gross profit and working capital as opposed to return on capital employed and collection and payment periods. The most effective approach used by candidates was to state the formulae for ratios (although not required) and then candidates used the ratios to calculate the appropriate figures. Most marks were earned in part (a).

Candidates were clearly expecting to analyse the ratios in (b). However, the question was about purposes of ratios and their limitations and candidates were not very successful in addressing these points. A number mentioned comparison but little more. This can be over time or between organisations. Errors were mentioned as a limitation but there are more specific accounting points to be addressed such as the impact of accounting concepts and standards on the figures. Unfortunately those who attempted an analysis of ratios calculated did not score marks for their analysis.

Question 6:

Part (b) of the question, requiring an explanation of the different categories of costs was well answered. However, the application of that knowledge in categorising the different types of cost in (a) was less well answered.

Attempts at calculating break-even point and profit were mixed. Those who clearly understood the relationship between fixed costs and variable costs were able to earn high marks in this part of the question. It is beneficial for candidates to remember the calculation of break-even point in the same way that they remember accounting ratios. Those who were not clear on the formula put some of the figures together but unfortunately did not arrive at the correct answer.

Question 7:

A number of candidates were able to gain full marks for (a). However, a number simply gave the various headings such as planning or control and wrote nothing further or very limited explanation as to why the points raised in headings were benefits. Some gave a prose or essay style of answer incorporating matters such as co-ordination of activities and motivation. Each style of answer gained some marks for the appropriate points.

Part (b) was less successfully answered by candidates. Most were able to gain marks for the adjustments for wages and expenses. However, some added the expenses or outflows to the income or inflows. The fundamental point about income representing money coming into an organisation and expenses representing money flowing out should be understood.

A number of candidates were able to work out sales and purchases figures but unfortunately did not allow for the credit periods and inflows/outflows of cash. Adjustments like these are to be expected in questions asking for a cash budget so should be well practiced.

The drawings adjustment was more complex than most seen in this topic and was only very rarely calculated correctly. Adjustments like this are uncommon in questions but offer the opportunity for excellently prepared candidates to show their abilities.

A common loss of marks seen in this question related to the final cash balances month to month. A significant number of candidates calculated the net inflow or outflow of cash each month but forgot to add this to the previous positive balance or allow for a deduction in the case of a negative flow.

It was pleasing to see that most candidates used a columnar approach in preparing the cash budget. This offers the most effective use of time when compared with individual statements for each month.

Question 8:

A number of good answers were seen to this question although candidates experienced some difficulties with calculating labour costs.

In part (a) a number of candidates were able to discuss cost control and pricing in relation to cost accounting. However, a significant number confused cost accounting with financial accounting.

Part (b) tended to either be very well answered with candidates representing a thorough understanding of stock value calculations. Or, answers comprised a smattering of figures with little indication of understanding. It was clear to see who had practiced calculations and presentation.

Part (c) was well answered by a few candidates. Most, however, experienced some problems either in making the calculations or deciding what to include. Some answers for a month's wage for one employee were in the range of hundreds of thousands of pounds. Presumably this was because of slip ups in the use of calculators. Other answers were for a few pounds earned in the month. For future reference answers are likely to be within realistic ranges so it would be sensible to double check any answers much beyond a range of, say £100 to £1,000 per week or £400 to £4,000 per month. It is always good practice to check if an answer looks reasonable.

Overtime is earned on hours in addition to the basic working hours, not for all hours worked. And when amounts are paid per item they are paid over a range of items. For example, if an employee is paid £1 each for 100 items and then £1.10 for items over 100, then if the employee made 150 items the pay would be $100 \times £1 + 50 \times £1.10 = £155$. The higher rate does not apply to all items made.

Conclusions:

Well prepared candidates with a good understanding of the syllabus as a whole and plenty of practice on past examination questions were able to structure their answers quickly, clearly and accurately and were able to earn good marks.

Most candidates had a good understanding of one or two areas of the syllabus and understood less of other topics. Nevertheless, over time the breadth and depth of understanding seems to be improving.

Too many candidates still attempt the examination without adequate preparation and as it is not

possible to write convincingly in this subject without adequate knowledge the result is inevitable.

Recommendations to students and tutors for future examinations:

Teach and study the full syllabus thoroughly and use past examination papers for practice. All of the syllabus is tested in each examination so students will be able to select questions on their strongest areas in the examination. And, if they are sufficiently prepared they should be successful.

It is essential to use good examination technique – answer the number of questions required, tackle each part of each question selected and spend a quarter of the examination time on each question. Become familiar with regularly tested formulae – not only accounting ratios but also others such as break-even point, for example. And practise using common formats seen in the examination for final accounts, cash budgets, Statements of Cash Flow and so on so that they become second nature. In that way more time can be spent in the examination reading the question and applying the information in the best way.

Please remember that this is an accounting examination and although financial and management accounting supports management, management style answers such as discussing the welfare of employees or the structure of an organisational chart will not earn marks. It is better to focus attention on financial matters.

Finally, Introduction to Accounting serves as an introduction to two main areas of accounting – financial accounting and management accounting. And within management accounting there is an area entitled cost accounting. Expect questions to arise asking for the difference between these to be explained and be prepared to show an appreciation of the differences.