Examiners' Report/ Principal Examiner Feedback

January 2016

Pearson Edexcel International Advanced Level in Accounting (WAC02) Paper 01 Corporate and Management Accounting

Edexcel and BTEC Qualifications

Edexcel and BTEC qualifications are awarded by Pearson, the UK's largest awarding body. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information visit our qualifications websites at www.edexcel.com or www.btec.co.uk. Alternatively, you can get in touch with us using the details on our contact us page at www.edexcel.com/contactus.

Pearson: helping people progress, everywhere

Pearson aspires to be the world's leading learning company. Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: www.pearson.com/uk

January 2016
Publications Code IA042982

International Advanced Level Accounting (WAC02) January 2016

General comments

The standard of responses by students for this paper was generally good. Overall, there was a very wide range of marks, including some excellent papers that scored very high marks. Students appear to know their own strengths, as the most popular questions scored the best marks.

Specific Comments

Question 1

This was the most unpopular question on the paper, and the lowest scoring question in percentage terms. Answers to Journal entries in part (a) were reasonable, although examiners needed to see the word "reserve" in (2) and (5). Responses for (b) were generally good, despite the occasional reversal of entries. On (c) very few could even start to calculate the number of shares issued. Many answers for (d) were correct in answering "No" but few were able to expand or give a reason as to why the revaluation could not be added to profit and then given as a dividend. The bonus shares versus dividends debate in (e) saw some strong answers and others that were very thin. It was good to see that many knew that bonus shares brought in no funds; and that the share price would fall after the issue.

Common errors:

- In (a), debiting or crediting "Statement of Changes in Equity", not realising that this is, as it says, a statement and not an account.
- Also in (a) (6), leaving the shares in a "Bonus issue account" as the credit entry. If this account was used, they would need to debited out and credited to "Ordinary Share Capital account".
- For (d), not using the accounting concepts to support the argument against including the revaluation in the profit figure.
- Answers in (e) saw some students grasping at "costs time and money" but this required more detail to achieve any marks.
- Also in (e), issue of bonus shares would not lead to a "dilution of voting power", as they are issued on a pro rata basis, determined by existing holdings.

Question 2

This was the most popular question on the paper, and answers were excellent. Teachers and tutors have clearly taught students well in this area. Almost all students answered using IAS 1, which was good to see. Students were usually able to show mainly correct workings (a)(i) and draw up a very good Statement of Comprehensive Income. The Statement of Financial position in (a)(ii) was equally impressive, with accurate calculations where necessary (eg non-current assets), correctly placed under the appropriate headings. The Directors Report evaluation in (c), saw mediocre responses, without a great amount of detail. A few students knew the contents of, and the reasons for, the Directors Report, but many were hoping stock answers for an evaluation would score a few marks.

Common errors:

- Not using the terms “Revenue” and “Cost of sales” in the Statement of Comprehensive Income.
- Placing the £5 500 figure for Bank in Current Assets, when it should be a Current Liability, as it was a credit balance in the Trial Balance.
- Thinking that the Directors Report was some kind of financial statement in (c) and treating it in the discussion as a financial statement.
- In (c), stating “those with a limited accounting knowledge may find the Directors Report difficult to understand”, which was not awarded a mark. The Report is more a presentation in words, concerned with directors, employees, donations etc, rather than heavily laden with figures.

Question 3

This was a fairly popular question, but some sections were found difficult by students, so total scores were below average. However, it was good to see that most managed to score high marks on section (a). Part (b) proved to be much trickier, but some were able to attain the maximum marks available. Other students found it difficult to remember the exact formula to calculate the variance, or substituted the wrong figures. Attempts at (c) were quite good, although some used the budget figures, when the question stated “actual”. Many students were able to calculate the total cost for one tap in (d), and achieve 4 marks. However they were then unable to calculate the mark-up, often calculating the margin instead, or the cost as a percentage of sales. Answers to (e) were generally poor, often because students were arguing that keeping the same percentage mark-up would mean an increase in the selling price. The question clearly stated the costs were lower, so the selling price would be lower if the same percentage mark-up was kept.

Common errors:

- Using the wrong formulas for (b), or inserting incorrect figures into the formulas.
- For the total material variance, students could have added together materials usage and materials price variances (or labour efficiency and labour rate for total labour variance). Instead, students embarked on a completely new, and often wrong, calculation.
- In (c), putting £17.76 over the selling price of £39.96, to give the profit margin, instead of calculating the mark-up. Or placing £22.20 over £39.96 to give the cost as a percentage of selling price.
- Arguing for (or against) an increase in selling price, rather than a decrease in (e).

Question 4

This was the most popular question in Section B and scores were good. Many students were able to calculate accurately, the break-even point for (a). The profit figure in (b) was usually arrived at correctly, as well. Errors in (c), when calculating the fixed costs, were the biggest problems, although the own figure rule meant a respectable number of marks were achieved. Application of the own figure rule in (d) also meant good scores. Answers to (e) were only reasonable, with many just quoting points printed in the question, or figures calculated earlier, without commenting on their relevance or consequences.

Common errors:

- The fact that the loan had been paid off and loan repayments stopped at the end of 2015 was overlooked when calculating fixed costs, in (c).
- Failing to take account of the resale value of the van, in (c), when calculating depreciation.
- In (e), not using the two profit figures calculated for working from the shop, or home, to make the correct decision. Any decision to work from home, where profits are lower, would have to be justified with some kind of qualification such as “the shop means a lot of extra work for just a small extra profit”. Otherwise, the decision should have been work from the shop.

Question 5

Question 5 was the least popular question in Section B, but the marks achieved were reasonably good. Some students achieved full marks on (a), whilst others struggled with the calculations that involved percentage rises or falls. Answers to (b) were disappointing, with many unable to give a good reason for flexible budgets. A surprising number of students were unable to use the output level with the most profit as a starting point, (or conclusion), for the selection in (c). Many gained just a few marks by making unrelated, but correct, comments, without having a structure to their argument. For example, 1 500 gave the most profit, but 1 600 gave the most market share, and 1 400 had the lowest costs could have been the basis for evaluation, with disadvantages included.

Common errors:

- Incorrect calculations in (a) for materials (timber), labour and revenue.
- Inability to clearly identify an advantage in (b) of flexible budgets.
- Lack of a coherent argument in (c).

Question 6

This was not a particularly popular question, and the marks attained were disappointing. Students looked like they had forgotten how to draw up a depreciation account, as answers to (a)(i) were often weak. Attempts to draw up the Statement of Cash Flow were better, with the basic structure usually being present. Many students fell into the trap of copying the label of the final line in the junior accountant's effort, namely "Increase in Cash and Cash Equivalents" instead of the correct label " Net Cash from Operating Activities". Section (b) was often done well although sometimes extra detail was required eg just writing "Ordinary shares" was not a complete answer, unlike "Issue of Ordinary shares". Answers to (c) were reasonable, with many calculating the current and acid ratios to score marks.

Common errors:

- In (a)(i), for the £493 000 credit, a failure to label "Statement of Comprehensive Income", or anything acceptable, in the details column, often entering "Depreciation" instead.
- Failing to add back the interest, in (a)(ii).
- Calculating an incorrect total for interest, usually making bank interest £32 000, instead of £24 000, overlooking the fact it was issued part way through the year.
- Omitting sub-totals, in (a)(ii), such as "Operating cash flow before working capital changes".

Question 7

This was a very popular question in Section B, and students generally scored well. Part (a) involved a great deal of number crunching, but many were able to handle this in their stride. The students were also able to benefit from the own figure rule, when a mathematical error was taken forward. The most problematic element was probably the payback period itself, with errors occurring in the year and months calculations. The gearing calculation in (b) was straightforward, given the way information was presented in the question, and a number of different formulae were allowed. However, a large number of students still managed to get this wrong. Answers to (c) were reasonable, with students often interpreting the gearing risk appropriately. Stronger students also then went on to look at the risks involved in the project in a sensible manner.

Common errors:

- Mistakes in calculations for costs and revenues of the contract.
- Failure to deduct depreciation from running costs for the project.
- Wrongly selecting the year of payback, often being one year too low, or one year too high, even after applying the own figure rule.
- Incorrect calculation of the month of payback. This was caused by selecting the wrong figure for the top or the bottom, (or both), for the formula.
- Incorrect substitution into the gearing ratio formula, even if the formula used was correct.

Conclusion

The general points listed below could be addressed by students in order to improve performance.

Remembering the basic rules of double entry would benefit students. For example, to increase an asset is a debit entry, to increase a liability or capital/equity is a credit entry. This would have helped when answering the Journal questions, or the question concerning the depreciation account.

In an evaluation question, students need to be able to add something to any points that are just “lifted” from the question. For example, in Q4, “a motor van would have to be purchased for £4 000 in cash”, would need a development, such as “which may be a problem if Mikele is short of liquid funds”.

Students must read the question and any related text carefully, before attempting the answer. For example, Q3 concerns a possible fall in price, not an increase. Also in Q3, (c) refers to actual profit not budget, and Q3 (d) refers to budget mark-up not actual.

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:
http://www.edexcel.com/iwantto/Pages/grade-boundaries.aspx

Pearson Education Limited. Registered company number 872828
with its registered office at 80 Strand, London WC2R 0RL