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# **Examiners' Report**

## Principal Examiner Feedback

January 2017

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

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## General Comments

A very wide range of marks was covered by student responses for this paper, and overall the standard was reasonably good. Marks were high where students had the opportunity to show their skills, covering some areas of the Specification they had mastered. However, many struggled when addressing a topic from an unfamiliar angle, such as in question 7.

## Specific Comments

### Question 1

This was the most popular question on the paper, and marks were very good. It was impressive that most students were able to answer (a) (b) and (c) and arrive at the correct answers. Many were also able to calculate the contribution per litre exactly in (d), although some worked in total figures, not per litre. Despite being steered by the question itself, many did not refer to their answers in (d) to evaluate the future of each of the farms. Marginal costing theory should have guided students to the correct short term and long term future of each farm. Those who used the terms “positive contribution” and “negative contribution” were rewarded appropriately.

### Common errors

- Not using per litre figures to calculate contribution in (d), working with total figures instead.
- Failing to apply marginal costing theory to decision making when evaluating in (e).

### Question 2

This was a popular question and the responses were very good, once students had completed question (a). Many thought that establishing a standard cost for a unit of production was comparing budget figures to actual figures and acting upon variances. Section (b) was generally completed very well, with many achieving full marks after working their way through a large amount of figures. Similarly, section (c) was answered successfully, as students produced correct answers. Many students clearly understand standard costing and variances. The last section (d), was also answered quite well. It was good that most were able to identify the role of each manager, and evaluate their performance, and arrive at the correct decision concerning their bonus.

## Common errors

- Confused answer when asked to explain stages in establishing a standard cost for a unit of production.
- Failing to put units after the calculations to find the amount of clay in (b)(i) and (iii).
- Not using answers in (iv) and (v) to give (vi) in (b) and (c). This often meant a completely new calculation that increased the risk of an error being made.

## Question 3

This was the least popular question in Section A, and marks were quite poor. Many students failed to realise that to calculate the purchase price in this question, the starting point was the cash and shares received by shareholders in Angel plc. Instead, many started calculations adjusting the assets and liabilities values, which was actually the method to be used in (b), to find the value of goodwill. The Journal entries in (c) were mixed, often being a mirror image of the correct entry. Answers to (d) were reasonable, although once again, debit and credit entries were often the wrong way round. It was pleasing to see that explanations given in (e) were usually able to gain full marks. The evaluation in (f) saw a range of responses. Those who addressed the question and gave a balanced evaluation with a conclusion obtained high marks. Students whose answers merely described how goodwill should be treated in the accounts attained lower marks.

## Common errors were

- Not using the cash and shares received by shareholders in Angel plc, to calculate the purchase price.
- Confused treatment of adjustments in (b), when calculating goodwill.
- Subtracting 15% from £12.65 million pounds to find the value of the property before revaluation, instead of multiplying by 100/115.
- Transferring the debit balance of the Retained earnings account, to the credit side of the Sundry Shareholders account in (d).

## Question 4

This was a popular question and answers were reasonable. Students had to calculate investment ratios from information given in financial statements, including a Statement of Changes in Equity. It was good to see that the majority of students now give units to their answers, which hopefully shows a degree of understanding. No marks were awarded for stating the formulas, but many students wrote them down, which was a sensible way of preparing for the answer. However, many made incorrect substitutions into the formulas. For example, often being unable to work back to net profit before interest and tax. It was important to state the formula being used in (b), given that there are a number of allowable formulas for gearing, and that one mark was available for the formula. Answers for (c) were quite good, despite not having another set of figures to compare Muscat Technologies plc figures with.

### Common errors

- Failing to include the interim dividend in the calculation for (a)(i).
- Confusion when working with one figure given in pounds, and another figure given in pence eg in (a)(iii) or (a)(v).
- Not including reserves in (b), when calculating a figure for Equity.
- In (c), not expanding on why dividend cover could be “good” or “bad”. Given this could have two interpretations for an investor, development was required.

### Question 5

This was the most popular question in Section B and marks were very good. Most students could calculate the break-even point for (a)(i). It was pleasing to see the number of sales per week in (a)(ii) and the profit in (a)(iii), were also handled confidently. What could have been difficult in (b), to find the maximum rent payable, was usually successfully calculated, using a variety of methods. Answers for (d) were also good, as students were able to produce sensible, balanced arguments concerning Maria making the sandals herself.

### Common errors

- Incorrect logic when calculating the maximum rent that could be paid.
- Thinking, in (c), that if Maria made the sandals, rather than the regular staff, the quality of the product would improve.

### Question 6

This was not a popular question but the marks were reasonably good. The Property, plant and equipment account tested in (a) was found quite difficult, with basics such as the date being omitted, or the details column being incorrect. The Operating Activities section was generally attempted well, although depreciation was often found difficult. Students may be advised to use a T-shaped account for their workings, as shown in the mark scheme, rather than a mix of unstructured figures. Some failed to read the question carefully, going on to the Investing Activities section of the statement, which had no marks attached to it. Responses to (b) were generally good, with a number of valid points put forward.

### Common errors

- Only charging £225 000 for the debenture interest, perhaps misreading the date of issue of the debenture.
- Omitting the depreciation (amortisation) of the intangible assets.
- Incorrect label on Net Cash From Operating Activities, often stating Used in Operating Activities which meant the mark was not achieved.
- Misinterpreting the question in (b), thinking the debate was whether selling non-current assets would, in fact, improve cash flow.

### Question 7

This was the least popular question on the paper, and the marks were very disappointing. Most students managed to complete (a)(i) successfully, but attempts for (a)(ii) were very poor. Many felt the budget would be just one row, and failed to structure the budget showing one, two and three months credit. A common error was to construct a budget showing the cash paid out each month, instead of the amount owed to suppliers at the end of each month. Section (b) saw (i) answered well, but (ii) met with similar lack of success as (a)(ii). Most students were unable to see the logic involved in building up to the answer. Better answers were given in (c), with most able to give one or two advantages and disadvantages. The evaluation in (d) saw reasonable answers, although many answered in very general terms about the accuracy of budgets.

### Common errors

- Lack of structure to answers in (a)(ii) and (b) (ii), showing inability to understand the credit terms.
- Constructing (a)(ii) and (b)(ii) as a cash budget showing cash out or in, rather than trade payables and trade receivables.
- Stating that adding interest would lead to a decrease in bad debts, when answering (c).
- Vague answers in (d) which offered little more than “figures may not be as expected”.

## Conclusion

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

- Students would be advised to read the question carefully, and think about the structure of the answer required. For example, 2(a) required an explanation of the stages in establishing a standard cost for one unit of production, not an explanation of standard costing and variance analysis. Question 7 required a trade payables budget, showing amounts owed to suppliers at the end of the month, not the amounts paid to suppliers during the month.
- The basic rules of double entry should not be forgotten when moving onto the A2 paper. There are a number of topics where this body of knowledge can be tested, for example in questions 3 and 6. This area can also be tested through Journal entries, as it was in this exam in question 3. The basic rules include giving a date for each entry and balancing off an account.
- There is a clear benefit from showing all workings. If a student makes a mistake early in the question, they may not achieve any marks for the figure calculated. However, if this figure is taken forward and treated correctly, the students will benefit from the “own figure rule” and receive marks.

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