



# Examiners' Report Principal Examiner Feedback

October 2021

Pearson Edexcel International Advanced Level in  
Accounting (WAC12/01)

Paper 2: Corporate and Management Accounting

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## Introduction

There was a very wide range of marks attained by students sitting this paper. Overall, the level of responses was disappointing and was below the usual standard. However, it may be due to the fact that the pandemic has reduced the schooling received by candidates.

## Question 1

This question was the highest scoring of the compulsory questions. Candidates performed with various degrees of success on (a) with most applying the correct layout format. Whilst a good number achieved high scores, many struggled with the detail of the statement. Many answers failed to notice that the interest on the bank loan and the debenture would be calculated for only half a year on each. It was disappointing to see how many failed to arrive at the correct figure for depreciation. Those that showed some correct workings for depreciation were able to attain a few of the four marks available. The financial statement required a lengthy answer in a strictly prescribed format so it was good to see that nearly all items were placed in the correct section of the statement.

The evaluation in (b) was usually of a level 2 or level 3 standard. Candidates benefitted from the own figure rule in this section when interpreting the statement produced in (a). The nature of the question meant that application in this section was always present. Stronger answers were able to include fresh calculations that had been undertaken by the candidate eg current ratio or liquid (acid test) ratio. Weaker answers often just repeated in words, the figures that had been calculated in (a).

Helpful hints for common problems:

- Candidates need to consider the correct term for the totals of each section when preparing a cash flow statement. When cash enters the company, their figure will be positive (not be in brackets), so the term eg "Cash from operating activities" will apply. If the total figure for the section is negative (ie in brackets), cash is leaving the company, and the term "Cash used in operating activities" will apply.
- Candidates must be aware of items that have no cash flow and be able to apply the correct treatment. An item such as a transfer to reserves needs to be omitted from the statement. Items such as depreciation and amortisation need to be added back to the profit from operations.
- Correct terminology must be used even for terms such as "increase in trade payables". An arrow pointing upwards would not be found on a Statement of cash flows and needs to be avoided by candidates.

## Question 2

This question was the lowest scoring question in section A, but only by three marks. Candidates often had problems with (a)(i) which effected all subsequent answers, but the own figure rule was applied which limited the loss of marks. Answers to (a)(ii) were good as this was found straightforward. Candidates often scored well on (a)(iii) although the July payment received for June sales was often omitted. The production budget in (iv) was generally well done and marks here were quite good. The inventory budget for (v) was usually found quite tricky, especially the first

figure for July. However, many answers managed to increase the inventory by 20 000 units each month, thus benefitting from the own figure rule. The purchase budget in (vi) required candidates to refer back to the production budget in (iv), but many candidates failed to make this connection. The cash budget in (vii) was also found difficult, especially the July figure. All candidates were able to offer an answer to (b) concerning the evaluation of budgets. However, this was often in general terms and these answers did not address the question which required forecasting, planning and control to be considered. Answers that concentrated on these three aspects were rewarded more generously.

Helpful hints for common problems:

- Candidates need to show workings wherever possible. Some answers showed just totals, for example in the cash budget extract in (a)(iii) or the production budget in (iv). This is a high risk strategy and if answers are incorrect, the marks awarded will be zero. By breaking down payments, or production, into eg "this month" and "next month" an accessible four marks were available just for adding the two together.
- In (b) application was often missing completely. Candidates should try to include reference to the business named in the question. At the lower end of the scale this could be not a great deal more than a "name check". At the higher end of the scale, the application could be specific to the scenario or even the industry.
- To achieve the higher levels (ie levels 3 and/or 4) in the evaluation questions in section A, answers must ensure they specifically relate to the question being asked. This may be more difficult skill when the question is of a more theoretical nature and answers are not found by looking at figures calculated in earlier sections.

### Question 3

This question was the second least popular question and the second lowest scoring in section B. The question tested candidates understanding of a statement of profit or loss and other comprehensive income. When answering (a)(i), good students were able to state at least one possible reason applicable to a reduction in inventory. Most candidates, in (a)(ii), were able to identify a reason for an increase in the allowance for irrecoverable debts, stating an increase in trade receivables. However, few mentioned an increase in the percentage rate of the allowance for bad debts, when answering (a)(ii). Answers to (a)(iii) were good, with most arriving at the correct figure for sales commission. It was disappointing to see that most candidates, in (a)(iv), thought that the cash discount was given for bulk purchases, not prompt payment. Few answers to (b) were correct, with many failing to divide £9 000 by two, or failing to calculate the interest for two months instead of twelve. The understanding of corporation tax in (c) was often weak, with many failing to take account of the tax-free profits of £28 000.

Section (d)(i), the Disposal of machinery account, showed respectable knowledge and reasonably good scores. The Provision for depreciation

account in (d)(ii) proved a little more difficult for candidates, with only a few achieving full marks, which would have included a date. Entries in the "Details" column were often incorrect. The answers to (e) were mixed with some being correct but there was a wide range of erroneous answers, including cost of sales. Knowledge of disclosing continuing and discontinued activities was usually either good or non-existent, being reflected by high scores or zero.

Helpful hints for common problems:

- When calculating interest to be charged, as in (b), candidates must be aware of the time period involved. If the time period is less than a year, then the calculation of interest will involve dividing by 12 and multiplying by the number of months to which the interest applies.
- When preparing T-shaped accounts, as in (d), candidates should ensure they show a date for all entries, including a year. Candidates must think of what the double entry would be for the transaction. It might even be useful to show the other entry as a "working" to check to see if all the answer "looks right".

#### Question 4

This question was the second most popular question in section B and the second highest scoring. Answers to (a)(i) and (a)(ii) were usually correct, finding the budgeted production and the actual production. Part (b) was found to be a little more difficult but many candidates arrived at the correct answer. Candidates were able to state the correct formula for (c)(i) but substituted the wrong numbers into the formula. Many thought the standard usage was 600 000 kg, despite being led in (b) to the standard quantity of material required, being 580 000 kg. It was disappointing to see the number of answers that had the formula for calculating the standard price per kilogram, upside down. Calculations for the material price variance in (c)(ii), were better. Many had the correct formula and correct substitutions into the formula. It was good to see that almost all candidates remembered to state if the variance was "favourable" or "adverse". The total material variance in (c)(iii) was nearly always calculated correctly.

Unfortunately, answers to (d) were usually weak and contained a description of a variance analysis system. This was disappointing as "The stages in establishing a standard costing system" is stated clearly in the Specification. Responses to (e) were usually satisfactory or good, being a level 2 or 3 answer. Most candidates were sensibly interpreting the figures they calculated in (c), often benefitting from the own figure rule.

Helpful hints for common problems:

- Candidates must realise that when calculating a variance, they are comparing the actual cost of production with the budgeted cost of the actual level of production. In other words, the volume variance has been eliminated. Many candidates incorrectly substituted 600 000 kg instead of 580 000 kg into the formula in (c)(i).
- The stages in establishing a standard cost system need to be learnt, with the mark scheme acting as a good starting point.

### Question 5

This question was the least popular question in section B and the lowest scoring. It was disappointing to see some candidates did not know the format for a Journal entry in (a). Some answers here were very good but many struggled to correctly include entries for Realisation, and Sundry shareholders accounts. Answers to (b) were reasonable, often scoring 2, 3 or 4 marks. Parts (c)(i) and (c)(ii) were done well, with most candidates attaining full marks for calculating the cash and shares received. The preparation of the equity section of Beam plc in (d) discriminated well as many candidates did not find this easy. The evaluation of the merger in (e) was usually answered as a level 2 response. Candidates were able to make fairly general points well, but often had problems with any relevant calculations.

Helpful hints for common problems:

- When closing a ledger account, the entry is made on the "opposite" side to the usual entries in the account eg Property, plant and equipment will be closed by a credit entry. This will be shown as a "credit" in the Journal.
- All Journal entries must include a date.
- Any balances on the Retained earnings account do not go into the statement of financial position of the new company after a merger. However the balance on retained earnings will be transferred to the Sundry shareholders account.

### Question 6

This question was the most popular question in section B and the highest scoring. Answers to (a) were very good with a large number of candidates obtaining full marks. Only a few candidates this year included depreciation (wrongly) in their calculations for annual cash flow. However, many candidates forgot to include depreciation when calculating the annual profit in (b). Calculating the internal rate of return in (c) proved difficult for most candidates, as usual. Even when the formula was shown correctly, candidates often made mistakes substituting into the formula or made errors with the mathematical steps. The evaluation of the project in (d) was completed fairly well, with many answers achieving a level 3 standard.

Helpful hints for common problems:

- Do not forget to include the resale value of the asset when sold in the final year, in the cash flow calculation.
- The formula for calculating the internal rate of return needs to be rote learnt. Without knowing the formula, candidates have no chance of arriving at the correct answer.