

Examiners' Report/ Principal Examiner Feedback

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

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General Comments

The level of responses by students for this paper covered a very wide range of marks, but overall the standard was reasonably good. It is clear that students have the skills to tackle some areas of the Specification, and marks were high where these skills were applied accurately. When students were faced with a question addressing a topic from an unfamiliar angle, such as in question three, many struggled.

Specific Comments

Question 1

This was a popular question, with the marks attained for answers around average. Although a number of formulas were allowed for the gearing ratio, some students still struggled to produce a correct formula.

In (a) (iii) for earnings per share, and (a) (v) for dividend paid per share, students needed to be precise, by ensuring they stated and worked with issued ordinary shares, rather than just "shares". This was particularly important given the question contained ordinary and preference shares, and authorised and issued amounts. Section (b) tested students ability to interpret figures calculated in (a) or given in the question. Many were able to say the figure was good, or bad, but few were able to develop answers. For example, most realised 0.07 is a low figure for dividend cover. However very few explained that the company had £20 000 left from this year's profits to pay ordinary shareholders a dividend, but actually paid total ordinary dividends of £280 000, by dipping into reserves.

Answers for (c)(i) were generally good, although often only one consequence was given for (c)(ii). Part (d) usually scored very well or very badly. Often the more numerate students were able to interpret the effect of changing the numerator (top of the equation) or the denominator (bottom of equation).

Common errors were:

- Incorrect figures substituted in formula for gearing.
- Failure to include deduction of preference share dividend in formula and calculation for earnings per ordinary share (a)(iii), and dividend cover (a)(vi).
- Omission of "x 100" in (a)(i), (ii) or (vii), when the required figure was a percentage.
- Contradictory answers were given in (b) for strengths and weaknesses – for example dividend per share was "good" and included in strengths, but also was stated as "poor" under weaknesses.

Question 2

This was the most popular question on the paper, and answers were very good. Nearly all students answered using IAS 1, with just a very small number having the accounts drawn up using the Companies Act format and terminology. Students were usually able to correctly allocate costs in (a) and draw up a very good Statement of Comprehensive Income (SOCI). The item that caused the most trouble was "Interest on Bank current account", which was a debit figure and therefore an expense. The fact that the Bank current account was a credit balance, and therefore an overdraft, should have given students a clue. It was good to see that almost no students included the distractors, such as trade payables or bank current account in the SOCI.

Common errors were:

- Not using the terms "Revenue" and "Cost of sales" in the Statement of Comprehensive Income (SOCI).
- Treating interest on bank current account as income, instead of a finance expense.

Question 3

This was the least popular question and answers were disappointing. Those who were able to attempt the question with confidence often scored very well, but many failed to get to grips with some of the concepts. Students had difficulty in selecting or calculating information from primary sources, in order to go on and calculate variances. Answers to section (e) were often in general terms, rather than looking at the performance of specific named employees and recommending action. Those who got as far as section (f) were able to evaluate the performance of the department, concluding it was poor, and giving some sensible recommendations for improvement.

Common errors were:

- Not treating properly, figures and information found in primary sources.
- Failing to see the short cut of adding labour rate and labour efficiency variances together to give total labour variance. Given the own figure rule applies, this lost students some easy marks. Likewise the material usage and material price variances to give total material cost variance.
- Similarly, failing to add standard labour cost to standard material cost to give total standard cost of production, another short cut. Also failing to add actual labour cost of production to actual material cost of production to give total actual cost of production.

Question 4

This was the least popular question in section B and students found this the most difficult question. In (a) definitions were weak, but reasons why goodwill may occur were better. Section (b) was found difficult, particularly as property, plant and equipment (ppe) required adjustments to the total figure for ppe, which was often not spotted. The Acquisition account in (d) saw very poor responses, as students were unfamiliar with this account. Answers to (e) were weak, with many thinking that issuing shares would bring in funds to the purchasing company. Many students failed to see that the shares would be given to replace the shares given up in the company being taken over.

Common errors:

- Giving a statement of fact about goodwill eg goodwill is an intangible asset, which would be more suitable to an "explain" answer, rather than a definition.
- Including "alien" items in the purchase calculation in (b), which should not have been included eg cash and cash equivalents, and overdraft.
- Producing a Realisation account instead of an Acquisition account in (d).

Question 5

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). It was good to see the margin of safety in (b), was also handled well, and the answer was given in sales units, as requested. The profit calculation in (c), was also well tackled, with many producing the correct figure. Answers for (d) were reasonably good, as were the responses for (e). Most students were able to produce valid, balanced arguments concerning the manager's payment.

Common errors:

- Incorrect allocation of costs between fixed and variable in (a).
- Getting confused in (d) with the theory required to arrive at the correct manager's salary.

Question 6

This was a very popular question in Section B, and students scored well. The most challenging part of this question was calculating the sales revenue and the running costs in (a). Students are familiar with calculating net present value and handled this part very well, often benefiting from the own figure rule. Most answers for (b) saw relevant points made for and against the investment, with a final decision being made.

Common errors:

- Mistakes in calculations for number of users and the revenues received.
- Failure to deduct depreciation from running costs for the project.

Question 7

This was quite a popular question on section B, and responses were good. Answers to (a) were usually correct. Those who moved the fixed element from semi-variable costs to fixed costs in (a), were likely to arrive at a correct answer for (b). Those who left the fixed element in semi-variable costs often divided this by the output and then deducted the answer from sales price per unit, to give an incorrect contribution. Evaluation in (c) was often correct at a basic level. Students usually suggested stop producing boots with a negative contribution and an overall loss, and continue production for trainers with a positive contribution and an overall profit. Very few answers for shoes differentiated between the short term (continue) and the long term (stop production). Similarly, no mention of the long term or the short term for decision-making was made for sandals.

Common errors were:

- Incorrect treatment of the fixed element in semi-variable costs.
- Failure to differentiate between the short term and the long term in (c).
- Basing a decision to produce solely on profit, instead of using the terms "positive contribution" or negative contribution" for short term decisions.

Conclusion

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

- Students would be advised to try to learn all formulas required for the examination. In some examinations, for example this one, marks were given for stating correct formulas.
- 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 score marks.
- Students should always give units for their answers, and ensure they are the correct units. When giving, for example, the dividend yield, the figure is obviously a % (percentage) and a figure in pounds is clearly wrong. Where more than one unit is meaningful, for example, margin of safety in pounds (£) or production units, careful reading of the question is required, in order to state the correct units.

Grade Boundaries

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