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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International Advanced Level Accounting (WAC02) January 2014

General comments

The level of responses by students for this paper covered a very wide range of marks, but overall the standard was a little below last summer. It was good to see that some areas of the Specification have been learned well, and where this knowledge was applied accurately, marks were high. It was particularly pleasing to see that the International Accounting Standards format for a Statement of Cash Flow had been learnt, and no students were using the older FRS1 format. However, reference was still being made to the "Profit and Loss Account" rather than the Statement of Comprehensive Income, in a Journal entries question.

The general points listed below could be addressed by students and centres in order to improve performance. Some of these points are basic building blocks of accounting, and have been mentioned several times over the last few years.

- The front of the paper states "All calculations must be shown", and students should show all their workings. Many figures are arrived at via calculations and may be worth more than one mark. A wrong figure with no calculations will score zero. Calculations shown may pick up some of the marks, and also allow the "own figure rule" to be applied more easily.
- Students must still maintain their knowledge of double entry book-keeping, as this may still be tested on Paper 2. An example of this is shown in the Journal entries required for question 3.
- Careful reading of the question is required, including the evaluation section. Too many students are addressing the evaluation from a point of view not required in the question. For example, question 4 (d) was often evaluated from the customer's viewpoint, not the company's.
- Very often, no conclusion was given to round off the evaluation.

Specific comments

Question 1

This was the most popular question on section A, and probably the best answered. Most students were able to score highly on (a) calculating the net present value. The payback period in (b) was usually done well, although a number of answers decided to discount the figures for some reason. Evaluation in (c) saw reasonable attempts, but answers tended to be rather short. The internal rate of return (IRR) in (d) usually resulted in full marks or no marks. Students have either learnt IRR or they haven't. Given the rather complex nature of the maths involved, those who scored well in (d) deserve praise.

Common errors:

- Failing to discount the net cash flow figures in (a).
- Deciding, in (b), to discount the net cash flow figures.
- When evaluating, not taking their calculations from (a) and (b) through to a decision in (c).
- Having no knowledge of the internal rate of return formula.
- When using a formula containing letters in (d), not distinguishing between the discount rate and net present value at that rate eg just using "N", instead of "N" and "n".
- Not realising how IRR can be used to make an investment decision.

Question 2

It was good to see that most students are now able to produce a Statement of Cash Flow in the IAS 7 format. Almost no students are still using the old FRS 1 format, which is pleasing. This was a popular question, and the marks achieved were reasonably high, particularly on (a), producing the Statement of Cash Flow. Clearly, the layout has been learnt and usually applied correctly. However (b), evaluating debentures and bank loans as a source of capital, produced disappointing scores. Whilst most were able to state a few facts about bank loans, knowledge of debentures is clearly weak.

Common errors:

- Failure to show any workings when calculating depreciation.
- When labelling the final figure in Operating Activities, Investing Activities and Financing Activities, students were unable to distinguish between inflows (labelled "Net cash **from**…") and outflows (labelled "Net cash **used…").**
- Not realising that only one payment would have been made on the debenture, and entering a whole year's interest.
- Omitting the final two lines, stating the cash and cash equivalent balances at the start and the end of the year.
- In (b), arguing that debenture holders are shareholders, and are part of the equity capital.
- Stating that failing to repay debentures would not result in forfeiting assets, despite the fact that most debentures would be secured on assets.

Question 3

This was the least popular question on the paper, and the worst answered. Answers for (a) were weak, with students displaying a clear lack of awareness of how double entry applies to reserves, dividends and provisions etc. It was disappointing to see students refer back to older terminology, and refer to "Profit and Loss account" instead of Statement of Comprehensive Income. Some marks were picked up in (b), although very few arrived at the correct final figure for Retained Earnings. Redemption of shares is a weak area for students, with very few genuine advantages or disadvantages given and explained. The same can be said for the Capital Redemption Reserve in (d), with very few students even attempting this topic, clearly stated on the Specification.

Common errors

- In (a) (3) actually paying the customers, rather than making a provision.
- Deciding to calculate the interest payable to Preference shareholders in (a) (4), and paying this.
- Omitting Authorised Share Capital in (b), despite the amount being stated in the question.
- Including the Debenture in the Equity section in (b).
- Not understanding what the term "redeeming" actually meant, so no advantages or disadvantages could follow in (c).
- Having no awareness of a Capital Redemption Reserve in (d), or why it is created.

Question 4

This was the least popular question in section B and responses received only average scores or less. Students either understood the requirements in (a) and scored full marks, or did not understand the question and failed to score at all. This seemed to be a similar situation for answers to (b). Coping with a large number of figures and the all the calculations tested students in (c). In (d), students were able to suggest some positive and negative points about some of the options, but the coverage was not comprehensive.

Common errors:

- Failing to understand what was meant by a Capital Budget in (a)
- In (b), just copying the sales figures for each Week, to give a Production figure.
- Entering a figure for Option 2, despite no cash being received for 12 months, when preparing the Cash Budget.
- Not being able to suggest an advantage and a disadvantage of each of the three options in (d).
- Answering (d) from the point of view of the customer, not the business. This may have been acceptable, if the answer had argued something along the lines of "what is good for the customer, is good for the business" and given a reason why.

Question 5

This was the most popular question in Section B, which saw students generally score well. Strong answers were shown in (a)(i) to calculate break-even point although some were confused by the 6-month time period. Surprisingly, (a)(ii) was found difficult, with many failing to convert break-even units to sales revenue. Most arrived at the correct profit figure in (a)(iii), having travelled via a number of different routes. Given the mathematical complexity of (b), it was good to see large numbers of correctly calculated answers. Answers to (c) were mixed, with some being well argued but others contained misconceptions. Too many students put forward their own two suggestions, rather than discuss the two clearly shown in the question. However, it was interesting to see an even split for the preferred choice of the two policies, when a conclusion was given.

Common errors:

- Failing to convert accurately, the fixed costs stated, into 6-monthly figures.
- In (a)(ii), subtracting a break-even figure in units, from an actual sales figure in pounds.
- Making erroneous statements such as "reduce selling price will mean lower costs" without trying to explain any reason as to why this would occur. Without any attempt at an explanation, the statement is not true.
- Not arriving at a conclusion for the evaluation.

Question 6

This was a popular question that saw fairly good scores. Many students performed well on section (a), having learnt a formula for Gearing. Answers for (b) were mixed, as many were confused by the fact that the shares had a value of £0.50, and that one formula (ROCE) used Profit **before** tax and interest, whereas others used Profit **after** tax and interest. Answers to (c) were varied, with many missing an important part of the question "compared to Northern Gas plc". Some made good comparisons, but others merely restated figures calculated in (a) and (b) without a meaningful comment. This could have started by saying which was the greater, by how much was the difference, which was the better figure and why.

Common errors:

- Changing the number of shares issued to 60 million or 15 million.
- Rather than use the given figure for Total Equity, try to calculate this figure by adding a number of other figures.
- Omission of units in the answers in (b).
- Mixing up units eg 2.73p in (b)(ii) was taken forward to (b)(iii) as £2.73.

Question 7

This was a reasonably popular question, but it scored the lowest on the whole paper. Few students managed to correctly calculate the purchase price of the business. However, (b) was a little better, and with the own figure rule applying, a reasonable number were able to arrive at the figure for goodwill. Section (c) proved too difficult for most students and very few managed to work out the amount paid per share. Marks were often picked up for about half of the entries in (d), the Statement of Financial Position. Reasonable answers were given for (e), but students were confused by the relative share price values and made irrelevant or erroneous comments.

Common errors:

- Incorrect revaluation of assets and liabilities in (a).
- Unable to start calculations in (c) or use of wrong method.
- Failure to show workings in (d), when some figures had marks available for workings.
- Evaluation from the point of view of the larger firm, rather than the view of the shareholder in the smaller company.

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