Examiners' Report
Principal Examiner Feedback

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Pearson Edexcel IAL
In Accounting (WAC12)
Paper 01 Corporate and Management Accounting

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General comments

There was a very wide range of marks attained by students sitting this paper. It was pleasing to see that a number of students, usually the stronger students, are improving their marks on the sections marked using a levels based mark scheme.

Specific Comments

Question 1

This was a compulsory question, and marks were quite good. Many students were able to carry out mainly correct calculations for the net cash flow in Q1(a). The most common errors were not eliminating depreciation from the running costs, and not including the sale of the land at the end of year 5. Students took their answers from Q1(a) on to Q1(b) and achieved marks, although many forgot the initial £2m investment in year 0, or placed it in year 1. Most students in Q1(c) used their cash flow figures from Q1(a) to calculate ARR, but they should have used profit. This meant using figures for costs that included depreciation. The own figure rule helped students in the second part of Q1(c) which was answered well. It was good to see in Q1(d) that many students had learnt the formula for IRR and most applied it successfully. Finding the difference between two NPVs when one was negative was found to be the problematic part of Q1(d). There were some good answers for the evaluation in Q1(e), with most students being able to appreciate the consequences of figures calculated for NPV, ARR and IRR. However, sometimes a logical structure and a final recommendation were missing.

Helpful hints:

- Remember to eliminate depreciation from running costs if they include depreciation, when calculating net cash flow.
- Sale of assets at the end of the project must be included in the net cash flow calculation.
- Initial cost of the project must be in year 0 when calculating net present value.
- To calculate the accounting rate of return, use profit, not net cash flow.
- When finding the difference between the two NPVs and one is negative, the two NPVs need to be added together to give the difference.
- The 12 mark evaluations should consider non-financial factors as well as financial factors.

Question 2

This was another compulsory question, and students performed well on Q2(a). The most common error was on point (5) where the full £72m value of the property was transferred to the revaluation reserve. Q2(b) saw many students correctly explain only revenue reserves can be used for distribution of dividends. However some students got mixed up thinking the differences were revenue and capital income and/or expenditure. Answers to Q2(c) were largely accurate, except for the misconception that a capital replacement reserve must be a capital reserve. Q2(d) was very poorly answered, or not attempted at all. This was strange given that Q2(b) and Q2(c) were often correct and Q2(d) just followed on. Most students were able to offer one or two reasons a rights issue may be made in Q2(e), although development was often weak. Knowledge of the roles or activities of auditors for Q2(f) was often vague, and students would be advised to look closely at the wording of the model answer. Too many answers contained comments such as " look for fraud". Students were able to pick up some reasonable marks for Q2(g) although many just wrote all they knew about the two types of share. The question clearly asked to be answered from the viewpoint of the company.

Helpful hints:

- When placing a figure in the revaluation reserve, use only the amount of the revaluation, not the total value of the asset.
- Do not include capital replacement reserve or ordinary share capital as a capital reserve.
- To find the maximum possible payable as an ordinary dividend, total the value of the revenue reserves and divide by the number of issued ordinary shares.
- Study closely the wording of the mark scheme concerning the role of auditors.
- Read the evaluation questions very carefully, to appreciate how the question should be answered e.g. from a particular viewpoint.

Question 3

This question on marginal and absorption costing was found quite difficult by a large number of students. Q3(a) was done well, with many able to correctly calculate the value of closing inventory. Q3(b) was disappointing and many students decided to construct an income statement to calculate the profit using both methods of inventory evaluation. It was possible to calculate the difference in profit using this longer method, but many made errors in their calculations. A quicker method was to remember that in year 1, with no opening inventory, "the higher the closing inventory, the higher the profit". Many students in Q3(c) either did not realise monthly production and sales had to be multiplied by three to find quarterly production and sales, or forget to add their 3 000 inventory increase to the opening inventory of 28 000 from Q3(a). When answering Q3(d), many students again made errors in calculations and did not arrive at the correct profit figure. Often the error was to omit the opening inventory figure. The statement made by the director was not addressed in Q3(e), as most students decided to discuss the two methods in general terms, not answering the question.

Helpful hints:

- Remember in year 1, with no opening inventory, "the higher the closing inventory, the lower the cost of sales, the higher the profit".
- Ensure the headings and labels for tables are studied carefully, to make sure you are working with the correct units, quantities etc.
- When moving on to year 2, do not forget that the closing inventory for year 1 is the opening inventory for year 2.
- Do not write "all you know" about a topic when evaluating, but make sure your answer is relevant to the question being asked.

Question 4

This question tested student's understanding of the statement of profit or loss and other comprehensive income and results were varied. Parts Q4(a)(i) – Q4(a)(iv) were usually completed well, although "inventory has been sold" needed a reference to the level of purchases to achieve a mark in Q4(a)(iii). Sections Q4(a)(v) and Q4(a)(vi) were not answered so well, reflecting students' superficial theoretical knowledge of bad debts and allowance for doubtful debts. Many answers included comments such as "give discounts" without any reference to when the discount is given. Q4(a)(vii) was often done well, as was Q4(a)(viii), although many stopped at a profit of £0.25 per share, not continuing to find the price of the share when sold. Q4(a)(ix) was found difficult, showing students know where to place corporation tax in the statement, but have a weak understanding of how it is calculated. Q4(b) tended to be poorly answered, with few references to standardisation or comparability.

Helpful hints:

- Be specific when explaining "discounts", distinguishing between trade discounts and cash discounts. Trade discounts are when a credit sale is made and will reduce the amount owed, but may encourage buyers to make a purchase they cannot afford. Cash discounts given to trade receivables when paying within a certain time period may reduce the payment to be made.
- Remember doubtful debts may be identified on an individual basis, not always calculated as a percentage of trade receivables.
- When evaluating, ensure you include a decision or recommendation about the statement in question, usually at the end of your answer.

Question 5

This question on investment ratios was a popular question and was reasonably well answered. Very few students managed to calculate the return on capital employed correctly in Q5(a)(i). Many included an alien in the numerator such as the preference dividend, or did not arrive at £10 million underneath for the denominator. Q5(a)(ii) was often incorrect as students frequently wrongly deducted debenture interest from the net profit after tax. Debenture interest is deducted before tax. The dividend paid per share in Q5(a)(iii) was found easier, although some still had problems arriving at 8 million shares underneath. Q5(a)(iv) was usually done well, often benefitting from the own figure rule for the numerator on the top line. The own figure rule also came in useful for students when calculating Q5(a)(v) and Q5(a)(vi) which were often correct. Q5(b) was done reasonably well, as students saw the conflict between keeping shareholders happy and the liquidity requirements of the business. However, a good few became side-tracked trying to compare this year's dividend with last year's dividend.

Helpful hints:

- Students must learn the exact formulas for calculating investment ratios and be able to reproduce the formulas in the exam. Students must then be able to substitute into the formulas the appropriate figures from the question.
- It is important that workings are shown fully, especially when answers are incorrect, as this allows parts that are correct to be rewarded.
- Units must be shown when investment ratios are calculated. E.g. "Dividend paid per share = 2.25". Is this pounds, pence, or percentage? "Pence" needs to be added in order to make the figures meaningful.

Question 6

This question on break-even analysis was a popular question and answers were good. Many students calculated Q6(a) correctly, showing thorough knowledge of break-even analysis. The most common mistake was to overlook the fact there were five workers, not one. Q6(b) was also good, with a variety of methods being used to calculate profit. Q6(c) was completed well, the most frequent error being to omit the depreciation. It was good to see that Q6(d) was frequently answered successfully. The evaluation section in Q6(e) was often completed well, with most students recognising that the most important factor to be considered was the level of profit.

Helpful hints:

- All figures in workings need to be labelled clearly. This allows the examiner to award marks where appropriate, if the student does not arrive at the final correct answer.
- In the evaluation section, little reward will be given for just quoting figures that have obtained marks in previous sections of the question. They will be rewarded where they are included in developed chains of reasoning, showing causes and/or effects applied to the scenario.

Levels – based mark scheme

The advice here on the levels-based mark scheme, now used to assess evaluation answers, should be put to use by students to improve performance.

- The levels based mark scheme will require students to adopt a different approach to the evaluation section of each question, especially in Section A. Previously, students could list a number of bullet points, often just one sentence, and still mark very well. Students are now advised to try to develop the point being made to a greater depth where possible. This will allow access to the higher levels on the mark scheme. For example, at level 2, "chains of reasoning are present but may be incomplete or invalid". To move to level 3 requires "developed chains of reasoning, showing causes and/or effects". Centres are advised to carefully study the requirements of the higher levels, and try to guide students to answer in a style that reflects these levels. It is also important that students give a final decision or recommendation in order to be awarded one of the higher levels.