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In Accounting (WAC12) Paper 01
Unit 2: Corporate and Management Accounting

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Introduction

The overall standard of candidate responses for this paper was fairly good. Candidates did well in questions on topics where they were knowledgeable. Candidates did not do so well in questions on topics where knowledge was incomplete or weak.

Question 1

This was a compulsory question, and scores were very good, the highest in Section A. The majority of candidates in (a) were able to accurately allocate expense items to the correct category e.g., cost of sales. It was good to see candidates treated the additional information items well. Most candidates were able to correctly apply accruals, prepayments, and apportionment calculations. Part (b) allowed candidates to discuss the use of ICT in accounting, but few answers reached level 3. Generally, responses were lacking in depth and were generic, often not specifically relating to bookkeeping and accounting. However, most answers did consider both sides of the argument, advantages and disadvantages, and the majority of answers had a conclusion for an overall evaluation.

Common errors

- Not using correct terminology e.g., cost of goods sold not cost of sales, net profit instead of profit on ordinary activities after tax
- Giving the answer in the form of a "traditional" profit and loss statement rather than an International Accounting Standard (IAS)1 format
- Inaccurate calculations for depreciation of the factory buildings, which was shown at carrying value. The depreciation that needed to be applied was for the remaining 40 years not 50 years.
- Incorrect calculations on interest owing. Many answers failed to account for the one month owing on the bank loan and used the £27 500 figure from the trial balance. A similar number of candidates were confused by the "September payment is owing" relating to debenture interest and just entered £29 250 from the trial balance.
- Failing to apply the use of ICT to bookkeeping and accounting in Sunnyside Bakeries PLC, merely addressing general advantages and disadvantages of ICT.

Question 2

This was a compulsory question which saw only reasonable scores overall. Part (a) was usually answered well. However, part (b) saw a clear division between those who knew how to calculate variances, and those who did not. Similarly, calculations for material variances in (c) were either, correct and scoring well or scoring very few marks. Answers to (d) were generally quite thin, with little depth to the answers. Many answers to (e) were often just expressing in words the figures calculated in (b) and (c). Stronger answers would try to give reasons for the performance. They would also try to address the second part of the question and give suggestions for future improvements.

Common errors

- A good number of candidates failed to correctly apply the information on the Stores Record Card to the calculations in (b). A surprisingly low number added the Issues to arrive at 10 900 metres for the figure for actual quantity. Many candidates just took the final issue price of £3.65 as their actual price, instead of doing a calculation to find the average price.
- When calculating a total variance, candidates are advised to use the method of adding together the material usage variance and the material price variance, or labour efficiency variance and labour rate variance. This will allow them to benefit from the own figure rule if previous calculations are incorrect. Too many candidates decided to do a lengthier calculation to find the e.g., total budgeted material cost and the total actual material cost and then calculate the difference. Unfortunately, many mistakes appeared in these calculations and a relatively easy three marks for each calculation was lost.

Question 3

This question on Statements of cash flows was the most popular question on Section B. Part (a)(i) was generally answered well, although too many candidates omitted the dates of the entries. Preparing the statement of cash flows in (a)(ii) was answered fairly successfully, as most candidates showed a working knowledge of how to prepare the statement. It was good to see that most candidates ignored the distracters in the statement prepared by the junior accountant on the first page of the question! By far the hardest part of the question was part (b) and candidates found this difficult. Luckily, there were only three marks available, but few were gained as candidates struggled to place the various cash flows in the correct order with the appropriate addition or subtraction. The evaluation was often answered quite well. It was good to see that many candidates added their own calculations to the answer in (c). These calculations could have been for the current ratio, the liquidity ratio or the figure for working capital. The very nature of the question meant that application was included in the answer.

Common errors

- Omitting dates in part (a)(i) or giving incorrect dates. For example, the balance b/d at the start of the year had to be October 1, not September 30.
- Incorrect calculations of the interest to be added back to the Profit from Operations in (a)(ii). The bank loan was taken out half way through the year so only six months interest was required. This figure was £25 000 not £50 000.
- In (a)(ii), adding the profit on the sale of a non-current asset of £155 000, instead of deducting. Also deducting the loss on the sale of a non-current asset of £72 000, instead of adding.
- Omitting, in (a)(ii), the sub-total lines. These are "Operating cash flow before working capital changes" and "Cash generated from operations".

Question 4

This question on budgets was the least popular question in Section B. The Capital budget in part (a) was attempted fairly successfully. Similarly, the Cash budget extract in part (b) was often completed to a pleasing standard. Unfortunately, the Trade receivables budget was found difficult by the majority of candidates. Often, answers only showed the payments received for the sales of each month. Responses to (d) were often quite weak or omitted altogether.

Common errors

- In (a), an inaccurate calculation of the funding required by the flotation. If the flotation was for 40% of the funding, it had to be 2/3rds of the total of the other funding methods, which were 60% of total funding.
- Many answers in (c) failed to include the important last three lines as shown on the mark scheme. These answers tended to just show payments received, but these should have been deducted from the total sales made by the end of the month, to give the total of trade receivables at the end of the month.
- Responses to (d) frequently discussed budgets in general, rather than the flexible budgets mentioned in the question. Very few answers raised points shown in the mark scheme which are specific to flexible budgets.
- Application to the company, Glowtherme PLC, in (d) was very rare. This was a new company and there was no previous data to rely on, so any Cash budget or Trade receivables budget was based on guesswork and may have been inaccurate.

Question 5

This question involved short questions to test the candidates' knowledge of a Statement of changes in equity and was the second least popular question in Section B. Usually, reserves were categorised under the appropriate heading in (a) and (b). Answers to (c) were usually correct, although units (ie pounds (£) or pence) were often omitted. The percentage revaluation in (d) was accurately calculated by most candidates. Generally, the calculations questions saw the best answers, with (f) and (j) scoring well. The answer to (e) was often weak, with more needed than "to buy foreign goods". Similarly, answers to (g) lacked depth, with "general use" not being enough to score the mark. Answers to (h) and (i) revealed the fact that most candidates had very little knowledge of capital redemption and the Capital redemption reserve. This was disappointing as the Capital redemption reserve is clearly stated on the Specification. When answering (k), most candidates gave an opinion (rightly or wrongly) as to whether the revaluation would be included in the profit calculation. However, very few expanded on this answer, despite the four marks on offer. Most candidates had a good attempt at answering (l). Both sides of the argument were put forward and a conclusion was given, which was good to see.

Common errors

- Failure to notice that the £45 million of ordinary shares consisted of shares with a face value of £0.50 per share. This meant that there were 90 million shares issued, not 45 million shares. This effected the calculations in (c), (f) and (j).
- The capital redemption of £9 million, or 18 million shares, meant there were now 72 million shares issued. Many candidates overlooked this redemption when calculating the final dividend per share in part (j).
- Most answers to (k) did not explain that the upward revaluation is an unrealised gain, only realised and added to profit when the property is sold.

Question 6

This question on break-even analysis was the second most popular question in Section B and scores were reasonable. A decent number of marks were picked up in (a) arriving at a net profit figure. There were a number of ways to arrive at the break-even point in sales revenue for (b)(i), but many candidates still failed to arrive at the correct answer. Answers to (b)(ii) were better, as all that was required was to divide the answer to (b)(i) by the selling price of £4.95. However, there were still many candidates who did not do this, preferring to "start again" with a fresh calculation that was incorrect. As usual, not all candidates were able to correctly perform the margin of safety calculations in (b)(iii). Part (c) was the most demanding part of the question, and very few candidates calculated this correctly. Some answers in (d), discussing reducing variable costs, were good, but many left this section out altogether.

Common errors

- Allocating costs to the wrong section, when having to decide between fixed or variable in (a).
- Missing the fact that there were five members of staff in (a), not just one member of staff.
- Applying an incorrect method to calculate the break-even point in sales revenue in (b)(i) and sales units in (b)(ii).
- Using the wrong formula to calculate the margin of safety in sales revenue in (b)(iii).
- Failing to be specific in (d) and addressing particular costs e.g., labour. Answers that just mentioned "variable costs" in general scored poorly.

The general points listed below should be addressed by candidates to improve performance.

- Having previously stated formulas need to be learnt exactly, it was good to see that often this was the case. However, in question 2, formulas were stated correctly, but the wrong figures were inserted into the formulas. Sometimes, no figures at all were substituted into formulas. Candidates need to try to be sure they understand what exactly is meant by the terms used when calculating

material variances. These terms are standard quantity, actual quantity, standard price and actual price. Also the terms for labour variances, which are standard quantity, actual quantity, standard rate and actual rate.

- Candidates must ensure their answers have units and that they are the correct units. For example, in question 5(c) the answer was £0.20 or 20 pence. An answer of 0.20 would not achieve the final mark. In 5(f), 0.8 pence was fine, or £0.008, but not just 0.8
- The final part of a question will always be an evaluation. Sometimes, the question is pitched in a way that guarantees application to the figures given or calculated in the earlier parts of the question. For example, question 3 required an evaluation of "the liquidity position of the company". However, at times the question is pitched in a way that, if candidates are not careful, could result in a generic answer. For example, in question 1, "Evaluate the usefulness to Sunnieside Bakeries of ICT in bookkeeping and accounting". Many answers to this evaluation were generic in nature. Whilst some of these achieved a reasonably good score, it would have been higher if they had mentioned and applied the answer to Sunnieside Bakeries PLC.

