



Examiners' Report

Principal Examiner Feedback

January 2019

Pearson Edexcel International Advanced Level

In Accounting (WAC12) Paper 01

Corporate and Management Accounting

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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 normal standard.

### Question 1

This was a compulsory question, but scores were not good, despite the question being structured to help guide candidates through the process. Many students were able to carry out mainly correct calculations for the labour hours required in (a). Answers to (b)(i) were reasonable, without being specific, but answers to (b)(ii) were relevant and accurate. Contribution per unit was often calculated correctly in (c) as variable costs were identified. However, many candidates failed to grasp the key feature of the question in (d), which was contribution per labour hour, as labour was the limiting factor. Answers to (e) were quite good, often invoking the own figure rule to their own order of production. Candidates who had progressed to (f) usually scored well, again benefitting from the own figure rule. The evaluation section in (g) saw mixed responses from those who had made it this far in the question. Few candidates were able to address the issues of company policy concerning overtime or what appeared to be a paint area of limited size. Many answers were restricted to accepting the contract on the grounds of “keeping the retailer happy” and “making more profit.”

Helpful hints:

- In (a) (i) and (a) (iii) a number of students failed to add their four answers (one for each product) together to give the total hours required. On these occasions it was not just one answer for each column or box but a total as well – literally thinking outside the box! Careful reading of the question would have seen that this was needed.
- Having established that labour hours were in short supply, candidates should have realised that the calculation of contribution per labour hour was required. This was the crucial information needed to answer (d), (e) and (f). This knowledge of theory was weak and needs to be learnt.
- The 12 mark evaluations should always have answers that apply to the scenario. Sometimes, as in this question, there are items of information supplied in the question that can be used or addressed in the evaluation. Here, the two issues of company policy concerning no overtime to be worked and a paint area of limited size could have been seen as possible solutions to the production problem the company faced.

## Question 2

This was the highest scoring of the two compulsory questions but scores were not very good. Part (a) was disappointing as marks were lost by not doing some of the basics required in the question. The question clearly stated that dates were asked for and accounts needed to be balanced off at the year end. Balancing off also involves rulings off and these are level with each other, not six lines higher or lower than each other. Many of the dates were inaccurate, even though the dates were stated in the bullet points – not everything happened on April 1<sup>st</sup>. Answers to (b) were reasonably good as the general principles of a rights issue and a bonus issue were understood. The Journal entries in (c) were usually correct, although the omission of dates arose again and cost candidates marks. Candidates were able to pick up a reasonable amount of marks in (d) when calculating the gearing ratio. The evaluation in (e) allowed candidates to show what they knew about ordinary shares and bank loans as a source of finance. However, few related their knowledge to Alsos Engineering Ltd and the scenario.

Helpful hints:

- Candidates should be aware that the completion of T-shaped accounts may still be required at A2 level. As a result, they should try to produce entries in text book style, which would be acceptable in the workplace. Thought needs to be given to account headings, dates, narratives, double entry accounting, balancing off accounts and general quality of presentation.
- The evaluation needed some application to the scenario to achieve level three or level four on the mark scheme. Candidates could have explored the present financial position and profitability of the company and how this may have affected the choice of finance source. The gearing ratio and the previous rights issue could have been developed as part of the decision-making process.

## Question 3

This question on investment appraisal was the second most popular question in Section B and scored the second highest marks. The calculation of the net present value in (a) was done well, despite the large amount of calculations required. As usual, the most common mistake was not deducting the depreciation from the overheads. It was good to see high marks scored on (b) when calculating the internal rate of return, and good to see how many had learnt the complicated, not user-friendly, formula. Answers to part (c) were only reasonable, as candidates did little more than follow through from their calculations in (a) and (b). At least these were correct decisions, to invest, based on a positive net present value and an internal rate of return above 8%.

Helpful hints:

- Candidates need to realise that depreciation does not result in a cash flow. When costs or overheads are said to include depreciation, then the amount of depreciation must be deducted from the costs or overheads.
- It is worth reading the scenario carefully and taking note of information given. Usually, this could be developed in the evaluation at the end of the question. In this question, the local government wished to promote arts in the town but could not run the theatre at a profit. The contract passed the risk to the company who also had to refurbish the theatre but almost no candidates explored this in the evaluation.

#### **Question 4**

This question tested student's understanding of the statement of profit or loss and other comprehensive income and the scores were good. It was also the most popular question in Section B. Parts (a) (i) and (a) (ii) were usually completed very well. It was good to see maximum scores in (a) (i) despite the need for five adjustments to be carried out to determine the figures required. Likewise, (a) (ii) often scored maximum marks even though seven of the figures required adjustment. Part (b) usually scored three out of four marks, with the mark being lost due to a lack of, or an incorrect, heading. Unfortunately, the Director's Report in part (c) scored poorly. Many candidates did not know what is included in the Report, or why these items are included. Some even confused the report with the Auditor's Report.

Helpful hints:

- Many candidates missed out commission on sales from the schedules. It may be worthwhile, in this type of question, to mark alongside each bullet point where it will be used in the final accounts or schedule. A check to ensure all points have been included would not take very long.
- Try to ensure all final accounting statements and schedules have a heading and it is correct, including a date where relevant.

#### **Question 5**

This question on break-even analysis was the second least popular question in Section B and scores were the lowest. A reasonable number of candidates were able to calculate the variable cost per unit and the fixed costs per month in (a). The loss for the month was usually correctly found, allowing for own figure calculations. Similarly in (c), the break-even point and the margin of safety were mainly correct. The graph in (d) was rarely able to score full marks, and it appears candidates need to put more work into mastering this area of the Specification. Answers to (e) showed a reasonably good understanding of the scenario and the figures.

Helpful hints:

- Candidates should be able to calculate fixed and variable costs using a “high low method” as found in (a).
- When drawing break-even graphs, candidates should take on board the following:
  - Lines will be straight, hopefully drawn with a ruler, start at 0 on the x axis, and finish at the stated output level (not continued further). All lines will be labelled.
  - Labelling is clear, with, for example an arrow indicating break-even point, or profit.
  - Margin of safety will be indicated clearly by an arrow point line starting at break-even point and finishing at the stated sales revenue (vertical) or output (horizontal).

## Question 6

This question on Statements of Cash Flow was the least popular in Section B, with the second lowest average score. The question tested the candidate’s understanding of the statement rather than require them to prepare one. Section (a) (i) and (a) (iii) were reasonably well attempted, but the multi-stepped calculations in (a) (ii), (iv) and (v) were found tricky. The calculations concerning the bank balance and the movement in the bank balance were also found difficult, primarily due to the involvement of negatives or minus numbers. Answers to (b) were done reasonably well, with most able to explain one difference, often the past and future time period. Most candidates were able to cover a few worthwhile points in (c) when evaluating the performance and liquidity position at the year end.

Helpful hints:

- Candidates need to carefully study the figures in the table, as many omitted the £000 as indicated at the top of the column. Although this only resulted in the loss of one mark for the whole question it is a mark thrown away.
- Students need to think through the effects of overdrafts (ie minus figures) on the cash and bank figures and their movements during the year. For example, if an overdraft decreases, the bank balance increases.

## General Points

The general points listed here should be addressed by candidates to improve performance:

Candidates need to put a little more thought into the preparation for, and equipment to be brought into, the examination. Clearly, some candidates do not even have the correct equipment for the exam. It is disappointing to see graphs that obviously require straight lines to be drawn being completely freehand without a ruler. An eraser would also help – it is disappointing to see the first attempt at a graph scribbled out and a second attempt made alongside the scribble. Likewise, where T-shaped accounts need to be balanced off, rulers are helpful.

A familiar reminder about showing all workings where possible is required. Figures that are wrong and “appear from nowhere” will score no marks. A good example is shown in 2(d) where adjustments were needed to arrive at year-end figures. Marks were awarded for some adjustments and the year end figure. Many candidates just placed a number of figures in their formula which were unlabelled and incorrect and from an unknown source. These figures scored very few, if any, marks.