



Examiners' Report

Principal Examiner Feedback

January 2020

Pearson Edexcel International Advanced
Level in Accounting (WAC12)
Paper 02 Corporate and Management
Accounting

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Publications Code WAC12_01_2001_ER

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Introduction

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 usual standard.

Question 1

This was the highest scoring of the compulsory questions and scores were reasonably good. Most candidates were able to make an accurate attempt at calculating the net cash flows in (a). The resale value at the end of year 5 was often overlooked, but the own figure rule meant consequent calculations were not penalised. The payback period in (b) and net present value in (c) were answered well and marks here were good. Unfortunately, the average rate of return was often poorly answered so scores for (d) were weak. The evaluation in (e) was usually struggling to rise above a level 2 answer. Candidates were correct in their interpretation of their previous calculations for payback, NPV and ARR, regarding whether the investment should proceed. Weaker candidates merely wrote in words what they had previously calculated in figures. Very few responses expanded the answer to include some of the non-numeric points given in the information supplied.

Helpful hints for common problems:

- When calculating net cash flows in (a), remember that depreciation is a non-cash item and an adjustment by candidates may need to be made.
- When calculating net present value, do not forget to include year 0, the capital cost of the project.
- To calculate the average rate of return in (d), candidates must use the profit not the cash flows, so once again, an adjustment for depreciation may be required. The denominator underneath needs to be the average investment, taking into account the resale value which needs to be added before dividing by two.
- ❖ Before starting the evaluation section, candidates are advised to have a quick look through the information supplied in the question to see if there are any relevant points they could include. Candidates could have explored the electric vehicles replacing diesel, losses made in recent years, a competitive market, and the high cost of capital. Discussion of these points would have widened the evaluation and taken candidates to a higher level.

Question 2

This question was the lowest scoring of the compulsory questions, although many answers to (b) were very good. The preparation of the two accounts in (a) was disappointing, as some of the basics of double entry bookkeeping were omitted. Candidates performed quite well on (b) given that the financial statement required a lengthy answer in a strictly prescribed format. It was good to see that nearly all items were placed in the correct section of the statement. Part (c) concerning auditors and corporate governance was very poorly answered and responses rarely scored above level 1. This was the first time the question had asked for the role of the auditor specifically concerning corporate governance. Candidates were able to supply a generic answer concerning auditors but reference to corporate governance was usually omitted. The mark scheme contains an example of an answer that candidates could aim to produce in an exam sitting.

Helpful hints for common problems:

- When preparing T-shaped accounts, as in (a), candidates should ensure they show a date for all entries, including a year. The property, plant and equipment account should not contain an entry described as "Purchase" but would have a narrative of "Bank". Candidates must think of what the double entry would be for the transaction. It might even be useful to show the other entry as a "working" to check to see if all the answer "looks right".

- Candidates really must think about the correct term for the totals of each section when preparing a cash flow statement, as in (b). When cash enters the company, their figure will not be in brackets, so the term “Cash from...” will apply. If the total figure for the section is in brackets, cash is leaving the company, and the term “Cash used..” will apply.
- Candidates must realise they are preparing a Cash Flow Statement and will nearly always be using the term “cash” rather than “profit” when labelling a figure.
- Knowledge of candidates around the area of corporate governance is low. This topic is new to the specification. Centres could use the mark scheme as starting point for the teaching of corporate governance.

Question 3

This was the second lowest question in terms of popularity in section B and the second lowest scoring question. It was pleasing to see that nearly all candidates could remember the formula for the gearing ratio and perform an accurate calculation. This meant scores in (a) were high. Answers to (b) were generally good although very few candidates noticed the amount of funds in the individual revenue reserves would act as a limit on how much could be used for the capital redemption. It was good to see most candidates remembered to use the Capital Redemption Reserve. Answers to (c) were generally weak as candidates made an error in their interpretation of the information given, or their calculation to find the final dividend. The evaluation in (d) was often good as valid points were usually made. Some points made were misconceptions, but the application of “positive marking” meant no marks were lost.

Helpful hints for common problems:

- There is more than one permissible formula for calculating the gearing ratio, which is why candidates were asked to state in (a) which formula they were using. If the question asks for the formula to be stated, this is what the candidates must do. Some answers did not state the formula being used.
- When answering (b) many candidates debited the retained earnings reserve with the full 4 500 to transfer to the capital redemption reserve. This would have taken retained earnings into a debit balance which is not permissible for a redemption of shares. Other revenue reserves such as the general reserve or foreign exchange reserve could have been used, without making these balances a debit balance.
- Answers for (d) often included the following misconception. Many candidates have the erroneous assumption that “the company” holds shares in itself ie the company. This is not legally permissible. Answers that stated “the company” would therefore be in a stronger position when a redemption of shares took place and “other” shareholders had less shares, were therefore not correct.

Question 4

This was the least popular question in Section B and by a small margin, the lowest scoring question in this section. Candidates were able to prepare the revenue budget in (a) accurately. It was good to see the revised budget was also usually correct in (b). Answers to (c) were very weak as candidates were unable to construct a workable framework to complete the table in a logical manner. Some correct figures were seen in the table but there was no label to indicate their meaning. Unfortunately, many figures appeared in the wrong monthly column. Part (d) was also poorly answered with candidates showing little knowledge of budget preparation. This was disappointing as this topic is clearly identified on the specification. Answers to (e) were reasonably good, with nearly all candidates able to give both sides of the argument and arrive at a conclusion.

Helpful hints for common problems:

- If candidates are required to complete a table that does not have row labels in the first column, candidates should enter a label. This gives a meaning to any figures in the main body of the table. This is particularly important when there are several ways to arrive at the final figure.

- Candidates need to be aware of all topic and sub-topic areas on the specification and be prepared to be able to provide an answer should the area be examined. There should not be gaps in the candidate's knowledge.

Question 5

This was the second most popular question in section B and the highest scoring question in this section. Answers to (a) were reasonably good, with most candidates able to suggest factors that determined the value of goodwill. However, the development of the point was often missing or lacking sufficient depth to score the second mark available. Most candidates were able to calculate the purchase consideration in (b), although a large number failed to express the answer in thousands of pounds (£ '000). It was pleasing to see candidates score well in (c) when preparing the Realisation account and the Sundry Shareholders account. Answers to (d) were often weak with many responses failing to calculate the issue price of £1.40, which meant the final answer could not be correct. The evaluation of the merger in (e) was usually quite good, with stronger candidates including the effect on Jonathan, the shareholder.

Helpful hints for common problems:

- When a question part starts with "Explain..." there will be more than one mark available for each factor given in the answer. Candidates will not attain more than one mark for a one or two word answer without development. To achieve the second mark, more detail or consequences need to be added.
- Remember to check the units or exact value of the figures being treated. It is not always helpful to carry out calculations in thousands with three zeroes (£'000) on the end, but candidates must ensure the final answer is given correctly, in full. For example, £1 100 000 would score full marks but £1 100 would not.
- Candidates need to read the question carefully to understand the exact nature of what is being asked. If the question is looking at a situation from, for example, the shareholders point of view, then this angle needs to be inherent in the answer.

Question 6

This was the most popular question in section B and the second highest scoring question in this section. Answers to (a) usually included one or two valid advantages of marginal costing but there was limited development. This resulted in only attaining one mark per advantage. There was a very similar response in (b) for the advantages of absorption costing. It was pleasing to see that answers to (c) were often very good, arriving at the correct net profit for both accounting methods. The calculation of closing inventory and the inclusion of contribution proved to be the trickiest parts of this section. Answers to (d) were often confused with candidates merely repeating what they had stated in (a) and (b). Few candidates referred to the example they had just worked through in (c) which proved the statement wrong.

Helpful hints for common problems:

- Candidates should remember that a marginal costing statement should include contribution, after variable costs and inventories but before fixed costs.
- Very often a quote or a statement that requires evaluation, such as in (d), may relate to calculations made earlier in the question. In this question, the calculations made in (c), if correct, could prove the statement wrong. Candidates should try to refer back to previous calculations if they are relevant. This may take the answer up to a higher level on the levels based mark scheme.