



Examiners' Report

Principal Examiner Feedback

January 2022

Pearson Edexcel International Advanced  
Level in Accounting (WAC12/01)  
Paper 2: Corporate and Management  
Accounting

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## **General**

There was a very wide range of marks attained by students sitting this paper, ranging from 186 out of 200, down to zero. Overall, the level of responses was disappointing, with a mean below the usual average by ten percentage points. This may have been caused by world health issues disrupting some schooling.

## **Reports on individual questions**

### **Question 1**

Candidates performed relatively well on this question, which had a mean of 26 out of 55 marks.

Part (a) was answered poorly as there are clearly some candidates who have not learnt the correct treatment of the different types of preference shares. This treatment has changed fairly recently and the changes have been highlighted in previous mark schemes and Principal Examiners Reports. The treatment of preference shares would be important in the calculations in section (b) of this question. This is why the completion of the small table was included at the start of the question. Candidates need to learn that redeemable preference shares are treated almost like a long-term loan.

Candidates answered (b)(i) and (ii) well, usually getting correct, the gross profit and net profit after tax as a percentage of revenue. Earnings per ordinary share was found to be a little more difficult in (iii). Most candidates in (iv) were able to calculate the Price/earnings ratio correctly. It was good to see that in (v), the dividend per share was usually correct at 2 pence per share. A full three marks were often obtained in (vi), calculating the dividend cover, often benefitting from application of the own figure rule. It was pleasing to see most candidates were able to arrive at the correct answer for dividend yield in (vii). The calculation for return on capital employed in (viii) was more complex, and most failed to work through to a correct figure. Similarly, the gearing ratio in (ix) proved tricky for many. Those who used the capital employed figure from (viii) saved themselves a lot of time.

There was the possibility of a lot of areas and ratios to cover in (c), but many answers failed to achieve higher than level 2. Too many responses merely commented that, for example, "dividend per share went down from 3 pence per share to 2 pence per share". Despite the question clearly stating "give possible reasons for the changes between the two years" very few attempted to offer explanations for the change.

Helpful hints for common problems:

- Candidates need to study the information given closely. For example, many overlooked the fact that the shares had a nominal value of £0.50 and were issued at a premium of £0.40 per share when calculating the return on capital employed.
- Accounting ratio questions are easier to complete and score higher marks, when formulas are rote learnt and remembered. They can be written in the answer booklet before figures are substituted into the formula. Too often, examiners are looking at a calculation of figures that does not reflect the correct formula.
- When evaluating, candidates need to read the information given in the question carefully, to understand exactly what is being asked. Candidates could not answer this question without application to the figures given and calculated, which was beneficial to candidates. However, most failed to give reasons as to why changes occurred and answers were superficial.

## **Question 2**

This was the lowest scoring of the two questions in section A, with a mean of 19 marks. The calculation of the break-even point in (a) was reasonably well done, although some of the fixed costs were omitted. Part (b), calculating the number of customers needed per tour saw mixed results, possibly because of the originality of the question. The margin of safety in (c) once again proved challenging for candidates and scores here were low. Calculating the profit for the tourist season in (d) was completed reasonably well, often benefitting from the own figure rule.

The graphs in (e) were usually very poor and scores reflected this. Candidates must expect the possibility of having to draw a graph being examined, and they should prepare appropriately. The profit for Option B was quite well done for (f) and decent marks were attained

The evaluation in (g) was often reasonably well done as there were many aspects that could be considered for both options. Stronger candidates did some extra calculations to find, for example, the difference in profit between the two possible options.

Helpful hints for common problems:

- When calculating the break-even point, candidates must remember that depreciation of non-current assets must be included in the fixed costs. In this question, it would be the bus to be depreciated.
- Candidates need to learn the formulas for calculating the margin of safety. This could be for an answer measured in revenue (pounds) or as a percentage of sales.

- When drawing a graph for break-even analysis, it is essential that candidates can apply the correct scales. If the scales are wrong, it is quite likely that most of the other marks available are not going to be obtained. Fixing an end point is often helpful.  
In this question the end point on the x axis would be  $(180 \times 12) = 2160$  customers. The end point on the y axis would be  $(180 \times 12 \times £25) = £54\,000$  of sales revenue.

### **Question 3**

This was the third most popular question in section B and the second highest scoring question in the section.

Most responses in part (a) fell into one of two possible outcomes – either they knew the entries required and scored highly, or they were not familiar with the entries and scores were poor.

A good number of candidates were aware of the basic advantages and disadvantages of Divesocean plc raising further finance by an issue of ordinary shares.

Helpful hints for common problems:

- Candidates sometimes need to think about some of the basics of double entry accounting. This may involve starting with a “balance b/d” and every entry having a correct date, as given in the question. Next would be careful thought given to the name of the account where the corresponding entry could be found. After possible calculations for the figures to be entered, the account needs to be totalled and neatly balanced off.
- Instructions in the question need to be read and adhered to, especially if it saves the candidate time. For example, in (a)(vi) “A balance is not required at the year end” did not stop a good number of candidates balancing off the Bank account.
- In (b), much mention was made of the detail of the cash received through the year from the issue of shares to existing shareholders. This would have made the shares a rights issue, and candidates should not have referred to a “bonus issue” which involves no cash being received.

#### **Question 4**

This was the least popular question in section B and the lowest scoring question in the section. Answers to (a)(i) were often correct, but (a)(ii) was found challenging. Very often candidates had calculated figures that were shown in the mark scheme, but they were inserted in the wrong place in the printed table in the question paper. It appeared that candidates had difficulty interpreting the terms of the suppliers. The sales budget in (b)(i) was not answered very well as again, the terms of the sale did not appear to be fully understood. This meant that scores for (b)(ii) were often low, despite the own figure rule being applied. Candidates who understood the terms of purchases and sales scored well in (c). However, those who struggled with the terms, fared badly in (c).

Helpful hints for common problems:

- Candidates must understand the meaning of the word "each". In (a) the question states "Prepare for **each** of the four months...". This requires the four months to be shown separately. Unfortunately, many candidates added the four months together and gave a total of £108 000.
- Candidates should always try to work through to the end of a question. In (a)(ii) and (b)(ii), some of the calculations for the figures were quite tricky and were often wrong. However, there were some more straightforward marks (usually AO1) to be obtained by adding up the monthly columns. Candidates who gave up half way through these question parts, lost the chance of picking up the addition marks.

#### **Question 5**

This was the most popular question in section B but only the third highest scoring question in the section. The question worked very well as a discriminator between high and low scoring candidates. Most candidates were able to pick up marks in (a)(i) the Property, plant and equipment account. However, there were some basic errors concerning dates etc which have been addressed elsewhere. Answers to (a)(ii) were varied but it was good to see many answers that had most of the basics of a cash flow statement and these scored well.

Answers to (c) often lacked detail and were generally just an outline as to the advantages and disadvantages of cash flow statements.

Helpful hints for common problems:

- For the entry in the Property, plant and equipment account on October 25<sup>th</sup>, "plant bought by cheque", candidates should not be entering in the "Details" column "Plant" or "Purchases" but they should enter "Bank". The wording "by cheque" should lead candidates to the corresponding entry being in the Bank account.
- Candidates must think in terms of the Cash Flows from Operating Activities section being in three parts. They must ensure they include line entries at the end of the three parts. These are, "Operating cash flow before working capital changes", "Cash generated from Operations" and "Net cash From (or Used) in Operating Activities".
- Candidates must remember that examiners are looking for application in the evaluation answers. This may be harder to do when the evaluation is almost theoretical. In part (c), The question asked "Evaluate the usefulness of preparing a Statement of Cash Flows.." which is theoretical, but the question then goes on to say "...for Valetta Motors plc". This should remind candidates that they need to try to refer to the company in the question. The lowest level of application is to just drop in the name of the company. A higher level of application would be to address specific strengths or problems highlighted by the cash flow statement.

### **Question 6**

This was the second most popular question in section B and the highest scoring question in the section.

Scores for the 18 marks available for (a)(i) covered a wide range so this part of the question discriminated well. Candidates seemed to have problems calculating the units in closing inventory and the value of closing inventory. Given that this was a question on marginal and absorption costing, where differences are highlighted through inventory, it was disappointing to see some candidates even missed out inventories altogether. Part (b), the disadvantages of marginal and absorption costing saw varied results, although it was good to see quite a few candidates were aware of rules and regulations. Similarly, answers to (c) were mixed, with answers given from a number of angles. It was good to see that candidates added their own calculations eg increase in total profit, to the response.

Helpful hints for common problems:

- As stated earlier in this report, candidates must read the question carefully. No marks are going to be awarded when the question asks for advantages but the answer gives disadvantages. Unfortunately, this was often the case in (b).
- When the question asks for a statement of profit or loss using marginal costing and absorption costing and the evaluation is asking whether the offer to buy will be accepted, candidates must compare the offer price to the cost of production. If the offer price is greater than the marginal cost of production, then the offer can be accepted. Many candidates gave quite a lengthy answer without actually addressing this crucial principle.