



Examiners' Report Principal Examiner Feedback

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Pearson Edexcel International Advanced Level
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 a fairly good. There was a wide range of marks attained by candidates. It was pleasing to see that some candidates had clearly prepared well, and their scores were high.

Question 1

This was a compulsory question which was the highest scoring question in Section A, but only by a few marks. Part (a) was completed successfully, as many candidates correctly calculated the break-even point in sales units and then sales revenue. The margin of safety in sales units in (b)(i) was not completed so well as many overlooked the fact that only 95% of bikes were expected to be sold. The own figure rule often allowed candidates to score the maximum in (b)(ii), when calculating the margin of safety as a percentage of sales. Responses for (c) were fairly good, although quite a few either omitted the closing inventory or added it instead of subtracting. The graph in (d) saw mixed results. Some candidates knew what to do, whilst others struggled badly. Lines for revenue, fixed costs and total costs were often drawn incorrectly. It was disappointing to see some graphs were drawn freehand, instead of using a ruler – a basic piece of equipment for an exam. The evaluation in (e) was reasonably well done. Better answers considered the practicalities of producing abroad and employment opportunities as well as mentioning revenue, costs and profit.

Common errors were:

- Incorrect identification of fixed or variable costs in (a) resulted in an erroneous break-even point.
- Failure to label either axis in (d) for the graph
- Not giving the graph a scale, or showing an incorrect scale with inconsistent spacing.
- Some statements in (e) that put forward the view that “bigger is better” and a higher break-even point would be the better option.

Question 2

This was a compulsory question, and scores were quite good, but the lowest scoring of the two questions in Section A. The question concerned the preparation of a statement of financial position. The majority of candidates in (a) were able to allocate accurately items to the correct heading eg Non-current assets. It was good to see candidates were able to treat the final adjustment items well. Most candidates were able to correctly calculate revaluations, depreciation and dividends.

Part (b) allowed candidates to discuss the usefulness of the Auditor’s Report. There were some good answers that reached level 3 or occasionally level 4. However, there were some answers

that clearly did not know or understand what an Auditor's role was. Most answers did consider both sides of the argument, advantages and disadvantages, and the majority of answers had a conclusion for an overall evaluation, which was pleasing.

Common errors were:

- Failure to include a heading for the statement. If there was heading, it often did not include the company name or the date.
- Not clearly distinguishing between tangible and non-tangible current assets.
- Omission of the Revaluation reserve completely, despite non-current assets being revalued. Candidates could have thought about what was the double entry for these upward revaluations.
- The workings for the Retained earnings reserve were not shown or no adjustment to the reserve was made at all. Candidates need to realise that some of the adjustments still to be made would have an effect on retained earnings eg depreciation and dividends.
- In (b), not realising that auditors are independent scrutineers of accounts from outside the company in question. Many candidates thought that the auditors worked for Matera Clothing plc. Although Matera may have internal auditors, checking accounting etc, the Auditors Report is drawn up by external auditors.

Question 3

This question on budgeting was the least popular question in Section B, and the lowest scoring. Part (a) was a nice introduction to the question, preparing a Revenue budget, and candidates scored well. Preparing the Production budget in (b) was found much more difficult. Many candidates did not factor in the statement about 60% of the sales being in inventory at the start of the month, for January. This often meant following figures were incorrect, but the own figure rule was applied. The extract from the cash budget was answered fairly well, again, after often benefitting from the own figure rule. Section (d) was found quite tricky, with many unable to work out the sequence of calculations required to arrive at the material purchases needed for the month. Responses to (e), the evaluation, were reasonable, with candidates generally agreeing with order of drawing up budgets, used by the company.

Common errors were:

- Failure to take account of the statement that the company "holds 60% of the following month's budgeted sales in inventory" for January, inserting a zero instead. This despite a statement stating the company "has been a producer of rugs for many years."
- Candidates failed to show workings which could have picked up some extra marks. This was particularly important in (b) and (d), both of which involved some complex

calculations. The “all or nothing” approach, with no workings shown, is a high risk strategy.

- In (e), the evaluation, if candidates state they do not agree with the order shown of drawing up budgets, then an alternative order should be suggested.

Question 4

This question on project appraisal was the second most popular question in Section B, and the second highest scoring. The budget net profit in part (a) saw candidates score well, without always arriving at the totally correct answer. In part (b), calculating the Accounting rate of return, answers were quite good, with either formula allowed as a denominator, initial outlay or average outlay. Answers to (c), calculating the payback period, were reasonable, with the calculations for years and months being correct, applying the own figure rule. Responses in (d), the evaluation of the project, were reasonable, but were often limited to the calculations carried out previously.

Common errors were:

- In (a) many candidates incorrectly stated that the number of hours between 7 am and 8 pm was 12. Similarly, they stated that between 8 pm and 7 am was 12 hours.
- Depreciation was often omitted in (a), which was an error, as the question was asking for profit, not cash flows.
- In (b), the question asked for the formula used to be stated, but candidates often omitted to do this. Candidates were given the benefit of the doubt when calculations were marked, but there was a mark available for the formula.
- Answers to (c) often used the net profit from (a) instead of adjusting for depreciation and using the net cash flow.
- Failure to mention other, discounted methods of project appraisal that included the falling value of money over time, was a weakness in answers to (d).

Question 5

This question on capital structure was the second least popular question in Section B, and the second lowest scoring. Answers to (a), asking how reserves were created and used saw mixed responses. The “Created” column saw good answers, but the “Used” column often saw weaker responses. The weakest answers were seen for the Revaluation reserve, especially for how it is used. Responses to (b) calculating the gearing ratio were quite good. Most candidates picked up some of the marks available and it was pleasing to see some candidates picked up all of the marks available. Part (c) saw candidates pick up 2 or 3 marks, having worked out the interest on the bank loan and the mortgage, and the total. Answers to (d) were a little disappointing as

they often only included the debit and the credit entries and many candidates got the figure wrong. Responses to (d) were often at Level 1 or 2, with little depth seen in the answers.

Common errors were:

- In (a), many thought that when the non-current asset was revalued upwards, this upward revaluation would be transferred to the profit and loss account. This would only happen when the asset is sold.
- Responses to (b) often overlooked the fact that the Retained earnings had a debit balance. This should have been subtracted when calculating the capital employed.
- Answers to (c) often did not include the interest on the redeemable preference shares, which are viewed as loan capital, not equity.
- In (d), the date and the narrative were often omitted.
- Responses to (e) frequently just evaluated the present gearing ratio but failed to suggest how to improve the gearing ratio, which was specifically asked in the question.

Question 6

This question on investment ratios was the most popular question in Section B, and the highest scoring.

Answers to (a)(i) and (a)(ii), calculating the dividend per share and the dividend yield were generally very good. Responses to (a)(iii) usually scored well, although many candidates did not deduct the preference dividends. The calculation of the return on capital employed in (a)(iv) required the handling of more figures. This was found quite difficult and fewer candidates arrived at the correct figure. In part (a)(v), the calculation of the price/earnings ratio was found to be tricky. This involved a two stage process – calculating the earnings per ordinary share followed by the price/earnings ratio. Many candidates failed to complete the journey successfully, but often benefitted from the own figure rule from calculations made in (a)(iii).

Answers to (b) were usually reasonably good, with candidates able to interpret the ratios quite well, distinguishing between good and poor figures.

Common errors were:

- In (a)(iv) figures were often omitted in the calculation of the denominator underneath. One of the figures omitted was often retained earnings.
- Very few candidates in (b) included what might happen to the share price in the future, when deciding whether to sell the shares or not.

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, candidates must ensure the correct figures are inserted into the formulas.
- Candidates must ensure their answers have units and that they are the correct units. For example, in question 6(a)(i) an answer of 2.6 pence per share was fine, or £0.026 per share, but not just 2.6

