

# Examiners' Report

## June 2014

IAL Accounting WAC02 01

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## **Introduction**

The level of responses by students for this paper covered a very wide range of marks, but overall the standard was above the January level. It was good to see that some areas of the Specification have been learnt well, and where this knowledge was applied accurately, marks were high. Other areas of the Specification still require learning and practice.

## Question 1

This was the most popular question on the paper, and the best answered. Nearly all students answered using IAS 1, with just a very small number having the accounts drawn up using the Companies Act format and terminology. Students were usually able to correctly allocate costs in (a) and draw up a very good Statement of Comprehensive Income. The Statement of Financial Position was not done so well, but marks were still quite high. Section (b) saw generally weak answers, with often just a repetition of figures calculated in (a). Better answers were able to comment on the figures, at least stating they were "good", "strong" or "healthy" etc. The best students used ratios to express the position or performance, and made a comment on the ratio.

Common errors were:

- Not using the terms "Revenue" and "Cost of sales" in the Statement of Comprehensive Income (SOCI).
- Showing the Interest on the Debenture on the Statement of Financial Position (SOPF) as owing under Current Liabilities, even though the figure had already gone to the Statement of Comprehensive Income.
- Failing to note that Additional Information stated that only £4 000 was owing on the Bank loan interest. This meant the figure on the Statement of Financial Position under Current Liabilities was £4 000, not £20 000.
- Not adding the Profit After Tax of £997 000 to the Retained Earnings of £1 121 000 to give £2 118 000.
- In (b), just quoting figures with no reference to whether they were good or bad, and failing to use ratios to develop and give depth to the answer.

### SECTION A

Answer TWO questions from this section.

If you answer question 1, put a cross in this box  .

Source material for question 1 is on pages 2 and 3 of the source booklet.

- I. (a) Showing all workings clearly, prepare for Wavelength Asia plc, in accordance with International Accounting Standard 1 (Revised), the:

- (i) Statement of Comprehensive Income for the year ended 31 March 2014

Cost of Sales	
Direct material	4151000
Opening inventory	326000
Depreciation of factory building	86000
Closing inventory	(389000)
Wages Directly factory labour	929000
	444000
	5100000

Depreciation	
Factory building	2800000 = 56000
Machinery	124000 - 51000

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Distribution Costs

Marketing Costs (180,000 - 25,000)	\$ 50,9000
Depreciation on mobile van	3,1000
Rent on warehouse premises	20,9000
Shipping Costs	5,21,000
Wages: mobile van driver	15,000
	142,6000

Administration Costs

Bad debts	\$ 17,000
Office expenses	12,4000
Wages: Office Staff	29,4000
	55,8000

Finance Costs

Bank loan interest (green + red)	\$ 24,000
Interest on debenture (green + red)	15,0000
	17,4000

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Statement of Comprehensive Income

For the Year ended 31 March 2014	\$
Revenue	9,653,000
Less: Cost of Sales	(5,020,000)
Gross Profit	4,633,000
Add: Other operating income	-
Less: Distribution Costs	(142,6000)
Less: Administration Costs	(55,8000)
Operating Profit	157,9000
Add: Investment income	-
Less: Finance Costs	(17,4000)
Draft before tax	139,5000
Less: Corporation tax	(39,9000)
Draft after tax	99,6000

(ii) Statement of Financial Position at 31 March 2014.

Statement of Changes in equity			
For the year ended 31 March 2014			
Reversed		Reversed	Reversed
Balance b/d		1151000	
			Revised Statement of Comprehensive income
		297000	
			Balance c/d
		219000	
ii) Statement of financial position as at 31 March 2014			
Non-Current assets	cost	carrying	\$
<u>Intangible Assets</u>			
Goodwill	-	-	800000
<u>Tangible Assets</u>			
Factory building	2800000	118000	2632000
Land	3100000	-	3100000
Motor vehicles	101000	79000	45000
	6024000	247000	6577000
<u>Current assets</u>			
Closing inventory		289000	
Trade receivable (less allowance)		551000	45000
Bank		125000	
Cash		27000	
Other payable	250000	1347000	
Total Assets		7924000	
<u>Equity and Liabilities</u>			
<u>Equity</u>			
Ordinary Share Capital	2258000		
Reversed earnings	2118000		
	4376000		
<u>Non-Current Liabilities</u>			
Corporation Tax	399000		
Debtors due	20000000		
	6775000		
	1000000		

blank

<u>Current Liabilities</u>				
Trade payable		645000		
Short term bank loan		500000		
Other payable		4000	1149000	
Total equity and liabilities				7924000



**ResultsPlus**

Examiner Comments

A good example of a well completed final accounts using IAS1.

Workings are clearly shown for each section of the Statement of Comprehensive Income, where applicable. IAS1 terminology is used. Scored the full 23 marks available.

Well-presented Statement of Financial Position, using IAS1 terminology. The one error contained is Corporation Tax under Non-Current Liabilities instead of Current Liabilities. It is clearly stated in Additional Information that it is to be paid by 30 April 2014 ie within one month. Scored 16 out of 17 marks.



**ResultsPlus**

Examiner Tip

Show all workings clearly.

Use IAS 1 terminology

Read Additional Information carefully.

## Question 2

The least popular question on the paper, which scored the lowest marks, relatively. The question lead students step by step through a limiting factor scenario. Most who attempted this question were able to complete (a) (b) and (c) successfully and identify the limiting factor. However, (d) was the stumbling block, where very few were able to correctly calculate the optimum production levels for the four products. As a result, (e) was rarely correct, although some marks were gained under the "own figure" rule. Answers to (f) were generally poor, with few referring to marginal costing, and many thinking that Grecian Glass was selling to Hellenic at £35 per item.

Common errors were:

- Omission of the crucial step in (d) where the contribution per unit is divided by the amount of limiting factor per unit. Answers after this stage, were then incorrect.
- Failure to correctly apply marginal costing theory in (f).
- Calculating contribution per unit on ornaments as £5 (£35-£30) instead of £6 (£41-£35) in (f).
- Failing to address the issue of the quantity of 50 units being offered to supply, as Grecian Glass were only 15 short.

- (f) Evaluate whether the directors of Grecian Glass Limited should accept the offer from Hellenic Glass Limited.

$$C = SP - VC = 41 - 35$$

$$\text{Contribution} = £6 \text{ contribution}$$

For & gives accept.

\* By accepting the offer Grecian Glass can meet their demand which is not able to produce due to limited labor hours

\* Accepting this offer gives £6 contribution hence it contributes to the profit.

\* Can ensure one year supply

\* Can improve the relationship with competitors hence can renew the contract

\* Demand is increasing hence additional units sold can generate more income

Against:

- \* its only one year contract hence
- \* Quality of the Ornaments from Hellenic may be poor.
- \* Reduce company image as they sell poor quality products.
- \* Hellenic Ltd might increase the price which will reduce the contribution.
- \* Customer loyalty may ruin as they sell someone else product.
- \* demand for Hellenic may increase as they if their product is better than Crean since the customers will

To conclude, even though there are problems, Crean can accept the offer as they can meet the increasing demand £6.

\* it gives an a positive contribution of £6.

**ResultsPlus****Examiner Comments**

This question scored 6 marks out of 12 for the conclusion.

Two marks were obtained for correct reference to £6 positive contribution that could be made.

One mark for mentioning supply guaranteed for one year.

One mark for quality discussion.

Two marks for a well argued conclusion, although marginal costing may say reject offer.

**ResultsPlus****Examiner Tip**

This answer does not mention "Marginal Costing" although it is from this section of the Specification. Deciding to include these two words in the answer may lead the student to discuss what decision marginal costing theory would give.

However, reference is made to the £6 positive contribution that is possible.

### **Question 3**

This was not a popular question and answers were disappointing. Answers to (a) were reasonable, with students picking up marks from at least some entries. However, it was clear that some students did not even know how to complete a Statement of Changes in Equity, despite calculating the correct figures. Redemption of shares is still a weak area for students, with only a few genuine advantages or disadvantages given and explained. Many decided to talk about "dilution" of voting or powers without any sensible explanation, when in fact it is probably the opposite that is occurring when shares are redeemed. Section (c) was much better, with some good explanations of reserves, provisions and liabilities, with good examples given of each. The final section, (d), was poorly answered, as students struggled to find any points or structures, around which to build an argument. At least some answers judged the dividend against the size of the profit, and the Retained Earnings account.

Common errors were:

- Incorrect calculation of figures in (a) (iv) (v) and (vi).
- Not understanding what the term "redeeming" actually meant, so no advantages or disadvantages could follow in (b).
- Failure to "benchmark" the 3.5 pence per share dividend, to argue a case as to whether it was generous or not.

## **Question 4**

This was the least popular question in section B. Students were able to find sales and some costs correctly in (a), but found it difficult to calculate gross profit, and then work "backwards" to find materials. Calculations in (b) were often better, but fixed overheads was found troublesome. Most students understood the concept of variances, but often found it difficult to distinguish between adverse and favourable variances. Evaluation in (d) was usually done well, with responses showing an argument on both sides and a conclusion.

Common errors:

- Not showing the Cost of Sales working.
- Overlooking the fact that the cost of "Material" had to be inserted.
- Failure to deduct £1 500 from the Budget Fixed overhead, to give the Actual Fixed overhead.
- Not distinguishing between different variances by preferably using the terms adverse or favourable, or using a bracket for adverse, in (c).

(d) Evaluate budgets as a management tool for control.

→ Budget as a management tool for control.

⇒ With the help of budget variance can be used, then action could be taken so wastage will decrease.

→ With the help of budget "management by exception" can be applied which can concentrate on most important task e.g. labour hunger strike, so can analyse.

→ Trying to achieve targets employees will be motivated so defects can be minimized.

Against Budget as a management tool for control.

⇒ Budget is only prediction so cannot rely fully on it.

⇒ To draw budget time, money & expertise is needed.

⇒ If Budget is unrealistic it will demotivate employees as missing targets.

Conclusion: Budget is very important management tool for control. (8)

Q4



## ResultsPlus

### Examiner Comments

Good example of evaluation, scoring full 8 marks.

Points for: would all score i.e. variances, management by exception, and motivation, although reducing defects may not be correct, increasing defects may be more likely.

Points against: would all score i.e. predictions, time and money, demotivation. Also it has a conclusion.



## ResultsPlus

### Examiner Tip

When arguing for and against using the same point, the argument must be explained. For example, student has stated "motivating" in the case for. If arguing against, and mentioned "demotivating" they will need to explain that this is because the target is unrealistic and cannot be reached.

## **Question 5**

This was not a popular question that saw fairly low scores. Students were asked a variety of tasks, based on a Statement of Cash Flow. Generally speaking, the calculations were performed better than the explanations. Straightforward calculations were answered well, such as (ii) (iii) and (v). More tricky calculations were found difficult to even start, for example (vi) and (x). The evaluation in (b) saw a few marks attained, but too many just repeated figures from the cash flow statement given, without adding a meaningful comment.

Common errors:

- Failure in (a) (vi) to arrive at the interest payment for the year of £960 000.
- Common misunderstanding that the bank has issued the debenture, and Chang Tao Stores plc is the debenture holder, rather than the other way round.
- Unable to start in (x), by calculating the year end cash balance, which is found by adding £1 095 000 to the overdraft.
- Failure to identify the key pointers to the handling of liquidity over the year eg decrease in cash and cash equivalents.

## **Question 6**

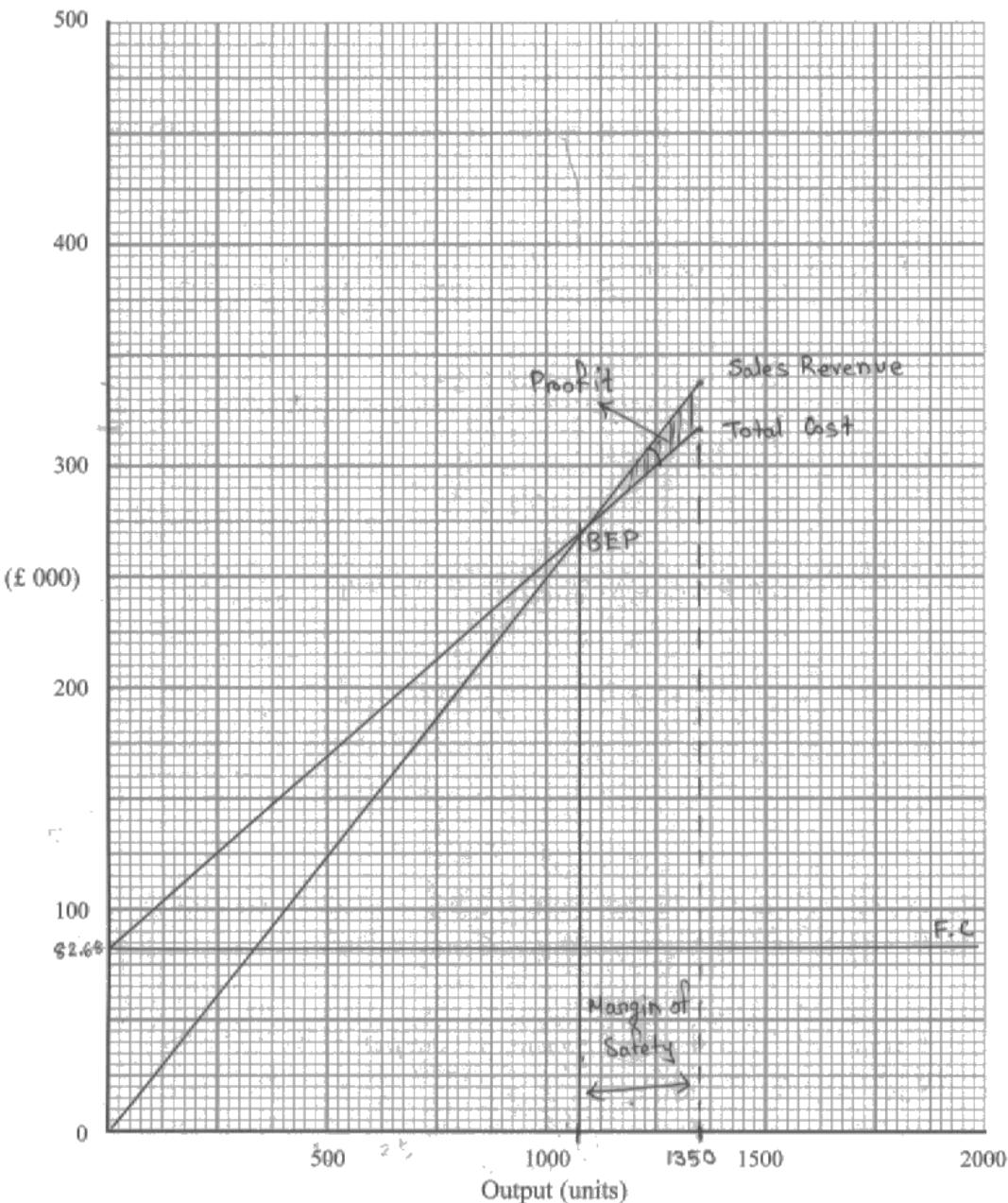
This was a popular question in Section B, and students generally scored well. Calculating the profit or loss and break-even point in (a) and (b) often saw maximum marks obtained. Surprisingly, (b)(iii) was found difficult, with many reverting to sales of 1 400, or finding an answer in sales revenue. Section (c), the graph, was rather hit and miss, with students achieving the whole mark range. Often the general "shape" of the graph was correct, but the lines, were plotted inaccurately. This did not stop own figure marks being achieved on break-even point, margin of safety, and area of profit. Answers for (d) were good, with large numbers of students identifying the most important factor ie loss becoming a profit. It was good to see that in this question, nearly all responses finished with a conclusion concerning the shop closure.

Common errors:

- Failure to calculate the exact figures for Other Fixed costs.
- Inaccurate drawing and labelling of lines on graph.
- Failure to comprehend the graphical representation of margin of safety and area of profit.

(c) On the grid below, mark the following for the year ended 31 March 2015:

- Fixed costs (F.C.)
- Total costs (T.C.)
- Sales revenue (R)
- Break-even point (BEP)
- Margin of safety, measured in sales units, if sales are 1 350 units
- Indicate the area of profit if sales are 1 350 units



**Results Plus**

Examiner Comments

Excellent example of a graph for 6 (c) scoring the full 6 marks.

The lines on the graph are accurate and labelled. The break-even point, margin of safety and area of profit are correctly indicated. The lines continue to an output of 1 350, which was the predicted output (although a mark was still awarded if lines continued past 1 350).

## **Question 7**

This was the most popular question on section B, and the best answered. Answers to (a) were no more than average, as defining the terms was found difficult. Students who preferred to give equations were rewarded for their efforts if correct. The payback period was the term that saw the best definitions. Calculating the net present value in (b) was usually done very well, as students had clearly mastered this area of the specification. Evaluation in (c) saw reasonable attempts, but some answers contained some "curious" theory. Almost no students used profitability indices to compare investments of differing initial costs.

Common errors were:

- In (a), failing to express in words a definition for the accounting (average) rate of return, or internal rate of return.
- Omitting the cost of the project in (b).
- When evaluating in (c), many thought that locating in an industrial area would result in less customers than locating in the city centre. These students had overlooked the fact the company was producing tin cans, whose customers would be other businesses.

- (c) Evaluate the two possible locations on which to build the new factory.

The NPV is higher for Amillikat than Bangong.

For Amillikat the NPV is £119,220, £6,000 higher

than Bangong. So, the higher NPV will be the

better. The plc could choose Amillikat for the

location.

However, the payback period is 3 years and

1.18 months for Amillikat, but 2 years and 10.91

months for Bangong. So, the lower payback period the

better.

Furthermore, the average rate of return is 14.38%

for Bangong, higher than Amillikat of 12.27%. So,

the ARR would be better if it is higher.

On the same note, the location of Bangong is

better as it is near housing area. So, the workers

could find more easy to reach the workplace and

this could help reduce the absenteeism, late being late

to work and other things. As Amillikat is away from

having so many problems like these are bound to happen.

In conclusion, the NPV is positive for both locations,

but the other relevant factors were better for Bangong.

So, Bengal Bay Pictal Company plc should select

Bangong for production of efficient better quality products.

(8)

Q7



**ResultsPlus**

Examiner Comments

An excellent evaluation for 7 (c), scoring a full 8 marks.

The student has correctly stated that Amillikat has a higher NPV by £0.56 million. This strong student has then gone on to calculate accurately the average rate of return and the payback period. It is not necessary to do this, but this student scores marks for including these as part of the answer.

There follows some weak theory about locating the factory close to the housing areas to reduce absenteeism. This was not rewarded.

Despite being essentially a NPV question, the student argues for Bangong, using ARR and Payback and picks up the two marks for the conclusion.

## Paper Summary

There has been an emphasis in this report on evaluation, still the area that students find the most difficult. Based on their performance on this paper, students are offered the following advice to improve performance on evaluations:

- When evaluating, students should be aware that they are unlikely to achieve many marks for just repeating figures calculated in earlier sections, or found in the question. For example, some stated that "the NPV for Amillikat was £7.11 million and Barigong was £6.55 million". These calculations had already seen 18 marks awarded for correct completion. Students could state "Amillikat is higher" for one mark, "by £0.56 million" for a second mark.
- Careful reading of the question is required, especially the evaluation section. Too many students are addressing the evaluation from a point of view not required in the question. For example, question 3 (d) was often evaluated from the shareholder's viewpoint, not the company's.
- Remember, evaluation needs to consider both sides of the argument, so students should always argue from the two sides, not just from one side.
- Very often, no conclusion was given to round off the evaluation - always give a conclusion or decision.

## Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

<http://www.edexcel.com/iwantto/Pages/grade-boundaries.aspx>

**Ofqual**



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