



Pearson

International Advanced Level Accounting

Unit 2 WAC12

Corporate and Management Accounting

Question 1

Exemplar scripts with examiner commentaries

Introduction

This set of exemplar responses with examiner commentaries for Unit 2, Corporate and Management Accounting, has been produced to support teachers delivering and students studying the International Advanced Level Accounting specification.

This pack includes examiner commentaries and exemplar scripts.

The scripts selected exemplify performances for this component of the examination.

This document should be used alongside other IAL Accounting teaching and learning materials available on the website [here](#).

Link to May/June 2017 WAC12 Mark scheme is [here](#) on the IAL Accounting web page.

Exemplar scripts

Script 1

SECTION A

Answer BOTH questions in this section.

Source material for Question 1 is on pages 2 to 4 of the source booklet.

- 1 (a) Prepare, in accordance with International Accounting Standard (IAS) 1, a:

- (i) Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2017.

(27)

Brama Simple Profit or loss and other comprehensive income for the year 31 Mar 2017

Revenue	9864000
(-) cost of sales	(5202900)
GROSS PROFIT	4661100
(+) other income	95530
(-) expenses	
administrative expenses	(1469500)
financial expenses	(181800) (101917)
distribution expenses	(2045220)
other payables	(117500)
NET PROFIT before tax	1128880
Tax	(218000)
NET PROFIT after tax	910880 904493

workings

Cost of sales

Closing inventory	(779000)	✓ factory building dep: 3680,000
rent of warehouse <small>(280,000 - 23000)</small>	257000	<u>10</u>
wages: direct factory labour	1890,000	= 3680,00
factory building depreciation	368,000	production machinery = 439000 x 0.10
production machinery depreciation	43900	= 43900
factory power $[0.70 \times 680,000]$	476000	
warehouse power $[0.10 \times 680,000]$	68000	
✓ direct materials	2150,000	
✓ discounts received	(43000)	
Opening inventory	<u>772000</u>	
	<u>5202900</u>	

distribution expenses

sales staff	632000	motor van dep: 384000 / 5 = 76800
delivery staff	476000	16
motorvans depreciation	76800	15000
Shop power $[0.15 \times 680,000]$	102000	
✓ provision for doubtful debts	16420	
✓ delivery costs	178000	
✓ discounts allowed	87000	
marketing	324000	
trade fair and exhibition expense	110000	
Motor van running expense	<u>43000</u>	
	<u>2045220</u>	

Other income

✓ Bank account interest	1000
✓ Commission on Sales	<u>94530</u>
	95530

Administrative expenses

head office staff (0.05x68000)	881000
head office power	34000
✓ auditors fees	18500
✓ bad debts	26000
Head office expense	<u>510,000</u>
	1469500

Financial expense

interest on bank loan	11917	11000 + <u>10000</u> 12
interest on debenture	<u>45000 + 45000</u> 101917	= 11917

(ii) Statement of Financial Position at 31 March 2017.

(16)

Brama Sun Ac statement of financial position 31 March 2017

Fixed assets	Cost	accumulated depreciation	Net Book Value.
good will			90,000
motor vans	384000	252800	131200
production machinery			639000 395100
factory building	1840000		3312000
			3928300
Current assets			
Bank current account	117000		
Cash	58000		
trade receivables	821000		
Provision for doubtful debts	(1420)		
closing inventory	779000		
Prepaid expenses [23000]	23000		
Total Assets		1796580	<u>5724880</u>
Equity			
General reserve	56000		
ordinary shares 4 to 50 each	3700,000		
retained earnings	(624470) 904493 <u>910880</u>		4598053 4042410
Profit from this year			

Liabilities			
(Current liabilities)			
trade payables	175000		
accruals (24000)	24000		
tax payable	218000		
one month interest owing	917		
March debenture payment	45000		<u>462917</u>
 Long term liabilities.			
✓ 7.5% debenture March 2021	1200,000		
✓ 8% bank loan	<u>150,000</u>	<u>1350 000</u>	<u>6410970</u>
			<u>5855327</u>
			1788917

Examiner commentary

Question: 1

(a)(i)

Starting with the Cost of Sales, the student scores 5 out of 6.

The factory depreciation mark is lost, as the student has just divided the carrying value in the trial balance by 10. There are two "alien items" included, which should be in Distribution expenses (warehouse rent and warehouse power).

Distribution costs scores 5 out of 8 marks.

Two marks were lost placing items in Cost of Sales, and a third mark is not awarded as there is no Sales commission.

Administration expenses yielded 3 out of 4 marks. The student has not calculated any increase in bad debt provision.

Financial cost scored 1 out of 2, as the interest on the debenture totalled £90 000. The two £45 000's were allowed, although it would have been better as £90 000 Bank loan interest was left out.

Returning to the face of the Statement of Profit or Loss the student benefited from the own figure rule, when attaining the first 2 marks for revenue/cost of sales and gross profit. The two marks for the next 4 entries (allowed in any order) were achieved. The final 3 marks were awarded, using the own figure (o/f) rule and because the student had included the essential wording of "profit before tax" and "profit after tax".

This gave a total of 7 out of 9 marks, and a total for (a)(i) of 21 out of 27 marks.

(a)(ii) The Statement of Financial position scored a total of 10 marks out of 16. The statement should have used IAS terms such as non-current assets. Where a GAAP term was used, such as fixed assets, the first mark was not awarded in this section (motor vans). Production machinery was correct and the net book value (allowed, but the term "carrying value" is preferred) was accepted using the own figure rule (even though the cost was incorrect).

The current assets scored 3 out of 4 as the student did not correctly include the increase in bad debt provision.

The Equity section scored 2 out of 2, even though it would have been better to combine the two figures given for retained earnings and profit from this year (o/f).

Current liabilities scored 3 out of 6. There was an incorrect figure for bank interest owing, the bank loan was wrongly entered into "long term liabilities", and other payables was in the Statement of Profit or Loss. Students could check when the bank loan is due to be repaid, if stated. Here, it was given as repayable in December 2017, being only 6 months in the future, which made it a current liability.

The non-current liabilities scored 0 out of 1, as the incorrect heading resulted in the first (and only) mark not being awarded.

(b) For the first time, evaluation questions were marked using a levels-based mark scheme. Centres may be advised to teach students to answer ensuring they meet the criteria as described in the levels shown on the mark scheme.

The evaluation concerning the role of the auditor contained an incorrect statement to begin with, stating the auditor helps prepare a new set of accounts. However, all other points made were valid.

Overall, this was a level 2 answer and scored 6 marks out of 12.

There were certainly "elements of knowledge and understanding" (level 2) and these were "applied to the question/scenario", in so far as companies were mentioned frequently (many answers from other students did not mention a company, despite this being clearly stated in the question).

The student did not move up to level 3 for analysis, as there were no valid chains of reasoning, or causes and effects. For example, the answer states the auditor "could be involved in window dressing", and "customise the accounts according to how the person he's working under wants him to" but does not say "why". The evaluation conclusion is very simple and is clearly level 2.

An important aspect of evaluation is that both sides of the argument are considered, and a conclusion or decision is reached. Although evaluation is often inherent throughout answers, students are advised to give some depth to the conclusion. In this question, the conclusion should mention the main reason(s) why auditors are important.

Overall, the student scored 37 out of 55 for section (a).

Script 2

(b) Evaluate the importance of the role of the auditor in limited companies.

(12)

For role of auditor

Auditors are independent scrutineers of accounts who make sure that the accounts are prepared correctly, in accordance to International Accounting Standards.

Auditors

Their report shows how directors have used the funds invested by shareholders. Auditors' role is to the shareholders.

The report is required by Companies Act/legislation.

If auditor is not happy with the accounts, report will be qualified.

Report can help users make decisions. Eg: buy or sell shares in the company.

Against role of auditor

Auditors may not be independent as they may go along with the wishes of clients. Eg: conflict of interest in order to earn a fee, which may include non-audit work.

Auditors may be misled by directors, therefore report may be inaccurate.

Auditors cannot guarantee that material fraud has not occurred.

Conclusion

Auditors' role is important in limited companies as they check the accuracy of the accounts.

(Total for Question 1 = 55 marks)

Examiner commentary**Question: 1(b)**

This answer was a level 3 response and achieved 9 marks out of 12.

All the points made were valid and correct, except for line 5, where "role" should have been replaced by "duty". There was "relevant application to the scenario" (level 3), as terms such as company, shareholders, shares, directors, and Companies Act, were used throughout. There were also "developed chains of reasoning" (level 3). For example, auditors were stated as "going along with the wishes of clients" and the cause was given as "in order to earn a fee, which may include non-audit work". The evaluation had "an attempt at assessment" which was only a little statement as to why auditors are important, concluding "they check the accuracy of the accounts".