



Pearson

International Advanced Level Accounting

Unit 2 WAC12

Corporate and Management Accounting

Question 3

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 script - Script 5

SECTION B

Answer THREE questions from this section.

Indicate which question you are answering by marking a cross in the box . If you change your mind, put a line through the box and then indicate your new question with a cross .

If you answer Question 3 put a cross in the box .

Source material for Question 3 is on pages 8 and 9 of the source booklet.

- 3 (a) Prepare a Statement of Cash Flows for the year ended 31 March 2017 in accordance with International Accounting Standard (IAS) 7.

(24)

Net operating profit.	(43 500)
taxes	(16 000)
Depreciation (13 000 + 8 000)	15 000 21 000
profit	(102 000)
Increase in inventories (46 000 - 52 000)	(6 000)
Decrease in other receivables (37 000 - 34 000)	3 000
Increase in creditors (36 000 - 43 000)	7 000
	<u>(136 500)</u>
Net flows from investing activities.	
purchase of machinery	(48 000)
Sale of property	228 000
	<u>180 000</u>
Net flows from financing activities	
Dividend: final dividend	(8 750)
Interim dividend.	(1 750)
Debentures paid	(50 000)
	<u>(60 500)</u>
	<u>(12 000)</u>
	(35 000)

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cash flows at the beginning of the year
~~cash~~
cash flows at the end of the year.

11 000
~~(1000)~~
(1000)

workings for (b)

liquidity

2016

2017

$$\begin{aligned} \text{Current asset ratio} &= \frac{94\,000}{52\,000} \\ &= 1.8 : 1 \end{aligned}$$

$$\begin{aligned} &= \frac{86\,000}{46\,000} \\ &= 1.89 : 1 \end{aligned}$$

$$\begin{aligned} \text{acid test ratio} &= \frac{94\,000 - 46\,000}{52\,000} \\ &= 0.9 : 1 \end{aligned}$$

$$\begin{aligned} &= \frac{86\,000 - 52\,000}{46\,000} \\ &= 0.7 : 1 \end{aligned}$$

(b) Evaluate how well Kericho Builders plc has managed liquidity in the year ended 31 March 2017.

(6)

- ~~The~~ Kericho Builders plc has managed to increase their current asset ratio from 1.8:1 - 1.9:1. This is in the range between (1.5:1 - 2:1) which is the required. This shows that the company is able to pay off their debts comfortably.
- However, the company's liquidity has decreased from (0.9:1 - 0.7:1) and this can be due to ~~an~~ an increase in stock. Stock levels have increased which shows that the flow has reduced. (46000 - 52000).
- Also the company's profitability is similarly important and they make a loss of 43500. This can affect the share price.

(Total for Question 3 = 30 marks)

Examiner commentary

Question: 3

This was a confusing script with a great deal missing from the answer. Tax paid was not in the correct place, but it was in the correct section (despite no heading being present) so was generously awarded a mark.

The figure of (102 000) had a label "profit" which immediately meant the mark would not be awarded as the label needed "Operating cash flow before working capital changes."

The 7 000 gained no mark as the label was "creditors". When producing financial accounts for publication, in accordance with an International Accounting Standard (IAS), the IAS terminology must be used i.e. trade payables.

The totals at the end of each section received no marks, as they had no labels at all.

The three sections on the statement of cash flows received 7, 3 and 2 marks respectively.

The final part had correct figures of 11 000 and (1 000) but incorrect labels, so no marks were awarded. They were not "cash flows" but "cash and cash equivalents". The decrease in cash and cash equivalents of 12 000 had no label at all so attained no marks.

This student lost 7 marks due to incorrect labelling.

It can be seen that labelling is very important when producing financial accounts for publication.

Overall, section (a) scored 12 marks out of a possible 24.

In section B, only 6 marks are available for evaluation, and there are only three levels in the mark scheme.

The student has correctly carried out further calculations to address the issue of how well liquidity has been handled. However, it would have been better in bullet point 2 if the answer used the terminology from Appendix 4 in the specification i.e. liquid ratio, or acid test, rather than just "liquidity". The first bullet point gives an effect of the increase in the current ratio, and the second bullet point a cause of the decrease in the liquid ratio (acid test). The third bullet point is irrelevant.

This was a level 2 answer. Unfortunately, there is no evaluation/conclusion, which meant 3 marks were awarded and not 4.

This answer scored 15 out of 30 marks.