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In Accounting (WAC12) Paper 01
Unit 2: Corporate and Management Accounting

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Introduction

It was good to see that some candidates had clearly prepared well for the exam, and their scores were high. The overall standard of candidate responses for this paper was a fairly good with the intended mean score of half marks being almost exactly achieved. Overall, there was a very wide range of marks attained by candidates.

Specific Comments

Question 1

This was a compulsory question which was the highest scoring question in Section A, but only by one mark. Part (a) saw mixed responses with supervisor labour and power calculations proving the trickiest for candidates. Where the candidate clearly understood the nature of the cost, high scores were achieved. In (b), some candidates only classified costs as fixed or variable, ignoring the classifications of semi-fixed and semi variable, despite these being clearly shown on the Specification.

Candidates generally knew how to calculate break-even point in (d) and some benefitted from the own figure rule, given their cost classifications in (b). Also in (d), some candidates did not round their answer up to the nearest whole number for the break-even point. The actual figure came to 6 557.2 car seats which needs to be rounded up to 6 558

Answers to the evaluation in (f), were often quite weak, with many answers limited to a general "fixed costs stay the same as activity rises, whilst variable costs increase". Very few answers showed developed chains of reasoning including cause and effect.

Common errors were:

- Not showing full workings for calculations resulted in lost marks if the final answer was not correct. Full workings allow the own figure rule to be more easily applied and candidates will benefit.
- In part (d), candidates were classifying costs as variable or fixed, but some were semi-variable or semi-fixed, which made it impossible to arrive at the correct answer for the break-even point.
- Some candidates did not read the question carefully and calculated the break-even point in (d) and margin of safety in (e)(i) in pounds (£) instead of sales units, as required. This was disappointing as the word "units" was emboldened in (d).

Question 2

This was a compulsory question, and scores were reasonably good. This was the lowest scoring of the two questions in Section A, but only by one mark. The mean for this question was very close to the intended mean of 50%

The calculation of the purchase price in (a)(i) was answered quite well, although some candidates omitted goodwill. Answers for (a)(ii), calculating the number of shares, were usually good, despite some answers failing to indicate the answer was in millions.

The preparation of the Realisation account in (b)(i) was answered reasonably well by some candidates, but others struggled or omitted this section. Similarly, for (b)(ii), the Sundry shareholders account, was answered quite well, although a fair number did find it tricky. Candidates should be aware that the Loss on realisation should not be entered as a bracketed entry on the credit side of the Sundry shareholders account – just enter it as debit!

The Statement of Financial Position in (c) saw candidates pick up many of their marks for question 2. The assets section of the statement scored more heavily than equity and liabilities. The equity section was, as always, quite tricky and included some calculations that needed workings to be shown.

Answers to (d) often were scored at level 2. It was good to see economies of scale, horizontal integration, market share, culture clashes, and dilution of voting rights mentioned. Development, however, was often limited.

Common errors were:

- Failure to include a heading for the statement of financial position in (c). If there was heading, it often did not include the company name or the date.
- In (c), including Retained earnings, which should not be in the Statement of financial position of the new company. It would be regarded as an alien, and the Total equity mark would be lost.
- Candidates must read the question carefully when answering the evaluation in (d). They need to be aware of the viewpoint the answer is requiring. In this case it was that of a shareholder of Five Counties Insurance. Although what is good or bad, for one set of shareholders is often good or bad for all shareholders, sometimes this is not the case. For example, the amount of goodwill paid to different shareholders.

Question 3

This question on investment ratios was the most popular question in Section B, and the highest scoring. The mean was 2 marks above 50%.

This time, the question did not ask for the formulae to be stated. Candidates who stated the formula were in a better position to earn own figure marks as examiners could see what candidates were trying to do. 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.

Calculating the earnings per ordinary share in (iv) was done fairly well. Part (v), the price/earnings ratio was usually calculated correctly. The final calculation in (vi), finding the return on capital employed was found a little more difficult. Many answers saw a figure or two left out of the long list that represented capital employed. It was pleasing to see that nearly all candidates were stating units next to their answer figures in section (a).

Answers to (b) were usually no higher than level 2 as they were descriptive rather than analytical, with little reference to the industry average. Those answers that did reference the industry average often went no deeper than "higher" or "lower".

Common errors were:

- Many candidates failed to notice that the ordinary shares had a nominal value of £0.50 each. This meant they were working with 10 million shares in (a)(i) instead of 20 million. However, they were allowed own figure marks in other sections e.g. denominator in (iv).
- Many candidates, in the evaluation, failed to compare Aberdeen Industrials to the industry average. As a result candidates had to decide for themselves what was rated "good" or "poor".
- A number of candidates thought that the industry average figures were the Aberdeen figures for the previous year. The question paper must be read carefully!

Question 4

This question on project appraisal was the third most popular of the four questions in Section B, and the third highest scoring. However, the mean was only one mark below the two higher scoring questions, and was just above 50%.

Answers to (a), calculating the net present value, were generally good and scored quite well, even if they did not all arrive at the final net cash flow figure of £8 700. Some answers were still including depreciation in their calculation of net cash flow.

Part (c) was found more difficult by candidates, who sometimes struggled to correctly state the formula. The “minus minus” of the 987 of the higher interest rate often confused candidates. Responses in (d), the evaluation of the project, were reasonable, but were often limited to expressing in words, the figures previously calculated.

Common errors were:

- In (a), candidates omitted the £27 000 initial outflow and/or the £1 050 resale value of the machine.
- Not including depreciation in the calculation for profit in (b), but just using the net cash flow figure from part (a)
- Not knowing the formula to calculate the internal rate of return in (c) meant that some candidates just left (c) blank. This needs to be rote learnt.
- Failure to mention other methods of project appraisal that could have been used such as the average rate of return and the payback period, was a weakness in answers to (d), the evaluation of the project.

Question 5

This question on budgeting was the least popular question in Section B, and the lowest scoring.

Most answers to (a)(i) were able to score at least one mark. It was good to see that very few answers just changed the order of the words and stated “an overhead that is fixed”. Many responses to (a)(ii) often failed to score because they gave a variable cost such as material, instead of a fixed overhead.

Part (b) was where candidates were able to pick up a very respectable score out of the 8 marks available. However, it was disappointing to see the number of answers that did not indicate whether the variance was favourable or adverse. An “F” or an “A” was enough to give the indication.

Calculating the variances in part (c) was found difficult by most candidates. It was clear from the formulas shown by a number of candidates that this was not going to earn them many marks.

Evaluations in part (d) were usually able to include accurate comments, based on the calculations performed in (b). However logical chains of reasoning showing cause and effect were quite rare. Also, the question did not really require answers to discuss variances for labour and overheads.

Common errors were:

- Candidates did not state whether the variance was favourable or adverse.
- Calculating the actual hours worked by labour was found surprisingly tricky.
- In part (c), incorrect formulas resulted in incorrect calculations. Formulae need to be rote learnt.

Question 6

This question on capital structure was the second most popular question in Section B, and the second highest scoring. The question had a mean of one mark above the 50% score of 15 out of 30.

Answers to (a), preparing the Statement of Changes in Equity saw reasonably good answers. Part (iv), the entries for the redemption of shares proved to be the most difficult, with many responses not including the 5 entries required for this row. Some candidates seemed confused with the orientation of the figures (positive or negative).

Part (b)(i), explaining the term capital reserve had mixed responses, with few candidates managing to attain the two marks available. However, many were able to state two examples of capital reserves.

The evaluation in (c) required candidates to evaluate the decision to use all of the funds in Retained earnings to pay a final dividend. Most responses did consider both sides of the argument, which was good. However, few answers managed to make it to level 3 as they usually lacked depth.

Common errors were:

- Incorrect labelling in (a) for the Capital redemption reserve and the Revaluation reserve.
- When completing the Statement of changes in equity in (a), many expressed the £87 000 loss in (a) as £0.87 million, instead of £0.087
- In part (c), very little application to the scenario in the question. Most answers were generic, which meant marks awarded rarely rose above level 2.

General Points

The general points listed below should be addressed by candidates to improve performance.

Formulae need to be rote learnt ("off by heart"). There is a page and a half of formulae in the Specification. Also, there are variance formulae that need to be learnt. Candidates need to be able to recall and apply formulae in the examination.

Candidates need to show their workings. If the candidate just writes down an answer and the answer is wrong, they will score zero marks. If the candidate just makes one little error, but the rest of the workings are correct, the own figure rule can be applied and only one mark is lost.

Evaluations are more than just expressing in words, the calculations that have been made earlier in the question. If possible, candidates could try to explore what has caused the figure calculated, and the effect it may have on the business.

