Pearson Edexcel

Examiners' Report
Principal Examiner Feedback

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

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Introduction

There was a very wide range of marks attained by students sitting this paper. Overall, the level of responses was normal, with a mean very close to the intended 50%.

Question 1

The question tested candidates' knowledge of a statement of cash flows, as they were asked to draw one up. This was the lowest scoring question in Section A. The mean was only 4 marks (2 percent) below the intended mean of 27.5 marks.

At the start of part (a), the interest on the bank loan proved tricky to calculate for many candidates. Often, the repayment of part of the loan was overlooked, despite a bullet point stating there was a partial repayment. It was pleasing to see that the calculations for amortisation of goodwill and depreciation were usually carried out successfully. Similarly, strong performance was shown when calculating the decrease or increase in working capital items. It was also good to see that the structure of the statement had been learnt well. For example, subtotals such as "Operating cash flow before working capital changes" were nearly always included. Proceeds from the sale of tangible fixed assets proved difficult, but these tricky calculations are included to allow the top-grade candidates to display their skills. The Financing activities section of the statement was usually done very well, with candidates often scoring full marks.

Part (b) of the question was often at level 2 standard, with a basic descriptive coverage of liquidity performance. Stronger candidates were able to explain why some of the figures were as per the statement e.g. trade receivables decreased due to improved credit control. Any extra calculations made could also see candidates moving up to a higher level. For example, calculating the current ratio and the acid ratio added to the depth of the answer. It was good to see these calculations were sometimes used to support a comment on the liquidity position of the company. An example of this was a comment that "too many funds were tied up in inventories, as shown by the current ratio of 5.12:1, which is way above a recommended 2:1 ratio".

Helpful hints for common problems

- Candidates must put an accurate label on the final line of each section of the statement.
- Where there is an outflow of cash, "used in" is the correct term. When there is an inflow of cash, "from" should be used. Many candidates always just inserted the term "used".

- It is advisable for candidates to show their workings. For example, the "proceeds from the sale of tangible assets" scored six marks. If no workings were shown and the figure in the statement was wrong, six marks were lost. If workings are shown and there is only one error, then five marks could be attained, despite the final figure in the statement being wrong.
- The format and terminology of the final summary section of the statement needs to be learnt. Sometimes it was omitted altogether. If it was included, it rarely contained as many as four lines. The final three lines should be obtained from the statements of financial position. A mark is given for the first line if it is an own figure mark or if is calculated from the statements of financial position.

Question 2

Standard costing and variances was the topic for the second question in the section.
This was the highest scoring question in Section A. The mean was only 2 marks (1 per cent) above the intended mean of 27.5 marks.

It was good to see most (but unfortunately not all) candidates calculated correctly the budgeted labour cost in (a). Many responses arrived at the right answer for (b)(i). The next step for candidates was to calculate the material variances, which always proves a little harder. However, there were lots of good answers for (b)(ii) to (b)(iv) and a decent amount of marks were earned.

Part (c) saw mainly accurate answers, although some candidates failed to score the 3 marks available. In the actual material cost of production calculation, in (d)(i), a fair number of candidates struggled with the amount of £0.39 per metre material required, but still scored reasonably well. The variances which had to be calculated for (d)(ii) to (d)(iv) proved a little tricky, but candidates still scored quite well. The total (material and labour) costs and variances in (e) were answered to a good standard. Candidates were able to benefit from the own figure rule in this section.

The evaluation in (f) also took the own figure rule into consideration. This benefitted candidates, who had to base their answers on their own calculations in (a) to (e). Weaker answers merely repeated in words, the calculations they had made in (a) to (e). These answers could not attain higher than level 1 or 2. Better answers analysed the figures and gave reasons for why the variances were adverse or favourable. Strong answers responded fully to the question and included recommendations for the future of the tent production department.

Helpful hints for common problems

- Candidates must learn the formulas for calculating the variances "off by heart". It is probably good practice to write down the formula that is to be used in the part of the question. Candidates can then check back that their figures agree with the wording in the formula. A few answers saw, for example, the formula for labour rate variance being used to calculate the labour efficiency variance. Sometimes (but not this time), the question asks that the formula is to be written down and it scores marks.
- Writing down the formula also benefits a candidate with regard to the own figure rule. If the examiner can see what the candidate is trying to do, there may be a situation where the examiner can give the benefit of the doubt to the candidate.
- Answers for variances must have Favourable (or Fav) or Adverse (or Adv) alongside them. If there is no indication that the variance is adverse or favourable, then the final mark will not be awarded.
- Candidates need to read the question carefully, to take on board what the question is asking. The evaluation in (f) did ask for recommendations for the future of the department. Those who made recommendations were duly rewarded.

Question 3

The question asked candidates to draw up the following budgets – capital, production and a cash budget extract. Evaluation involved choosing between three different customer payment options.

This was the second lowest scoring question in Section B, but the mean was still close to the intended 50%. This was the least popular question in Section B.

Part (a), preparing the capital budget, was usually well answered with candidates often achieving full marks. The production budget in part (b) proved to be trickier, with lower scores as candidates often struggled with the figures. Candidates often found (c), the cash budget extract, quite difficult, often attaining less than half marks. Calculations for Option 3 proved to be the most challenging to answer. The evaluation in (d) saw responses at a reasonable level, although many answers were purely descriptive.

Helpful hints for common problems

- Candidates need to remember to indicate "£ million" if this is what is being referred to.
- In the evaluation, candidates should try to avoid merely describing in words, the figures they have calculated in previous sections of the answer.

- Where an evaluation asks candidates to consider several options, a conclusion should be the candidate choosing one of the options available. Strong answers would give a reason for their choice as well.

Question 4

This question concerned calculating three accounting ratios for two different companies, and then selecting which company would make the best investment. This was the highest scoring question in Section B, with a mean just slightly above the intended 50%. This was the second most popular question in the Section.

Those candidates who knew their formulas were usually able to score good marks. However, a good number found the rights issue for Aquarius and the redemption of shares for BelleStar difficult to deal with. Part (a), the dividend per ordinary share, saw some good answers, but also some responses that contained errors. The dividend cover in (b) was reasonably well done, although some struggled to remember the correct formula. Answers to (c) were usually good.

Helpful hints for common problems

- Candidates need to learn the formulas "off by heart" or rote fashion. If candidates wrote down the correct formula, it was easier to reward "own figure answers" as examiners could see what the candidates were trying to do. It was good to see many candidates knew the formulas and wrote them down.
- Answers without units were not awarded the final mark for the answer in (a) and (c). For example, an answer in (a) of "2.86" or in (c) of "1.3" is a bit meaningless. When calculating accounting ratios, candidates need to give units.
- In the evaluation, many answers followed a basic "bigger is better" rule. As the question was asked from a shareholder's viewpoint, this might be the case in (a), dividend per share. But it may need some explanation in (b), which asks for the number of times profit covers dividends. Many shareholders would probably be in the "smaller is better" camp.

Question 5

This question required candidates to draw up a statement of profit or loss using marginal costing and also absorption costing. Evaluation concerned the use of marginal and absorption costing. This was the second highest scoring question in Section B, with a mean exactly at the intended 50%. This was the most popular question in Section B.

Most candidates were able to attempt at least a basic statement of profit or loss and other comprehensive income for (a). Many answers followed a basic profit and loss format which allowed them to pick up marks, although closing inventory figures were often found a bit difficult. Splitting the semi-variable costs correctly proved a little challenging for some candidates.

Responses for (b) were often pleasing, as candidates had clearly learnt the advantages and disadvantages of absorption and marginal costing.

Helpful hints for common problems

- Many candidates omitted the variable cost of sales line, and more importantly, the contribution line from the marginal costing column.
- Also, a common omission was the Total costs line, which should be a basic inclusion. Candidates would have had to calculate this anyway in order to arrive at the profit figure. So, if it is in the calculator – write it down!
- Including ALL the semi-variable costs in either variable or fixed costs is an incorrect method as they need to be split between variable and fixed costs.

Question 6

The candidates' knowledge and understanding of a statement of financial position of a company was tested here, using short questions. Evaluation tackled the role of the auditor in the corporate governance of a company. This was the lowest scoring question in Section B, with a mean slightly below 50%. This was the third most popular question in the Section.

Most candidates were able to score at least two marks on (a)(i), which asked candidates to state a line item for each of the four bullet points. It was disappointing in (ii) to see some candidates adding the cash balance to the cash and cash equivalents figure to calculate the bank balance, instead of subtracting. Nearly all answers contained a correct suggestion for (iii), a use of the general reserve. Some answers to (iv) omitted the division by 12 to arrive at the monthly figure, so gave an annual figure for the bank loan interest. It was good to see nearly all answers could calculate the amount of one instalment payment of the debenture for (v). Unfortunately, a considerable number of candidates became confused in (vi) and added the two figures rather than carry out a subtraction, when calculating the profit or loss for the year. Responses to (viii), explaining the term “redeemable” were usually good, although no marks are given when the question is merely repeated or was just turned around i.e. “redeemable shares are shares that can be redeemed”.

Helpful hints for common problems

- Responses to (viii) were not awarded if the answer stated “Depreciation” as this would be found as a minus in current assets and the question clearly refers to current liabilities.
- Completion of the table in (ix) was poor. A suggestion is that this would make a good exercise to go through with students in class, to enhance their understanding.
- Answers to (b) were poor and very rarely achieved level 2 or 3. Many candidates clearly did not know anything about “corporate governance”. However, this is clearly indicated on the Specification under Section 2.1.2 and needs to be covered.

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