Examiners' Report
Principal Examiner Feedback

Summer 2025

Pearson Edexcel International Advanced Level
In Accounting (WAC12) Paper 01
Unit 2: Corporate and Management Accounting

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Introduction

The overall standard of candidate responses for this paper was good. Candidates did well in five out of six questions, scoring marks around average or slightly above. The other question (Question 5) saw candidates scoring a little lower mean. The overall mean of the paper was close to an intended mean of 50%.

Question 1

This project appraisal question presented a scenario in which motor vehicles were fined for non-compliance with environmental regulations. This was a compulsory question, and scores were very good, the highest in Section A. Most candidates were able to correctly calculate the weighted average cost of capital in part (a). Nearly all responses saw a correct choice of funding in (b). It was good to see the largest part of the whole question, worth 22 marks in (c), was answered very well, with some candidates scoring full marks. This involved calculating the net present value of the project, and some managed to arrive at exactly the correct figure.

As usual, the average rate of return, in (d), proved a little trickier. The profitability index calculation in (e) was answered quite well, with two possible calculation methods being acceptable. The evaluation in (f) was generally quite good. Candidates were able to correctly interpret the calculations made in (a) to (e). A few candidates even managed to calculate the payback period and include this in their evaluation. Strong candidates also included reference to other points such as the length of the project, the 50% take of the revenues by the council, the fact that the figures were estimates, and environmental issues.

Common errors were:

- Omitting the initial cost of setting up the system (£4 million) from the total discounted cash flow in part (c).
- Some candidates made the basic mistake of including depreciation as a cost with a cash flow in (c).
- Another basic error was calculating the discount factor and then selecting a different discount factor from the table given.
- Part (d) asked for the average rate of return formula to be given, but this was omitted in some scripts.
- Sometimes in (d), an incorrect formula was given.
- Failure to express the answer with units eg £, or %

Question 2

This was a compulsory question on capital structure, which saw reasonable scores overall. The mean for this question was very close to the intended mean. Part (a), testing knowledge of revenue reserves, was usually answered well with candidates able to discuss revenue reserves. However, part (b), testing capital reserves, was found a little more difficult, especially a use of a capital reserve. Answers to (c), preparing Journal entries for a share redemption, often scored poorly, although a few responses scored maximum marks.

Answers to (d), advantages and disadvantages of redeeming ordinary shares were mixed, with limited understanding shown at times. Responses for (e), Journal entries for a dividend payment, were rather mixed, with some simple errors being made, which are highlighted below. Calculations to find the maximum possible dividend payment in part (f) were generally good, with some candidates benefitting from the own figure rule at the end for the numerator and denominator. Evaluating the decision to use all the retained earnings to pay the final dividend in (g) was usually quite well answered. Most candidates were able to put forward points on both sides of the argument and reach a conclusion.

Common errors were:

- In (c), the transfer from Retained earnings to Capital Redemption reserve was often omitted.
- In (e), candidates should have labelled the Journal account "Redeemable Preference Share Dividends" but instead, gave it the label "Redeemable Preference Shares"
- Part (e) saw many candidates miss the fact that the dividend payment was for half a year, so had an answer double the required answer.
- In part (f), several students omitted the redemption of 15% of the shares from their calculations, which meant they were dividing by 50 million shares instead of 42.5 million shares.

Question 3

The topic for this question was the purchase of a coach for tours and the possibility of breaking-even or making a profit. This question was the most popular question in Section B and the highest scoring question. Calculations in (a) saw a good number of marks picked up, often arriving at the correct number of passengers required for the tour operator to break even. This usually resulted in a correct figure for (b) which involved calculating the number of tours needed to break even. Some responses saw a wrong answer to (a), but benefitted from the own figure rule when answering (b).

Not all candidates were able to correctly perform the margin of safety calculations in (c), but many answers were correct. Part (d), testing candidates' knowledge of semi-fixed costs was the most demanding part of the question, with responses ranging from being very accurate to incorrect. Most candidates were able to put forward some points involving the possibility of buying a minibus in the evaluation in (e). Good answers referenced the calculations made earlier in the question.

Common errors were:

- Allocating costs to the wrong section, when having to decide between fixed or variable in (a).
- Applying an incorrect method to calculate the break-even point in passengers in (a), often by using an incorrect formula.
- Using the wrong formula to calculate the margin of safety in pounds (sales revenue) in (c)(i) and as a percentage of sales in (c)(ii).
- Not knowing a definition of semi-fixed costs in (d). A key point to remember is that the costs rise in steps, unlike semi-variable costs that rise in a straight-line.

Question 4

This question on mergers was the second most popular question In Section B. It was also the second highest scoring question in the Section.

Part (a), the reason existing shareholders were given shares in the new company and not cash, was answered reasonably well. Most responses included the possible inadequate cash reserves, but often a second reason failed to score. Responses to (b), calculating the purchase consideration, were usually accurate, although often the final three zeroes were omitted. The Realisation account in (c)(i) was done reasonably well, as was the Sundry Shareholders account in (c)(ii). However, both accounts scored well, but were not perfect. Most candidates could come up with two reasons why companies wished to merge in (d).

The evaluation in (e) was often disappointing as quite a few candidates just discussed taking over the assets and liabilities, ignoring the key part to the question that this was to be at book value, not market value.

Common errors were:

- Some answers to (a) were given from the viewpoint of the shareholders, not the merging companies.
- In part (c), the Purchase Consideration was often posted on the wrong side of the two accounts. As this was a double entry that spread across the two accounts, usually two marks were lost.
- Also, in part (c), the Profit on Realisation was sometimes omitted. This resulted in an omission of this entry in the Sundry Shareholders account as well.

Question 5

This question on budgets was the least popular question in Section B. It was also the lowest scoring question in the section,

The Revenue budget in part (a) was either completed successfully, gaining full marks, or very badly, scoring poorly. The Inventory budget in part (b) was often completed to a pleasing standard.

The Cash budget extract in (c) saw reasonable attempts by some candidates, but often rows were left blank. Other candidates found this budget very tricky. Responses to (d) were usually quite good, with most answers able to identify some positive and negative aspects of the credit terms received by Green Sea Gas plc. However, some candidates answered the question from the viewpoint of the customers of Green Sea Gas plc.

Common errors were:

- If the layout of the budget is presented in the Question paper (Answer Booklet) with wording labels in the first column, then the row needs to be completed with figures. Leaving a row blank will obviously not score any marks.
- The Cash budget in (c) required candidates to work backwards in time. Weekly usage in September was given as 400 units per customer, which was a 25% increase on the August figure. Candidates had to calculate the August figure. This would be 400 X 100/125 = 320. Many candidates found 25% of 400 (September) is 100 and then deducted this to give an erroneous 300.
- In part (d), evaluating credit terms received by Green Sea Gas plc, some candidates had clearly not looked back at the information supplied in the question. They could have referenced one month's

credit being given, and 2% or 3% discount being applied for purchases over a certain level and commented on the effect on Green Sea Gas plc.

Question 6

This question on Statements of cash flows was the third most popular question on Section B. It was also the third highest scoring question in this section, only just behind questions 3 and 4.

Part (a) consisted of nine shorter questions, with marks ranging from two to five, testing candidates understanding of a Statement of Cash Flows. In (a)(v), few candidates linked depreciation as a non-cash item to reducing profit to gain a second mark. Part (vii) included an overdraft which did confuse some candidates, when calculating the cash balance at the start of the year.

The evaluation in (b) usually produced answers that covered a good range of valid points for and against the investment. However, few candidates mentioned the investment in new tangible non-current assets, a positive point, of £164 000 as shown on the Statement of cash flows.

Common errors were:

- In (a) (viii) stating that the movement was £150 000 but the word “increase” was also required to distinguish the movement from a “decrease” of £150 000.
- Part (ix) saw candidates correctly calculate 240 000 for the number of shares at the start of the year. However, they often then used this figure to calculate the percentage of the final dividend, forgetting about the 60 000 shares that had been issued in the year, as shown on the statement of cash flows.

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

Questions need to be read carefully. For example, question 1(e) clearly asked for the formula used to be stated. Many candidates omitted to state the formula. Even if the question did not ask for the formula, it is good practice to write down the formula, so the candidate is clear as to what needs to be done.

Candidates are often good at discussing points for and against an action in the evaluation eg discussing whether to invest in a company or not. However, it is important to ensure a conclusion is given, usually at the end of the evaluation. For example, in question six, “Adhira should invest” or “Adhira should not invest” in the company.

Candidates should be aware that a single, brief statement is unlikely to be awarded two marks. For example, in question six, part (vi), the question asked for the difference between a Statement of cash flows and a Cash budget. An answer such as “A cash budget is prepared for the future” is correct and will score one mark. If two marks are given for the question part, then a little extra is needed. This would be to state that “A Statement of cash flows is prepared for a past period of time.”

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