GradeMax

Write your name here

Surname	Other names

Pearson Edexcel
International
Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Accounting (Modular Syllabus)

Unit 2: Corporate and Management Accounting

Monday 8 June 2015 – Morning
Time: 3 hours

Paper Reference
WAC02/01

You must have:
Source Booklet (enclosed)

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **five** questions, choosing **two** from Section A and **three** from Section B.
- All calculations must be shown.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*

Information

- The total mark for this paper is 200.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.
- The source material for use with questions 1 to 7 is in the enclosed source booklet.

Advice

- Read each question carefully before you start to answer it.
- Write your answers neatly and in good English.
- Check your answers if you have time at the end.

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PEARSON

SECTION A

Answer TWO questions from this section.

If you answer Question 1 put a cross in the box ☒ .

Source material for question 1 is on pages 2 and 3 of the source booklet.

1 (a) Prepare a Statement of Cash Flow for the year ended 31 March 2015 in accordance with International Accounting Standard (IAS) 7 Statement of Cash Flows (revised).

(40)

(b) Evaluate the change in the gearing ratio of Maltese Construction plc from 31 March 2014 to 31 March 2015. State the formula that you have used.

(12)

(Total for Question 1 = 52 marks)

If you answer Question 2 put a cross in the box ☒ .

Source material for question 2 is on pages 4 and 5 of the source booklet.

2 (a) Calculate the quantity of t-shirts produced in one year.

(6)

2 (b) Prepare for Nazir, a statement showing the net profit, for the year ended 31 March 2015, using:

(i) marginal costing inventory valuation
(ii) absorption costing inventory valution

(20)

(c) Advise Nazir Aiman whether to accept the offer from the:

(i) shop owner
(ii) market trader
(iii) wholesaler

(14)

(d) Evaluate this statement and advise Nazir whether he should use marginal costing or absorption costing to value his inventory.

(12)

(Total for Question 2 = 52 marks)

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

Source material for question 3 is on pages 6 and 7 of the source booklet.

3 (a) For each funding option, calculate the weighted average cost of capital.

(12)

(b) (i) Select the most appropriate funding option for the directors of Purple Waves plc.

(2)

.....

.....

.....

.....

(ii) Give **one** reason for your choice of funding option.

(2)

.....

.....

.....

(c) Calculate the Net Present Value of the project at the end of year 5.

(15)

(d) Calculate the average rate of return (accounting rate of return) of the project.

(9)

(e) Evaluate the project for the company, using the calculations made, and considering any other relevant factors.

(12)

(Total for Question 3 = 52 Marks)

TOTAL FOR SECTION A = 104 MARKS

SECTION B

Answer THREE questions from this section.

If you answer Question 4 put a cross in the box ☒ .

Source material for question 4 is on pages 8 and 9 of the source booklet.

4 (a) Prepare a monthly cash budget for the farm, for **each** month of the 6 month period 1 July 2015 to 31 December 2015.

(24)

(b) Evaluate the Bank Manager's recommendation.

(8)

(Total for Question 4 = 32 marks)

If you answer Question 5 put a cross in the box ☒ .

Source material for question 5 is on pages 10 and 11 of the source booklet.

5 (a) Calculate the purchase price of Lifejoy plc.

(4)

(b) Prepare the Acquisition Account in the books of Middle East Medical plc to show the purchase of Lifejoy plc.

(6)

(c) Prepare the Statement of Financial Position of Middle East Medical plc at 1 April 2015 after the purchase of Lifejoy plc.

(14)

(d) Evaluate the use of cash to finance the purchase of a company.

(8)

(Total for Question 5 = 32 marks)

If you answer Question 6 put a cross in the box ☒ .

Source material for question 6 is on pages 12 and 13 of the source booklet.

6 (a) Complete the Variance column for the month of April 2015.

(7)

	BUDGET £	ACTUAL £	VARIANCE £
Revenue	165 000	162 500	
Less			
Material Costs	(47 890)	(49 910)	
Labour Costs	(24 640)	(24 057)	
Variable Overheads	(36 620)	(38 880)	
= Cost of Sales	(109 150)	(112 847)	
Gross Profit	55 850	49 653	
Less Fixed Overheads	(54 750)	(54 750)	
Net Profit	1 100	(5 097)	

(b) Calculate the:

(i) labour efficiency variance for the month of April 2015.

(5)

(ii) labour rate variance for the month of April 2015.

(5)

(c) (i) Briefly explain why a fixed overhead figure may change.

(1)

(ii) Give **three** examples of fixed overheads that may rise, and explain briefly why they may increase.

(6)

(d) Evaluate the usefulness of a standard costing system to Tangapur Paper Limited.

(8)

(Total for Question 6 = 32 marks)

If you answer Question 7 put a cross in the box ☒ .

Source material for question 7 is on pages 14 and 15 of the source booklet.

7 (a) Using the information for Kowloon Investments plc calculate the following ratios:

(i) Return on Capital Employed

(3)

(ii) Earnings per ordinary share

(3)

(iii) Price/earnings ratio

(3)

(iv) Dividend paid per share

(3)

(v) Dividend cover

(3)

(vi) Dividend yield

(3)

(b) Calculate the:

(i) total capital gain made by Jiao Suen, due to the rise in the share price, over the financial year ended 31 March 2015, for the shares she holds in China Capital plc.

(3)

(ii) total income received by Jiao Suen as a result of the dividends paid for the financial year ended 31 March 2015, for the shares she holds in China Capital plc.

(3)

(c) Evaluate whether Jiao Suen should keep her shares in China Capital plc, or sell her shares and buy shares in Kowloon Investments plc.

(8)

(Total for Question 7 = 32 marks)

TOTAL FOR SECTION B = 96 MARKS
TOTAL FOR PAPER = 200 MARKS

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GradeMax

Pearson Edexcel
International Advanced Level

Accounting (Modular Syllabus)
Unit 2: Corporate and Management Accounting

Monday 8 June 2015 – Morning
Source booklet

Paper Reference
WAC02/01

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SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

1 The Statements of Financial Position of Maltese Construction plc at 31 March 2014 and 31 March 2015 were as follows:

	31 March 2014	31 March 2015
ASSETS	£	£
Non-current Assets		
Property, plant and equipment at cost	5 428 000	5 728 000
Provision for depreciation	(1 650 000)	(1 979 000)
Property, plant and equipment carry over	3 778 000	3 749 000
Shares held in other companies	1 085 000	1 260 000
	4 863 000	5 009 000
Current Assets		
Inventories	744 000	656 000
Trade and Other receivables	621 000	537 000
Cash and cash equivalents	326 000	435 000
	1 691 000	1 628 000
Total Assets	6 554 000	6 637 000
EQUITY AND LIABILITIES		
Equity & Reserves		
Share capital – Ordinary shares of £1	3 500 000	3 000 000
3% Redeemable preference shares of £1	320 000	320 000
Share Premium	700 000	650 000
Retained earnings	453 000	757 000
	4 973 000	4 727 000
Non-current Liabilities		
6% Bank Loan	-----	1 500 000
		1 500 000
Current Liabilities		
5.5% Debenture 2014	1 000 000	-----
Trade and Other payables	373 000	342 000
Current Tax payable	208 000	68 000
	1 581 000	410 000
Total Equity and Liabilities	6 554 000	6 637 000

Additional information:

(i) Plant bought for £900 000, with depreciation to date of £360 000 was sold for £420 000 on 4 April 2014.

(ii) Property was bought for £1 200 000 on 11 May 2014.

(iii) On 16 May 2014 ordinary shareholders received a final dividend for year ended 31 March 2014 of 2 pence (£0.02) per share.

(iv) A redemption of 500 000 £1 Ordinary shares at a premium of 10 pence (£0.10) per share was made on 31 August 2014.

(v) On 1 October 2014, the following took place:

- 5.5% debenture of £1 000 000 was redeemed
- 6% bank loan of £1 500 000 was received

(vi) Ordinary shareholders received an interim dividend of 1 pence (£0.01) per share on 20 October 2014.

(vii) A purchase of shares in other companies took place on 12 December 2014.

(viii) Preference shareholders received their dividends in full during the year.

(ix) Profit after interest but before tax for the year ended 31 March 2015 was £481600.

Required:

(a) Prepare a Statement of Cash Flow for the year ended 31 March 2015 in accordance with International Accounting Standard (IAS) 7 Statement of Cash Flows (revised).

(40)

(b) Evaluate the change in the gearing ratio of Maltese Construction plc from 31 March 2014 to 31 March 2015. State the formula that you have used.

(12)

(Total for Question 1 = 52 marks)

Answer space for question 1 is on pages 2 to 7 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 2

2 Nazir Aiman bought a business producing t-shirts on 1 April 2014. When the business was purchased, the inventory was 4 200 t-shirts at an agreed value of £16 800. You are in practice as an accountant, and your client, Nazir, has asked you to prepare the accounts for the year ended 31 March 2015. Nazir has asked you to value the closing inventory using both the marginal costing method and the absorption costing method.

The following information is available for the year ended 31 March 2015.

- Fixed overheads – £2 450 per week
- Semi-Variable costs – £850 fixed element per week plus 22 pence (£0.22) per t-shirt
- Direct materials – 95 pence (£0.95) per t-shirt
- 25 direct staff are employed, who each work 8 hours and 20 minutes a day, for 5 days a week
- Direct labour – 25 minutes work per t-shirt at a wage rate of £6.00 per hour
- The quantity of t-shirts produced is determined by the speed of the direct labour, not the size of the order
- Sales price – £6.50 per t-shirt
- The business has a contract to supply a major overseas retailer with 2 400 t-shirts a week, which it fulfils. There are no other customers.
- Assume 50 weeks in a year

Required:

(a) Calculate the quantity of t-shirts produced in one year.

(6)

(b) Prepare for Nazir, a statement showing the net profit, for the year ended 31 March 2015, using:

(i) marginal costing inventory valuation
(ii) absorption costing inventory valuation

(20)

Nazir is aware that his level of inventory is increasing. He has tried to find customers who may buy some of the inventory. He has received offers from a:

(i) shop owner who has offered to buy 3 000 t-shirts at £4.00 per t-shirt.
(ii) market trader who has offered to buy 2 000 t-shirts at £5.50 per t-shirt.
(iii) wholesaler who has offered to buy 4 000 t-shirts at £3.50 per t-shirt.

Required:

(c) Advise Nazir Aiman whether to accept the offer from the:

(i) shop owner
(ii) market trader
(iii) wholesaler

(14)

Nazir has stated, "I must prepare my final accounts using absorption costing, because it makes me more profit".

Required:

(d) Evaluate this statement and advise Nazir whether he should use marginal costing or absorption costing to value his inventory.

(12)

(Total for Question 2 = 52 marks)

Answer space for question 2 is on pages 8 to 14 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 3

3 Purple Waves plc has been granted a licence to operate a mobile phone network in another country for 5 years. The cost of the licence and other start-up costs total £400 million.

The finance director has prepared two possible options to finance the funding of the project. The details of each option are shown below.

Option A	**£m**	**Interest Rate/ Expected return**
Debenture	100	9%
Bank Loan	50	8%
Preference Shares	50	6%
Ordinary Shares	200	4%
Total	400	

Option B	**£m**	**Interest Rate/ Expected return**
Debenture	50	8%
Bank Loan	200	9%
Preference Shares	40	4%
Ordinary Shares	110	4%
Total	400	

Required:

(a) For each funding option, calculate the weighted average cost of capital.

(12)

(b) (i) Select the most appropriate funding option for the directors of Purple Waves plc.

(2)

(ii) Give **one** reason for your choice of funding option.

(2)

Additional Information:

- In year 1, the number of customers is estimated to be 1 million paying £180 each, a year.
- In years 2 and 3, the number of customers is estimated to be 1.8 million each year, paying £190 a year.
- In years 4 and 5, the number of customers is estimated to be 2.2 million each year, paying £200 a year.
- In year 1 the running costs (including depreciation) are estimated to be £285 million per year.
- In years 2 and 3, the running costs (including depreciation) are estimated to be £300 million for each year.
- In years 4 and 5, the running costs (including depreciation) are estimated to be £340 million for each year.
- Depreciation is estimated to be £80 million for each year.
- The directors of Purple Waves plc require investments to give an average rate of return (accounting rate of return) of 10%.
- A table showing the discount factors is given.

Year	3%	4%	5%	6%	7%	8%	9%
1	0.971	0.962	0.952	0.943	0.935	0.926	0.917
2	0.943	0.925	0.907	0.890	0.873	0.857	0.842
3	0.915	0.889	0.864	0.840	0.816	0.794	0.772
4	0.888	0.855	0.823	0.792	0.763	0.735	0.708
5	0.863	0.822	0.784	0.747	0.713	0.681	0.650

Required:

(c) Calculate the Net Present Value of the project at the end of year 5.

(15)

(d) Calculate the average rate of return (accounting rate of return) of the project.

(9)

(e) Evaluate the project for the company, using the calculations made, and considering any other relevant factors.

(12)

(Total for Question 3 = 52 marks)

Answer space for question 3 is on pages 15 to 23 of the question paper.

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 4

4 George and Mary run a farm. The business is seasonal, and on 1 July 2015, they expect to be overdrawn by £4 000. They have been asked to meet the bank manager to discuss the overdraft. The bank manager has asked George and Mary to bring a monthly cash budget for the 6 months 1 July 2015 to 31 December 2015 to the meeting. George and Mary have asked you, their accountant, to draw up the monthly cash budget.

The following information is available:

- The farm shop is only open in July and August and sells fruit for cash. Sales are expected to be £80 per day, 7 days a week.
- Expenses of the farm shop are £10 per day.
- The wheat is to be harvested in August and sold to a flour producer for £195 per ton. The harvest is estimated to be 45 tons. The flour producer will pay in September.
- In August and September, fruit will be sold to supermarkets for £2 500 for **each** month. The supermarkets will pay two months after the sale.
- Vegetables will be harvested and sold in September, October and November, for £900 **each** month, to a factory. The factory will pay one month after the sale.
- In November and December, animals will be taken to the market and sold for cash, for £130 per animal. Each month, 5 animals will be sold at the market.
- In July, August and September, a farm worker will be employed and paid £175 per week.
- Feed and fertiliser £235 per month
- Power and fuel £175 per month
- Depreciation £150 per month
- Other fixed costs £25 per week
- Drawings for George and Mary will be £180 each per week.
- Assume 4 weeks in a month.

Required:

(a) Prepare a monthly cash budget for the farm, for **each** month of the 6 month period 1 July 2015 to 31 December 2015.

(24)

At the meeting, the bank manager recommends a 6 month bank loan for George and Mary from 1 July 2015 for £6 000.

Required:

(b) Evaluate the Bank Manager's recommendation.

(8)

(Total for Question 4 = 32 marks)

Answer space for question 4 is on pages 24 to 26 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 5

5 Middle East Medical plc agreed to purchase Lifejoy plc on 1 April 2015.
The directors of Middle East Medical plc have agreed to take over all of the assets of Lifejoy plc, except cash and cash equivalents and to settle all the liabilities except the current tax payable.
The purchase price was agreed as a cash payment of £1.03 for every one share held in Lifejoy plc.

The Statements of Financial Position of the two companies at 31 March 2015, before any revaluations, were as follows:

	MIDDLE EAST MEDICAL plc		**LIFEJOY plc**	
	£	**£**	**£**	**£**
Assets				
Non-current Assets				
Property, plant and equipment	355 000 000		80 382 000	
Intangible assets	98 000 000		2 000 000	
		453 000 000		82 382 000
Current Assets				
Inventories	27 800 000		3 120 000	
Trade and Other Receivables	14 660 000		624 000	
Cash and Cash equivalents	258 117 000		78 000	
		300 577 000		3 822 000
Total Assets		753 577 000		86 204 000
Equity and Liabilities				
Equity				
Ordinary Shares of £1 each	250 000 000			
Ordinary Shares of £0.25 each			24 000 000	
Share Premium	100 000 000		24 000 000	
Retained earnings	286 595 000		16 760 000	
		636 595 000		64 760 000
Non-current Liabilities				
Mortgage	100 000 000		----------	
Bank Loan	----------		20 000 000	
		100 000 000		20 000 000
Current Liabilities				
Trade and Other payables	12 263 000		524 000	
Current tax payable	4 719 000		795 000	
Short term provisions	----------		125 000	
		16 982 000		1 444 000
Total Equity and Liabilities		753 577 000		86 204 000

Additional information:

The assets of Lifejoy plc were revalued as follows:

- Property with a book value of £14 000 000 to a current market value of £17 750 000
- Plant with a book value of £6 000 000 was reduced by £1 200 000
- Trade Receivables were reduced by 10%
- A newly granted patent for a medical cure, classed as an intangible, was to be valued at £12 000 000 and entered into the books of Lifejoy plc

Required:

(a) Calculate the purchase price of Lifejoy plc.

(4)

(b) Prepare the Acquisition Account in the books of Middle East Medical plc to show the purchase of Lifejoy plc.

(6)

(c) Prepare the Statement of Financial Position of Middle East Medical plc at 1 April 2015 after the purchase of Lifejoy plc.

(14)

Middle East Medical plc financed the purchase of Lifejoy plc by cash.

(d) Evaluate the use of cash to finance the purchase of a company.

(8)

(Total for Question 5 = 32 marks)

Answer space for question 5 is on pages 27 to 31 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 6

6 Tangapur Paper Limited produces paper at its factory. The company has a standard costing system.

The following information is available for the month of April 2015.

	BUDGET £	ACTUAL £	VARIANCE £
Revenue	165 000	162 500	
Less			
Material Costs	(47 890)	(49 910)	
Labour Costs	(24 640)	(24 057)	
Variable Overheads	(36 620)	(38 880)	
= Cost of Sales	(109 150)	(112 847)	
Gross Profit	55 850	49 653	
Less Fixed Overheads	(54 750)	(54 750)	
Net Profit	1 100	(5 097)	

Required:

(a) Complete the Variance column, in the answer booklet, for the month of April 2015.

(7)

The following information is also available for April 2015:

- The budgeted production of 420 tons of paper for April 2015 was achieved.
- Budgeted labour was 28 workers, each working 40 hours a week, for four weeks in a month, at £5.50 per hour.
- One worker left on 31 March and was not replaced. This left 27 workers for the month of April.
- Management called an emergency meeting on 1 April and explained to workers the company was experiencing financial problems. Workers agreed to accept a 10 pence (£0.10) an hour reduction in pay with immediate effect.
- Due to mechanical problems, and to complete the budgeted production, all the workers worked 5 hours overtime at the reduced rate of pay.

Required:

(b) Calculate the:

(i) labour efficiency variance for the month of April 2015.

(5)

(ii) labour rate variance for the month of April 2015.

(5)

The budget for May 2015 has been produced. The budgeted fixed overheads for May 2015 are £56 290.

A junior member of the accounting staff stated "I see that the figure for fixed overheads for May 2015 has risen. I thought the fixed overheads figure did not change."

Required:

(c) (i) Briefly explain why a fixed overhead figure may change.

(1)

(ii) Give **three** examples of fixed overheads that may rise, and explain briefly why they may increase.

(6)

(d) Evaluate the usefulness of a standard costing system to Tangapur Paper Limited.

(8)

(Total for Question 6 = 32 marks)

Answer space for question 6 is on pages 32 to 35 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 7

7 Jiao Suen holds 500 shares in China Capital plc. She bought the shares on 31 March 2014 for £1.87 per share. At the end of the financial year ended 31 March 2015, she is considering two options:

- to keep the shares in China Capital plc

OR

- sell the shares in China Capital plc and buy shares in Kowloon Investments plc.

Jiao Suen has obtained a copy of the accounts of Kowloon Investments plc from the internet. The accounts show the following information.

Information for Kowloon Investments plc	
Authorised share capital	80 million (80 000 000) 75 pence (£0.75) Ordinary shares
Issued share capital	60 million (60 000 000) 75 pence (£0.75) Ordinary shares
Net profit before interest and tax	£5 760 000
Net profit after interest and tax	£4 320 000
Total Equity	£49 500 000
Non-Current liabilities	£10 500 000
Total ordinary dividend paid for year	£ 2 880 000
Share price	£1.20

Required:

(a) Using the information for Kowloon Investments plc calculate the following ratios:

(i) Return on Capital Employed

(3)

(ii) Earnings per ordinary share

(3)

(iii) Price/earnings ratio

(3)

(iv) Dividend paid per share

(3)

(v) Dividend cover

(3)

(vi) Dividend yield

(3)

Jiao Suen has been sent a copy of the final accounts of China Capital plc for the financial year ended 31 March 2015. These accounts show:

Information for China Capital plc	
Return on capital employed	8.1%
Earnings per ordinary share	15 pence (£0.15) per share
Price/earnings ratio	14 times
Dividend paid per share	6.3 pence (£0.063) per share
Dividend cover	2.38 times
Dividend yield	3%
Share price at 31 March 2014	£1.87
Share price at 31 March 2015	£2.10

Required:

(b) Calculate the:

(i) total capital gain made by Jiao Suen, due to the rise in the share price, over the financial year ended 31 March 2015, for the shares she holds in China Capital plc.

(3)

(ii) total income received by Jiao Suen as a result of the dividends paid for the financial year ended 31 March 2015, for the shares she holds in China Capital plc.

(3)

(c) Evaluate whether Jiao Suen should keep her shares in China Capital plc, or sell her shares and buy shares in Kowloon Investments plc.

(8)

(Total for Question 7 = 32 marks)

Answer space for question 7 is on pages 36 to 39 of the question paper.

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