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 25 January 2016 – Morning
Time: 3 hours

Paper Reference
WAC02/01

You must have:
Source Booklet

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.*
- Do not return the insert with the question paper.

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.

Turn over ▶

P46930RA

©2016 Pearson Education Ltd.

2/1/1/1/1/1/1/1/1

P 4 6 9 3 0 R A 0 1 4 8

PEARSON

SECTION A

Answer TWO 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 1 put a cross in the box ☒ .

Source material for Question 1, is on pages 2 and 4 of the source booklet.

1 (a) Complete Journal entries for items (2) to (6) shown in the source booklet.
Dates and narratives are **not** required.

(12)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(b) Complete the table below to show the heading A and figures labelled B to S.

(16)

Figures are in £ millions	£1 Ordinary Share Capital £m	Share Premium £m	Retained Earnings £m	General Reserve £m	Capital Replacement Reserve £m	Capital Redemption Reserve £m	**A** £m	Total Equity £m
Balance at 1 January 2015	700	140	35	25		144		**B**
Comprehensive Income for the year			**C**					
Revaluation of property							**D**	
Final 2014 Dividend paid in year			**E**					
Transfer			**F**	**G**				
Transfer			**H**		**I**			
Bonus Issue of £1 ordinary shares	**J**		**K**					
Balance at 31 December 2015	**L**	**M**	**N**	**O**	**P**	**Q**	**R**	**S**

(c) Calculate how many shares were redeemed when the Capital Redemption Reserve was created.

(6)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(d) Prepare an explanation to the two questions asked by the director.

(i) Can the upward revaluation of the factory be added to the Statement of Comprehensive Income?

(4)

(ii) Can the upward revaluation of the factory then be used to pay dividends?

(2)

(e) Evaluate the decision to issue bonus shares to shareholders instead of paying a dividend on behalf of the company.

(12)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(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 6 to 7 of the source booklet.

2 (a) Prepare, in accordance with International Accounting Standard (IAS) 1 (Revised), a:

(i) Statement of Comprehensive Income for the year ended 31 December 2015

(25)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(ii) Statement of Financial Position at 31 December 2015.

(15)

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(b) Evaluate the importance of the Directors' Report that accompanies the financial statements.

(12)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(Total for Question 2 = 52 marks)

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

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

3 (a) Calculate for December 2015 the:

(i) total number of taps budgeted to be produced

(2)

(ii) actual amount of brass in kilograms used in production

(3)

(iii) total actual direct production labour cost.

(3)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(b) Calculate for December 2015 the:

(i) variances for materials usage, materials price, and total materials cost

(10)

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(ii) variances for labour efficiency, labour rate, and total labour cost.

(10)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(c) Calculate the actual profit for the month of December.

(5)

(d) Calculate the budgeted mark-up on one tap for the month of December.

(7)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(e) Evaluate the decision to use the same percentage mark-up for January, rather than keep the selling price at £39.96.

(12)

(Total for Question 3 = 52 marks)

TOTAL FOR SECTION A = 104 MARKS

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

BLANK PAGE

SECTION B BEGINS ON THE NEXT PAGE.

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 page 10 of the source booklet.

4 (a) Calculate the number of repairs Mikele had to complete to break even in the year ended 31 December 2015.

(8)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(b) Calculate the profit or loss made by Mikele in the year ended 31 December 2015.

(4)

(c) Calculate the number of repairs Mikele would have to complete to break even in the year ended 31 December 2016.

(8)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(d) Calculate the expected profit or loss for Mikele in the year ended 31 December 2016.

(4)

(e) Evaluate the possibility of Mikele closing the shop and working from home.

(8)

(Total for Question 4 = 32 marks)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

BLANK PAGE

QUESTION 5 BEGINS ON THE NEXT PAGE.

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

Source material for Question 5 is on page 11 of the source booklet.

5 (a) Using the columns provided below, prepare a flexible budgeted Statement of Comprehensive Income for the month of February for the following output levels:

- 1 400 units
- 1 500 units
- 1 600 units.

(22)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(b) State, and briefly explain, **one** advantage to Forestwood Kitchens plc of using a flexible budget.

(2)

(c) Evaluate which of the three output levels would be the most appropriate for Forestwood Kitchens plc for the month of February 2016.

(8)

(Total for Question 5 = 32 marks)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

BLANK PAGE

QUESTION 6 BEGINS ON THE NEXT PAGE.

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

Source material for Question 6 is on pages 12 to 14 of the source booklet.

6 (a) Prepare:

(i) the Provision for Depreciation Account for the year ended 31 December 2015

(6)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(ii) a corrected Cash Flows from Operating Activities section of the Statement of Cash Flows, in accordance with IAS 7.

(15)

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(b) State **three** items that would be found in the Financing Activities section of the Statement of Cash Flows.

(3)

(c) Evaluate the statement made by the junior accountant concerning the liquidity position of the company.

(8)

(Total for Question 6 = 32 marks)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

BLANK PAGE

QUESTION 7 BEGINS ON THE NEXT PAGE.

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

Source material for Question 7 is on pages 16 to 17 of the source booklet.

7 (a) Calculate the payback period for the contract, giving your answer in years and months.

(20)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(b) Calculate, stating the formula used, the gearing ratio for Gulf Catering Supplies Limited.

(4)

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

(c) Evaluate the statement "Gulf Catering Supplies Limited is not a company that takes financial risks".

(8)

(Total for Question 7 = 32 marks)

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

BLANK PAGE

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

BLANK PAGE

BLANK PAGE

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

GradeMax

Pearson Edexcel
International Advanced Level

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

Monday 25 January 2016 – Morning
Source Booklet for use with Questions 1 to 7

Paper Reference
WAC02/01

Do not return the insert with the question paper.

Turn over ▶

P46930RA

©2016 Pearson Education Ltd.

2/1/1/1/1/1/1/1/1

P 4 6 9 3 0 R A

PEARSON

SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

1 You are the accountant for Moratuwa Plastics plc. During the year ended 31 December 2015, the directors of Moratuwa Plastics plc agreed the following:

(1) The Statement of Comprehensive Income for the year ended 31 December 2015 shows a loss of £8 million.

(2) To revalue the company factory from a book value of £120 million, to a market value of £160 million.

(3) Provide a final dividend for 2014 to Ordinary shareholders of 1 pence (£0.01) per share. The dividend was paid on 2 February 2015.

(4) To transfer £25 million from the General Reserve to the Retained Earnings Reserve.

(5) To transfer a sum of £30 million from Retained Earnings Reserve to the Capital Replacement Reserve, in order to replace worn out machinery.

(6) Not to pay an interim or final dividend for the year ended 31 December 2015. Instead, the directors decided to issue Bonus Shares at par, at a rate of one share issued for every 50 shares held.

Required:

(a) Complete Journal entries for items (2) to (6) above.
Dates and narratives are **not** required.

(12)

The Statement of Changes in Equity of Moratuwa Plastics plc for the year ended 31 December 2015 is nearing completion and is shown below.

Figures are in £ millions	£1 Ordinary Share Capital £m	Share Premium £m	Retained Earnings £m	General Reserve £m	Capital Replacement Reserve £m	Capital Redemption Reserve £m	**A** £m	Total Equity £m
Balance at 1 January 2015	700	140	35	25		144		**B**
Comprehensive Income for the year			**C**					
Revaluation of property							**D**	
Final 2014 Dividend paid in year			**E**					
Transfer			**F**	**G**				
Transfer			**H**		**I**			
Bonus Issue of £1 ordinary shares	**J**		**K**					
Balance at 31 December 2015	**L**	**M**	**N**	**O**	**P**	**Q**	**R**	**S**

Required:

(b) Complete the table in the question paper to show the heading A and figures for the items labelled B to S.

(16)

There has only been one issue of shares in Moratuwa Plastics plc, when the company was started. The Capital Redemption Reserve was created in the year ended 31 December 2014, when a number of shares were redeemed at the same value as their issue. No other shares were issued at the time of the redemption. There have been no other entries made in the Capital Redemption Reserve.

Required:

(c) Calculate how many shares were redeemed when the Capital Redemption Reserve was created.

(6)

A director asks you "I see we made a loss this year. Can we add the upward revaluation of the factory to the Statement of Comprehensive Income? That would turn the loss into a profit figure. Could we then use this to pay a dividend?"

Required:

(d) Prepare an explanation to the two questions asked by the director.

(i) Can the upward revaluation of the factory be added to the Statement of Comprehensive Income?

(4)

(ii) Can the upward revaluation of the factory then be used to pay dividends?

(2)

(e) Evaluate the decision to issue bonus shares to shareholders instead of paying a dividend on behalf of the company.

(12)

(Total for Question 1 = 52 marks)

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

BLANK PAGE

QUESTION 2 BEGINS ON THE NEXT PAGE.

SOURCE MATERIAL FOR USE WITH QUESTION 2

2 Jesorre Carpets plc produces carpets at its factory. The carpets are then delivered to the company's shops, before sale to customers. At 31 December 2015, the following balances were in the books.

	Debit	Credit
	£	£
Advertising	175 000	
Bad debts	23 000	
Bank		5 500
Bank interest	43 000	
Cash	38 000	
Direct materials	988 000	
Discount allowed	105 000	
Discount received		42 000
Factory buildings at cost	1 950 000	
Factory buildings – provision for depreciation		437 000
Head office expenses	296 000	
Inventory at 1 January 2015	931 000	
Long term bank loan		200 000
Machinery – net book value	712 000	
Motor vans at cost	198 000	
Motor vans – provision for depreciation		99 000
Ordinary shares £0.25		2 000 000
Other payables		12 000
Rent on shop premises	417 000	
Retained earnings		760 220
Revenue		5 472 000
Sales commission	54 720	
Trade receivables	241 000	
Trade payables		274 000
Transport costs	165 000	
Wages	2 965 000	
	9 301 720	9 301 720

Additional information at 31 December 2015

- Inventory £889 000
- Rent on shop premises owing is £7 000
- Head office expenses include £24 000 paid in advance
- Wages consist of:

	£
Direct factory labour	1 007 000
Head office staff	382 000
Shop staff	1 357 000
Transport staff	219 000

- Assuming a nil residual value and using the straight line method
  – the factory building is to be depreciated over a 50-year life
  – the motor vans are to be depreciated over a five-year life
- Machinery is to be depreciated using the reducing balance method of 20% per annum
- All interest on the bank loan has been paid before the year end
- A Corporation tax provision is to be made for £10 000, which is to be paid by 30 April 2016.

Required:

(a) Prepare, in accordance with International Accounting Standard (IAS) 1 (Revised), a:

(i) Statement of Comprehensive Income for the year ended 31 December 2015

(25)

(ii) Statement of Financial Position at 31 December 2015.

(15)

(b) Evaluate the importance of the Directors' Report that accompanies the financial statements.

(12)

(Total for Question 2 = 52 marks)

Answer space for Question 2 is on pages 8 to 15 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 3

3 Classic Bathrooms Limited produces brass taps. All taps are produced to order and no inventory of taps is held. No inventory of brass material is held either.

For the month of December 2015, the following information is available.

Budget for December 2015:

- Each tap should use 5 kilograms of brass in production
- Brass is to be purchased from suppliers at a rate of £3.20 per kilogram
- Direct production workers are to be paid £6.60 per hour, and are to produce 3 taps per hour
- There are 10 direct production workers who each work 40 hours a week normal time
- There are 4 weeks in a month
- Fixed costs are expected to be £19 200.

Actual figures for December 2015:

- Brass used for production was purchased at a rate of £3.05 per kilogram, for a total cost of £74 664
- To meet production, all 10 direct production workers had to each work one hour overtime a week in each of the 4 weeks
- Overtime is paid at a rate of £9.90 per hour
- The budgeted number of taps produced and sold was achieved
- Each tap sells for £39.96
- Fixed costs for the month totalled £19 200.

Required:

(a) Calculate for December 2015 the:

(i) total number of taps budgeted to be produced

(2)

(ii) actual amount of brass in kilograms used in production

(3)

(iii) total actual direct production labour cost.

(3)

(b) Calculate for December 2015 the:

(i) variances for materials usage, materials price, and total materials cost

(10)

(ii) variances for labour efficiency, labour rate, and total labour cost.

(10)

(c) Calculate the actual profit for the month of December.

(5)

(d) Calculate the budgeted mark-up on one tap for the month of December.

(7)

The variance for total costs for December 2015 is favourable. The directors of Classic Bathrooms Limited expected the lower total cost figures for December to apply in January. The directors had to decide whether to keep the same percentage mark-up for January or keep the same selling price. The directors decided to keep the same percentage mark-up for January.

Required:

(e) Evaluate the decision to use the same percentage mark-up for January, rather than keep the selling price at £39.96.

(12)

(Total for Question 3 = 52 marks)

Answer space for Question 3 is on pages 16 to 24 of the question paper.

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 4

4 On 1 January 2013, Mikele Zammitt borrowed a three-year loan to finance the opening of a shop to repair vacuum cleaners. Trade has not been as good as expected, and Mikele is concerned about break-even point and profits.

The information for the year ended 31 December 2015 is as follows:

- Price charged to customer for a repair, £110
- Number of repairs per week, 5
- Rent of shop premises, £620 per month
- Insurance per year, £560
- Cost of parts per repair, £30
- Loan repayments, £275 per month
- Other fixed costs, £65 per month
- Assume 4 weeks per month.

Required:

(a) Calculate the number of repairs Mikele had to complete to break even in the year ended 31 December 2015.

(8)

(b) Calculate the profit or loss made by Mikele in the year ended 31 December 2015.

(4)

For the year starting 1 January 2016, Mikele is considering closing the shop and working from home. This would result in the following changes:

- Number of repairs would fall by 60%
- Insurance would be £400 per year
- Other fixed costs would fall by £25 per month
- A motor van would have to be purchased for £4 000 in cash. This would last 5 years before being sold for £400. The motor van is to be depreciated using the straight line method.

Required:

(c) Calculate the number of repairs Mikele would have to complete to break even in the year ended 31 December 2016.

(8)

(d) Calculate the expected profit or loss for Mikele in the year ended 31 December 2016.

(4)

(e) Evaluate the possibility of Mikele closing the shop and working from home.

(8)

(Total for Question 4 = 32 marks)

Answer space for Question 4 is on pages 26 to 30 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 5

5 Forestwood Kitchens plc manufactures kitchen units. As demand may fluctuate, the Cost Accountant produces a flexible budget at the start of each month, using the latest figures available.

The following information for an output of 1 400 units is available for the month of February 2016.

- Timber cost per unit £24.00
- Labour cost per unit £18.00
- Semi-variable costs:
  - Delivery costs £2 000 per month plus £1.55 per unit
  - Power £1 400 per month plus £0.90 per unit
- Fixed costs £26 800 per month
- Selling price £120 per unit
- For every 100 extra units produced, the cost of timber per unit reduces by 15% **on all units**, i.e. the cost of timber for all 1 500 units is 15% lower per unit than for all 1 400 units; and the cost of all 1 600 units is 15% lower per unit than for all 1 500 units.
- For every 100 extra units produced, the cost of labour per unit increases by 10% **on all units**, i.e. the cost of labour for all 1 500 units is 10% higher per unit than for all 1 400 units; and the cost of all 1 600 units is 10% higher per unit than for all 1 500 units.
- For every 100 extra units sold, the selling price reduces by 5% **on all units**, i.e. the selling price for all 1 500 units is 5% lower per unit than for all 1 400 units; and the selling price of all 1 600 units is 5% lower per unit than for all 1 500 units.

Required:

(a) Using the columns provided in the question paper, prepare a flexible budgeted Statement of Comprehensive Income for the month of February for the following output levels:

- 1 400 units
- 1 500 units
- 1 600 units.

(22)

(b) State, and briefly explain, **one** advantage to Forestwood Kitchens plc of using a flexible budget.

(2)

(c) Evaluate which of the three output levels would be the most appropriate for Forestwood Kitchens plc for the month of February 2016.

(8)

(Total for Question 5 = 32 marks)

Answer space for Question 5 is on pages 32 to 34 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 6

6 You are the Chief Accountant at Greco Engineering plc, and have asked a junior accountant to help you draw up the Statement of Cash Flows in accordance with IAS 7, as part of his training. You have drawn up two sections, which are the Cash Flows from Investing Activities and the Cash Flows from Financing Activities.

You have asked the junior accountant to draw up the section titled "Cash Flows from Operating Activities". The junior accountant shows you his draft, but you notice it contains a number of errors. The draft is shown below.

Statement of Cash Flows for year ended 31 December 2015	**£**
Cash Flows from Operating Activities	
Profit from operations	273 000
Less Depreciation	(77 000)
Add Profit on sale of non-current assets	42 000
Less Loss on sale of non-current assets	(35 000)
Operating cash flows before working capital changes	**203 000**
Decrease in inventories	(31 000)
Increase in trade receivables	66 000
Decrease in trade payables	(27 000)
Decrease in non-current assets	(757 000)
Cash generated from operations	**(343 000)**
Add Interest paid	44 000
Add Tax paid	39 000
Increase in Cash and Cash Equivalents	**260 000**

You also have the Statements of Financial Position for the last two years, which you can refer to. Extracts are shown below.

	31 December 2014	31 December 2015
ASSETS	£	£
Non-current assets at cost	5 548 000	4 791 000
Provision for depreciation	(1 346 000)	(1 269 000)
Non-current assets carry over	4 202 000	3 522 000
Current assets		
Inventories	1 020 000	989 000
Trade and Other receivables	841 000	907 000
Cash and Cash Equivalents	---------	139 000
	1 861 000	2 035 000
Current liabilities		
Bank overdraft	121 000	----------
Trade and Other payables	656 000	629 000
Current Tax payable	323 000	362 000
	1 100 000	991 000

Additional information

- On 1 January 2015, plant was bought for £1 053 000
- On 31 December 2015, equipment that cost £970 000 with depreciation to date of £360 000 was sold for £575 000
- On 31 December 2015, plant that cost £840 000 with a net book value of £630 000 was sold for £672 000
- Profit after interest for the year ended 31 December 2015 was £273 000
- Interest on the bank overdraft was £12 000 for the year
- On 1 April 2015, a four-year bank loan for £400 000, at a fixed interest rate of 8%, was taken out
- Cash Flows **used** in Investing Activities was £158 000
- Cash Flows **from** Financing Activities was £44 000

You decide to show the junior accountant the correct way to complete the task.

Required:

(a) Prepare:

(i) the Provision for Depreciation Account for the year ended 31 December 2015

(6)

(ii) a corrected Cash Flows from Operating Activities section of the Statement of Cash Flows, in accordance with IAS 7.

(15)

The junior accountant asks, "What items would be found in the Financing Activities section of the Statement of Cash Flows?"

(b) State **three** items that would be found in the Financing Activities section of the Statement of Cash Flows.

(3)

The junior accountant states "The company seems to have done well in the last year as the liquidity position of the company has improved".

(c) Evaluate the statement made by the junior accountant concerning the liquidity position of the company.

(8)

(Total for Question 6 = 32 marks)

Answer space for Question 6 is on pages 36 to 40 of the question paper.

BLANK PAGE

QUESTION 7 BEGINS ON THE NEXT PAGE.

SOURCE MATERIAL FOR USE WITH QUESTION 7

7 Gulf Catering Supplies Limited is a new business and has won a contract to supply a major airline with in-flight meals. The initial costs involved in delivering the contract are £2 000 000.

The following information relates to the contract:

- In year one, the contract will be to supply meals for 220 flights a week, serving one meal per passenger
- The average number of passengers per flight is 150
- In the first two years, meals will be supplied at an average selling price of £0.52
- In years two and three, there will be 240 flights a week
- In years four and five, there will be 260 flights a week
- In years three and four, meals will be supplied at an average selling price of £0.55
- In year five, meals will be supplied at an average selling price of £0.58
- The cost of producing the meals in all five years will be £0.25
- In years one and two, running costs (including depreciation) will be £6 750 a week
- In years three, four and five, running costs (including depreciation) will be £6 950 a week
- Depreciation will be £235 000 per year for each of the five years
- Assume 52 weeks in a year.

Required:

(a) Calculate the payback period for the contract, giving your answer in years and months.

(20)

Gulf Catering Supplies Limited financed the contract as follows:

• £0.50 Ordinary shares	£500 000
• £1 Redeemable Preference shares	£600 000
• 9% Bank Loan	£900 000

(b) Calculate, stating the formula used, the gearing ratio for Gulf Catering Supplies Limited.

(4)

A prospectus was sent to potential shareholders, to persuade them to invest in the new company. The prospectus states "Gulf Catering Supplies Limited is not a company that takes financial risks".

(c) Evaluate the statement "Gulf Catering Supplies Limited is not a company that takes financial risks".

(8)

(Total for Question 7 = 32 marks)

Answer space for Question 7 is on pages 42 to 45 of the question paper.

BLANK PAGE

BLANK PAGE

BLANK PAGE