GradeMax

Write your name here

Surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Accounting

International Advanced Level
Paper 2: Corporate and Management Accounting

Friday 9 June 2017 – Afternoon
Time: 3 hours

Paper Reference
WAC12/01

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 **both** questions in Section A and **three** questions 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 6 is in the enclosed source booklet.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ▶

P48251A

©2017 Pearson Education Ltd.

1/1/1/1/1/1

P 4 8 2 5 1 A 0 1 2 8

Pearson

SECTION A

Answer BOTH questions in this section.

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

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

(i) Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2017.

(27)

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 March 2017.

(16)

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

(b) Evaluate the importance of the role of the auditor in limited companies.

(12)

(Total for Question 1 = 55 marks)

Source material for Question 2 is on pages 6 and 7 of the source booklet.

2 (a) Prepare the Sales Budget showing the number of cars sold for the three-month period October to December 2017. The budget must show the forecast number of cars sold for Asia, Europe, America and Australia for **each** month, and a total forecast sales figure for **each** month using the columns provided below.

(5)

Sales Budget (number of cars)	October	November	December
Asia			
Europe			
America			
Australia			
Total Sales			

Workings

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

The Zencar is delivered to its export markets using sea transport. The delivery time for America and Australia is one month. The delivery time for Europe is two months. Production for Asia is delivered in the same month as sales.

Soyara plc wishes to increase the inventory of Zencars by 500 cars per month, starting in October 2017.

(b) Prepare, using the columns provided, the:

(i) Production Budget for Zencars for the five-month period August to December 2017. The budget must show the forecast production for Asia, Europe, America and Australia for **each** month, and a total production figure for **each** month.

(7)

Production Budget (number of cars)	August	September	October	November	December
Asia					
Europe					
America					
Australia					
Inventory					
Total Production					

Workings

(ii) Inventory Budget for Zencars for the three-month period October to December 2017. The budget should show the number of cars going into inventory **each** month, and the total number of cars in inventory **each** month.

(3)

Inventory Budget (number of cars)	October	November	December

Workings

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

It is expected that 5% of all cars on the production line will need to be "reworked" to correct small errors. On average, this should take two workers one hour per car to rework. Workers are paid £9.50 per hour.

(c) Prepare, using the columns provided, a budget to show the cost of "reworking" cars for **each** of the five months August to December 2017.

(5)

Reworking Budget (£)	August	September	October	November	December

Workings

90% of the parts for the cars are purchased and delivered for production in the same month. Purchases for the remaining 10% of parts are purchased one month in advance.

Each car will require parts to the value of £2 150.

(d) Prepare, using the columns provided, a Purchases Budget for **each** of the five months July to November 2017.

(10)

Purchases Budget (£)	July	August	September	October	November

Workings

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) Prepare, using the columns provided, an extract from the Cash Received Budget to show the amount of cash received from customers for **each** of the three months, October to December 2017, from sales of Zencar in Australia. The budget must show the amount received **each** month from **each** of the options, and a total for **each** month.

(13)

Cash Received Budget (£)	October	November	December

Workings

(f) Evaluate, from the point of view of Soyara plc, **each** of the three payment options, and recommend the most appropriate option.

(12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 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

SECTION B

Answer THREE 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 3 put a cross in the box ☒ .

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

3 (a) Prepare a Statement of Cash Flows for the year ended 31 March 2017 in accordance with International Accounting Standard (IAS) 7.

(24)

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

(b) Evaluate how well Kericho Builders plc has managed liquidity in the year ended 31 March 2017.

(6)

(Total for Question 3 = 30 marks)

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

Source material for Question 4 is on page 10 and 11 of the source booklet.

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

4 (a) Calculate the weighted average cost of capital.

(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

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

(18)

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 project for the company, using the calculations made and considering any other relevant factors.

(6)

(Total for Question 4 = 30 marks)

Source material for Question 5 is on page 12 of the source booklet.

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

5 (a) Prepare the journal entries to show **item (iii)** recorded in the books. Narratives are **not** required.

(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

(b) Complete, using the table below, the Statement of Changes in Equity for the year ended 31 March 2017, showing the figures in millions of pounds (£m).

You should show totals both horizontally and vertically.

(18)

GradeMax

(c) Evaluate, from the point of view of Knightswell Hotels plc, the redemption of ordinary shares on 8 July 2016.

(6)

(Total for Question 5 = 30 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

Source material for Question 6 is on page 13 of the source booklet.

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

6 (a) Prepare a Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2017, in **columnar format**, showing:

- marginal costing inventory valuation.
- absorption costing inventory valuation.

(18)

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) Explain to management:

(i) **two** advantages of valuing inventory using absorption costing

(4)

(ii) **one** disadvantage of valuing inventory using absorption costing.

(2)

In April 2017, a potential customer is interested in buying the product, but is only prepared to offer £30 per unit.

(c) Evaluate the offer of £30 per unit and advise Hercules Baggage Limited whether this offer should be accepted.

(6)

(Total for Question 6 = 30 marks)

TOTAL FOR SECTION B = 90 MARKS
TOTAL FOR PAPER = 200 MARKS

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
International Advanced Level
Paper 2: Corporate and Management Accounting

Friday 9 June 2017 – Afternoon
Source Booklet

Paper Reference
WAC12/01

Do not return this resource booklet with the question paper.

Turn over ▶

P48251A

©2017 Pearson Education Ltd.

1/1/1/1/1/1

P 4 8 2 5 1 A

Pearson

SECTION A

Answer BOTH questions in this section.

1 Brama Sun plc manufactures solar panels at its factory. The solar panels are then delivered to the company's shops, before sale to customers. At 31 March 2017, the following balances were in the books.

	Debit	Credit
	£	£
7.5% debenture March 2021		1 200 000
8% bank loan – repayable December 2017		150 000
Allowance for doubtful debts		15 000
Auditors fees	18 500	
Bad debts	26 000	
Bank current account	117 000	
Bank current account interest		1 000
Cash	58 000	
Commission on sales	94 530	
Delivery costs	178 000	
Direct materials	2 150 000	
Discount allowed	87 000	
Discount received		43 000
Factory buildings (carrying value)	3 680 000	
General reserve		56 000
Goodwill	90 000	
Head office expenses	510 000	
Interest on bank loan	11 000	
Interest on debenture	45 000	
Inventory at 1 April 2016	772 000	
Marketing	324 000	
Motor vans (cost)	384 000	
Motor vans (provision for depreciation)		176 000
Motor vans running expenses	43 000	
Ordinary shares of £0.50 each		3 700 000
Other payables		17 500
Power	656 000	
Production machinery (carrying value)	439 000	
Rent on warehouse	280 000	

Retained earnings	624 470	
Revenue		9 864 000
Trade fairs and exhibitions expenses	110 000	
Trade payables		175 000
Trade receivables	821 000	
Wages	3 879 000	
	15 397 500	15 397 500

Additional information at 31 March 2017

- Inventory £779 000
- Rent on warehouse paid in advance is £23 000
- Wages consist of:

	£
Delivery staff	476 000
Direct factory labour	1 890 000
Head office staff	881 000
Sales staff	632 000

- The factory buildings are being depreciated over a 50-year life, using the straight line method. Ten years' depreciation has been calculated to date. Depreciation for the present year needs to be calculated and entered into the books. There have been no additions or disposals since the purchase of the factory buildings.
- The motor vans are to be depreciated over a five-year life assuming a nil residual value, using the straight line method.
- The production machinery is to be depreciated at 10% per year, using the reducing balance method.
- There is a power bill for £24 000 outstanding.
- Power is to be apportioned on the following basis:
  - Factory 70%
  - Warehouse 10%
  - Shops 15%
  - Head office 5%
- Corporation tax of £218 000 has been calculated, which is to be paid by 30 June 2017, and a provision needs to be made.
- The allowance for doubtful debts is to be 2% of trade receivables.
- There is one month's interest owing on the bank loan.
- The interest payments on the debenture are made in two equal instalments at the end of September and the end of March. The payment for March is outstanding.

Required

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

(i) Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2017.

(27)

(ii) Statement of Financial Position at 31 March 2017.

(16)

(b) Evaluate the importance of the role of the auditor in limited companies.

(12)

(Total for Question 1 = 55 marks)

BLANK PAGE

QUESTION 2 BEGINS ON THE NEXT PAGE.

2 Soyara plc, a major car producer based in Asia, is to start selling a new model of car, the Zencar, on 1 October 2017, which it will export worldwide. Soyara plc is preparing budgets for the next trading period, July to December 2017.

The budgeted sales for Zencars for the period July to December 2017 are:

- Sales in Asia are forecast to be constant at 12 000 cars per month.
- Sales in Europe are expected to start at 2 000 cars for October.
  - Every month sales are then forecast to rise by 10% on the previous month.
- Sales in America are expected to be 6 000 cars in October.
  - After October, in every month, sales are then forecast to fall by 15% on the previous month.
- Sales in Australia are expected to be 4 000 cars in October.
  - Sales in November are then expected to be only 30% of the October figure.
  - Sales are then expected to rise by 20% each month on the previous month.

Required

(a) Prepare the Sales Budget showing the number of cars sold for the three-month period October to December 2017. The budget must show the forecast number of cars sold for Asia, Europe, America and Australia for **each** month, and a total forecast sales figure for **each** month using the columns provided in the Question Paper.

(5)

The Zencar is delivered to its export markets using sea transport. The delivery time for America and Australia is one month. The delivery time for Europe is two months. Production for Asia is delivered in the same month as sales.

Soyara plc wishes to increase the inventory of Zencars by 500 cars per month, starting in October 2017.

Required

(b) Prepare, using the columns provided in the Question Paper, the:

(i) Production Budget for Zencars for the five-month period August to December 2017. The budget must show the forecast production for Asia, Europe, America and Australia for **each** month, and a total production figure for **each** month.

(7)

(ii) Inventory Budget for Zencars for the three-month period October to December 2017. The budget should show the number of cars going into inventory **each** month, and the total number of cars in inventory **each** month.

(3)

It is expected that 5% of all cars on the production line will need to be "reworked" to correct small errors. On average, this should take two workers one hour per car to rework. Workers are paid £9.50 per hour.

Required

(c) Prepare, using the columns provided in the Question Paper, a budget to show the cost of "reworking" cars for **each** of the five months August to December 2017.

(5)

90% of the parts for the cars are purchased and delivered for production in the same month. Purchases for the remaining 10% of parts are purchased one month in advance.

Each car will require parts to the value of £2 150.

Required

(d) Prepare, using the columns provided in the Question Paper, a Purchases Budget for **each** of the five months July to November 2017.

(10)

The Zencar will sell for £9 900 per car.

Payment in **Australia** is expected to be made using one of the following three options.

Option 1 – 40% of customers are expected to pay for their new car with cash on the day of purchase.

Option 2 – 35% of customers are expected to buy their new car on the terms "£100 to pay when the car is purchased, then nothing to pay for 18 months". Payment is then made in full 18 months after the date of the sale.

Option 3 – The remaining customers are expected to buy their new car on the terms "10% deposit in the month of sale, then 36 monthly payments of £300, starting one month after the sale".

Required

(e) Prepare, using the columns provided in the Question Paper, an extract from the Cash Received Budget to show the amount of cash received from customers for **each** of the three months, October to December 2017, from sales of Zencar in Australia. The budget must show the amount received **each** month from **each** of the options, and a total for **each** month.

(13)

(f) Evaluate, from the point of view of Soyara plc, **each** of the three payment options, and recommend the most appropriate option.

(12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

SECTION B

Answer THREE questions from this section.

3 The summarised Statements of Financial Position of Kericho Builders plc at 31 March 2016 and 31 March 2017 were as follows:

	31 March 2016	31 March 2017
ASSETS	£ 000	£ 000
Non-current assets		
Non-current assets at cost	525	417
Provision for depreciation	(218)	(209)
Carrying value	307	208
Current assets		
Inventories	46	52
Trade and other receivables	37	34
Cash and cash equivalents	11	—
	94	86
Total assets	401	294
EQUITY AND LIABILITIES		
Equity		
Share capital - £1 ordinary shares	250	250
Retained earnings	49	(2)
Total equity	299	248
Non-current liabilities		
6% debenture 2017	50	---------
Current liabilities		
Trade and other payables	36	43
Tax payable	16	2
Cash and cash equivalents	—	1
	52	46
Total equity and liabilities	401	294

Additional information

- On 1 April 2016 property bought for £156 000 was sold for £228 000. The carrying value of this property was £126 000
- On 1 April 2016 machinery was bought for £48 000 and is expected to last for six years, with no residual value.
- On 18 May 2016 a final dividend of 1.5 pence (£0.015) per share was paid to shareholders.
- On 30 September 2016 the debenture matured and was repaid in full.
- On 30 November 2016 an interim dividend of 0.7 pence (£0.007) per share was paid to shareholders.
- For the year ended 31 March 2017 the operating loss was £43 500

Required

(a) Prepare a Statement of Cash Flows for the year ended 31 March 2017 in accordance with International Accounting Standard (IAS) 7.

(24)

(b) Evaluate how well Kericho Builders plc has managed liquidity in the year ended 31 March 2017.

(6)

(Total for Question 3 = 30 marks)

4 Kwai Chung Construction plc has the opportunity to build a bridge over a large river and charge drivers who use the bridge. The company may be granted a licence to charge drivers for the first 5 years. The cost of the bridge and other start-up costs total £260 million.

The funding of the project is shown below.

	£m	Interest rate/ Expected return
Ordinary shares	90	3%
Preference shares	20	4%
Debenture	70	7%
Bank loan	80	5.75%

Required

(a) Calculate the weighted average cost of capital.

(6)

Additional Information

- In year 1, the number of customers is expected to be 900 000 per week.
- In years 2 and 3, the number of customers is expected to be 945 000 per week.
- In years 4 and 5, the number of customers is expected to be 990 000 per week.
- In years 1 and 2, the charge to customers will be £2.00 per journey.
- In years 3 and 4, the charge to customers will be £2.10 per journey.
- In year 5, the charge to customers will be £2.25 per journey.

The weekly operating costs excluding depreciation and interest are expected to be:

Year	Weekly operating costs (£) (excluding interest and depreciation)
1	400 000
2	420 000
3	420 000
4	440 000
5	440 000

- The bridge is to be depreciated at 20% per annum using the straight line method.
- The bridge will be open for 52 weeks in the year.
- Kwai Chung Construction plc has a company policy that requires investments to give an average rate of return (accounting rate of return) of 6%.

Required

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

(18)

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

(6)

(Total for Question 4 = 30 marks)

5 On 1 April 2016, at the start of the financial year, the following balances were in the books of Knightswell Hotels plc:

	£
£1 Ordinary share capital	12 000 000
Share premium reserve	36 000 000
Retained earnings reserve	8 650 000
General reserve	750 000
Foreign exchange reserve	2 000 000

The following transactions took place in the financial year ending 31 March 2017:

(i) On 23 April 2016 a final dividend for the year ended 31 March 2016 was paid to ordinary shareholders of 4 pence (£0.04) per share.
(ii) On 15 May 2016 a transfer of £900 000 from the Retained earnings reserve to the General reserve was made.
(iii) On 8 July 2016 there was a redemption of 1 000 000 £1 ordinary shares at the market value of £4.00 per share.
(iv) On 23 October 2016 an interim dividend for the year ended 31 March 2017 was paid to ordinary shareholders of 1.1 pence (£0.011) per share.
(v) On 2 December 2016 a hotel property was revalued from £3 700 000, to a market value of £4 850 000
(vi) On 25 January 2017 a transfer of £900 000 from the Foreign exchange reserve to the Retained earnings reserve was made.
(vii) The profit after tax for the year ended 31 March 2017 was £2 450 000

Required

(a) Prepare the journal entries to show **item (iii)** above recorded in the books. Narratives are **not** required.

(6)

(b) Complete, using the table in the Question Paper, the Statement of Changes in Equity for the year ended 31 March 2017, showing the figures in millions of pounds (£m). You should show totals both horizontally and vertically.

(18)

(c) Evaluate, from the point of view of Knightswell Hotels plc, the redemption of ordinary shares on 8 July 2016.

(6)

(Total for Question 5 = 30 marks)

6 Hercules Baggage Limited produces suitcases for travellers. Inventory is valued using both the marginal costing method and the absorption costing method.

The following information is available for the year ended 30 April 2017:

Opening inventory	850 units
Opening inventory value:	Marginal costing £21 250
	Absorption costing £27 200
Production	33 000 units per year
Direct materials	£19.75 per unit
Direct labour	45 minutes work per unit at a wage rate of £8.40 per hour
Semi-variable costs	£8 000 fixed element per month plus £1.40 per unit of production
Fixed overheads	£12 762.50 per month
Sales units	32 750
Selling price	£64 per unit

Required

(a) Prepare a Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2017, in **columnar format**, showing:

- marginal costing inventory valuation.
- absorption costing inventory valuation.

(18)

(b) Explain to management:

(i) **two** advantages of valuing inventory using absorption costing.

(4)

(ii) **one** disadvantage of valuing inventory using absorption costing.

(2)

In April 2017, a potential customer is interested in buying the product, but is only prepared to offer £30 per unit.

(c) Evaluate the offer of £30 per unit and advise Hercules Baggage Limited whether this offer should be accepted.

(6)

(Total for Question 6 = 30 marks)

TOTAL FOR SECTION B = 90 MARKS
TOTAL FOR PAPER = 200 MARKS

BLANK PAGE

BLANK PAGE

BLANK PAGE