GradeMax

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Surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Accounting

International Advanced Level
Paper 2: Corporate and Management Accounting

Friday 3 November 2017 – Morning
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 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 ▶

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Pearson

SECTION A

Answer BOTH questions in this section.

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

1 (a) Calculate, for the month of September 2017, the:

(i) standard cost of **one pair** of trousers

(4)

(ii) actual cost of **20 000 pairs** of trousers

(10)

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(iii) actual cost of **one pair** of trousers.

(3)

(b) Calculate, for the month of September 2017 the:

(i) labour rate variance

(5)

(ii) labour efficiency variance

(4)

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(iii) total labour variance

(3)

(iv) material price variance.

(5)

(c) Complete, for the month of September 2017, in the table below, the reconciliation statement of the total budgeted cost of output to the total actual cost of output.

You must show clearly whether the variance is favourable or adverse.

(6)

	£
Budgeted cost of output	
Labour variance	
Material variance	
Overhead variance	
Variances total	
Actual cost of output	

Workings

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(d) State **three** possible reasons why the fixed overheads for September were lower than budgeted.

(3)

1 .....

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2 .....

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The company operates a system of a 50% mark-up on cost to determine the selling price. The cost of producing each item has risen in September.

(e) Evaluate whether the company should continue with a mark-up on cost of 50%.

(12)

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(Total for Question 1 = 55 marks)

Source material for Question 2 is on pages 4 to 6 of the source booklet.

2 (a) Calculate the value of Homesales plc **after** the revaluations.

(6)

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The directors of Redbricks plc offered shareholders in Homesales plc one ordinary share of £1.00 in Redbricks plc, at a premium of £1.50 (making a total of £2.50), for every £1 ordinary share held.

The shareholders of Homesales plc rejected this offer.

(b) Explain the financial reason why the shareholders of Homesales plc rejected this offer.

(4)

The directors of Redbricks plc made a new offer to shareholders in Homesales plc of one ordinary share of £1.00 in Redbricks plc, at a premium of £2.00 (making a total of £3.00), for every £1 ordinary share held. This offer was accepted by shareholders in Homesales plc.

(c) Calculate the goodwill paid by Redbricks plc for Homesales plc.

(4)

The value of Digital Estates plc was agreed at £42 000 000 for the merger.
Shareholders in Digital Estates plc received 14 000 000 ordinary shares of £1.00 each in Redbricks plc, at a premium of £2.00 per share.

The goodwill paid for Digital Estates plc was £11 780 000

(d) In the books of Digital Estates plc, prepare the:

(i) realisation account

(8)

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(ii) sundry shareholders account.

(8)

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(e) Prepare the statement of financial position of Redbricks plc at 1 October 2017 after the merger.

(13)

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At the first board meeting of Redbricks plc, the Finance Director stated, "We must treat goodwill correctly in the accounts."

(f) Evaluate the accounting treatment of goodwill during and after the merger process.

(12)

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(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

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 to 9 of the source booklet.

3 (a) Calculate, for Year 1, the break-even point in:

(i) sales units

(8)

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(ii) sales revenue.

(2)

(b) Calculate, for Year 1, the:

(i) margin of safety in sales revenue

(3)

(ii) profit for the year.

(4)

The owner of Soundz Around wishes to see the Year 2 estimated figures on a graph.

(c) Prepare and label the following on the graph on page 21:

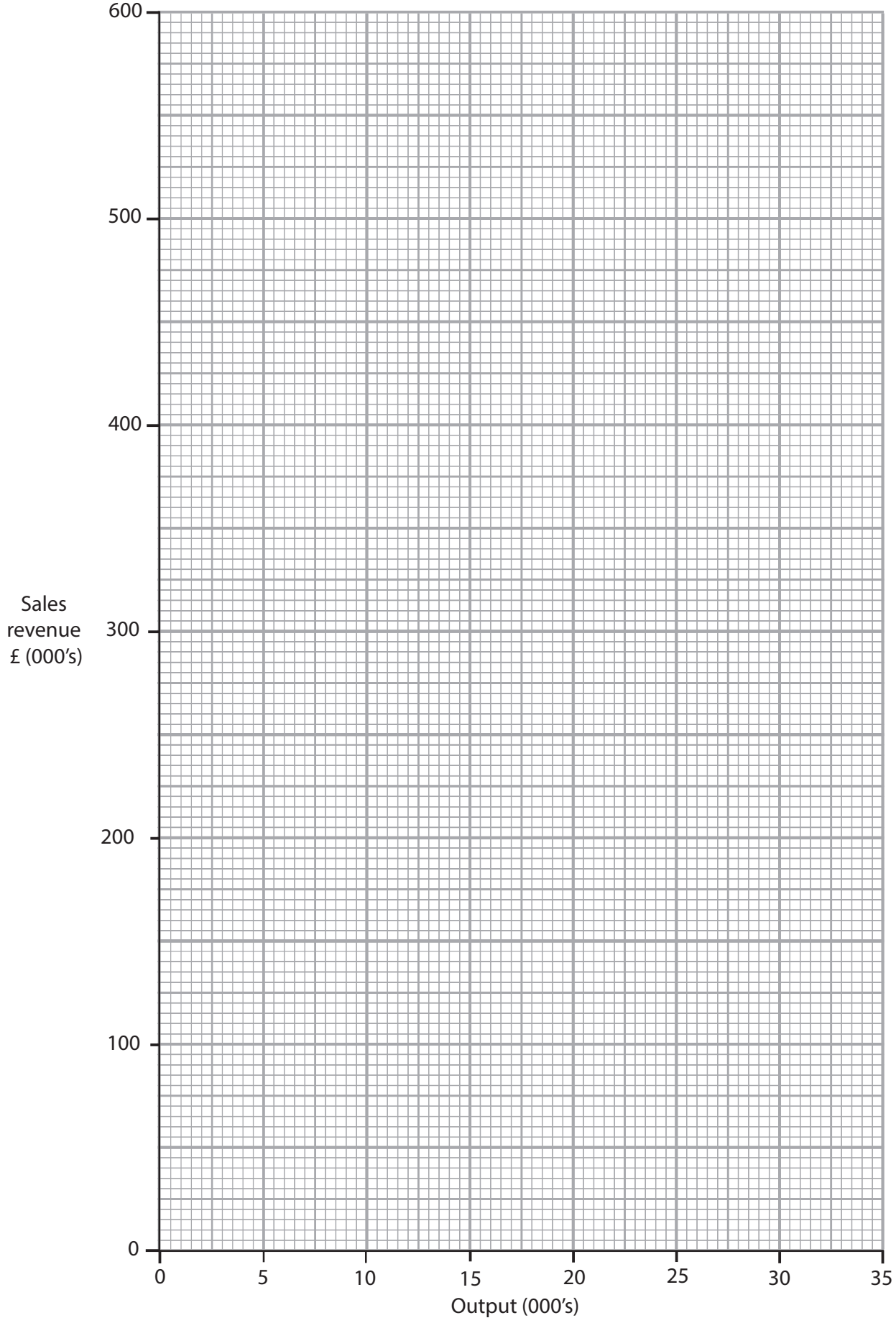
- fixed costs
- total costs
- sales revenue
- break-even point
- margin of safety, measured in sales units
- angle of incidence
- profit for the year.

(7)

Workings

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(d) Evaluate the use of ICT in break-even analysis.

(6)

(Total for Question 3 = 30 marks)

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

Source material for Question 4 is on pages 10 to 11 of the source booklet.

4 (a) Calculate the following ratios:

(i) gross profit as a percentage of revenue

(3)

(ii) return on capital employed

(4)

(iii) earnings per ordinary share

(4)

(iv) dividend paid per ordinary share

(3)

(v) dividend cover

(4)

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(vi) price/earnings ratio

(3)

(vii) dividend yield.

(3)

(b) Evaluate the performance of Lam Tin Investments plc for the year ended 30 September 2017, compared to the financial year ended 30 September 2016.

(6)

(Total for Question 4 = 30 marks)

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

Source material for Question 5 is on page 13 of the source booklet.

5 (a) Complete the table to show the costs for the flexible budget for output levels of 20 000, 22 000 and 25 000 units for year 8.

(24)

Output (units)	20 000	22 000	25 000
Costs	**£**	**£**	**£**
Direct labour			
Direct materials			
Production overheads – semi-variable			
Production overheads – semi-fixed			
Machine maintenance overheads – fixed			
Other overheads – semi-variable			
Total costs			

Workings

(b) Evaluate the usefulness of a flexible budget system for Episkopi Engineering Ltd.

(6)

(Total for Question 5 = 30 marks)

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

Source material for Question 6 is on pages 14 to 16 of the source booklet.

6 (a) Prepare answers to the following:

(i) Inventories decreased during the year.

(2)

State:

- **one** advantage of a decrease in inventories

- **one** disadvantage of a decrease in inventories

(ii) Customers owed £45 000 at the start of the year. Calculate the amount customers owed at the end of the year.

(2)

(iii) Suppliers were owed £33 000 at the end of the year. Calculate the amount suppliers were owed at the start of the year.

(2)

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(iv) The 6% bank loan for £400 000 was taken out in 2014. Calculate the amount of interest accrued on the loan for the year ended 30 September 2017.

(3)

(v) Calculate the profit or loss after interest payments for the year ended 30 September 2017.

(2)

(vi) The non-current asset which was sold during the year consisted of one item. State the book value of the plant when sold.

(3)

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(vii) State **two** reasons why Kontire Digital plc would purchase shares in other companies.

(2)

1 .....

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2 .....

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.....

(viii) The preference shares have a dividend rate of 4% per year, which was paid in full. Calculate the value of the preference shares.

(2)

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(ix) At 1 October 2016, Kontire Digital plc had an overdraft of £27 000. Calculate the cash balance the company had at this date.

(2)

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(x) At 30 September 2017, Kontire Digital plc had £609 000 in cash. Calculate the movement on the bank balance during the year.

(4)

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At the Annual General Meeting, a shareholder stated, "All the figures in the cash flows from financing activities section are negative. This is very worrying."

(b) Evaluate the statement made by the shareholder.

(6)

(Total for Question 6 = 30 marks)

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

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Pearson Edexcel
International Advanced Level

Accounting
International Advanced Level
Paper 2: Corporate and Management Accounting

Friday 3 November 2017 – Morning
Source Booklet

Paper Reference
WAC12/01

Do not return this Source Booklet with the question paper.

Turn over ▶

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SECTION A

Answer BOTH questions in this section.

1 Bengal Star Trousers Limited manufactures trousers at its factory.

The following **budgeted** information was available for September 2017.

Budgeted output 20 000 pairs of trousers.

Standard cost for **one pair** of trousers:

- 15 minutes cutting department labour and 30 minutes sewing department labour
- All labour is paid at a rate of £7.20 per hour
- 2.5 square metres of material at £3.46 per square metre.

Fixed overheads £17 000

The **actual** figures for the four weeks of September 2017 were:

Actual output 20 000 pairs of trousers, produced at a rate of 5 000 pairs per week.

The cutting department labour hours were as budgeted.

Due to problems with the electricity supply, the sewing department labour required an extra 850 hours to complete the output.

Halfway through the month, cutting department labour was awarded a 5% pay rise.

The last week's production of 5 000 pairs of trousers used material costing £3.56 per square metre.

Quantity of material used was as budgeted.

Fixed overheads £15 730

Required

(a) Calculate, for the month of September 2017, the:

(i) standard cost of **one pair** of trousers

(4)

(ii) actual cost of **20 000 pairs** of trousers

(10)

(iii) actual cost of **one pair** of trousers.

(3)

(b) Calculate, for the month of September 2017 the:

(i) labour rate variance

(5)

(ii) labour efficiency variance

(4)

(iii) total labour variance

(3)

(iv) material price variance.

(5)

(c) Complete, for the month of September 2017, in the Question Paper, the reconciliation statement of the total budgeted cost of output to the total actual cost of output.

You must show clearly whether the variance is favourable or adverse.

(6)

(d) State **three** possible reasons why the fixed overheads for September were lower than budgeted.

(3)

The company operates a system of a 50% mark-up on cost to determine the selling price. The cost of producing each item has risen in September.

(e) Evaluate whether the company should continue with a mark-up on cost of 50%.

(12)

(Total for Question 1 = 55 marks)

2 Digital Estates plc decided to merge with Homesales plc. A new company called Redbricks plc was formed on 1 October 2017 with ordinary shares of £1 each.

The Statements of financial position at 30 September 2017

	Digital Estates plc £ 000's		**Homesales plc £ 000's**	
ASSETS				
Non-current assets				
Buildings	22 000		18 000	
Computers	5 600		4 300	
Fixtures and fittings	1 900		1 500	
Motor vehicles	1 200		875	
		30 700		24 675
Current assets				
Inventory	420		370	
Trade receivables	2 950		2 210	
Cash and cash equivalents	870		565	
		4 240		3 145
Total assets		34 940		27 820
EQUITY AND LIABILITIES				
Equity				
Ordinary shares of £1	20 000		10 000	
Share premium	4 000		10 000	
Retained earnings	4 140		3 840	
		28 140		23 840
Non-current liabilities				
Bank loans	5 500		3 100	
		5 500		3 100
Current liabilities				
Trade payables	1 050		770	
Other payables	250		110	
		1 300		880
Total equity and liabilities		34 940		27 820

Redbricks plc took over **all** the assets and liabilities at book value, with the following exceptions.

- Non-current assets were revalued as follows:

	Digital Estates plc £ 000's	**Homesales plc £ 000's**
Buildings	25 000	20 000
Computers	5 000	4 000
Fixtures and fittings	1 700	1 400
Motor vehicles	1 100	700

- Inventory of Digital Estates plc was reduced by £20 000
- Inventory of Homesales plc was reduced by £30 000
- Trade receivables of £100 000 of Homesales plc were written off as bad debts.

Required

(a) Calculate the value of Homesales plc **after** the revaluations.

(6)

The directors of Redbricks plc offered shareholders in Homesales plc one ordinary share of £1.00 in Redbricks plc, at a premium of £1.50 (making a total of £2.50), for every £1 ordinary share held.

The shareholders of Homesales plc rejected this offer.

(b) Explain the financial reason why the shareholders of Homesales plc rejected this offer.

(4)

The directors of Redbricks plc made a new offer to shareholders in Homesales plc of one ordinary share of £1.00 in Redbricks plc, at a premium of £2.00 (making a total of £3.00), for every £1 ordinary share held. This offer was accepted by shareholders in Homesales plc.

(c) Calculate the goodwill paid by Redbricks plc for Homesales plc.

(4)

The value of Digital Estates plc was agreed at £42 000 000 for the merger. Shareholders in Digital Estates plc received 14 000 000 ordinary shares of £1.00 each in Redbricks plc, at a premium of £2.00 per share.

The goodwill paid for Digital Estates plc was £11 780 000

(d) In the books of Digital Estates plc, prepare the:

(i) realisation account

(8)

(ii) sundry shareholders account.

(8)

(e) Prepare the statement of financial position of Redbricks plc at 1 October 2017 after the merger.

(13)

At the first board meeting of Redbricks plc, the Finance Director stated, "We must treat goodwill correctly in the accounts."

(f) Evaluate the accounting treatment of goodwill during and after the merger process.

(12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

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QUESTION 3 BEGINS ON THE NEXT PAGE.

SECTION B

Answer THREE questions from this section.

3 Soundz Around won a contract to supply 35 000 headphone sets in its first year of trading to a multinational retailer. You are the Cost Accountant, and the following information is available for Year 1:

- factory rent was £7 275 per quarter (three months)
- material costs per headphone set £3.85
- direct labour costs per headphone set £5.35
- electricity £6 500 per year plus 3 pence (£0.03) per headphone set
- insurance for the whole business was £220 per month
- other fixed costs were £2 980 per month
- each headphone set sells for £14.99
- the business operates for 50 weeks in a year.

Required

(a) Calculate, for Year 1, the break-even point in:

(i) sales units

(8)

(ii) sales revenue.

(2)

(b) Calculate, for Year 1, the:

(i) margin of safety in sales revenue

(3)

(ii) profit for the year.

(4)

The following figures are estimated for Year 2:

- factory rent will rise to £7 500 per quarter (three months)
- insurance for the whole business will rise by 10%
- other fixed costs will rise by £125 per month
- material costs will rise by 2 pence (£0.02) per headphone set
- labour costs will rise by 5 pence (£0.05) per headphone set
- output and sales are to remain at 35 000 headphone sets
- all other costs and the selling price will remain the same.

The owner of Soundz Around wishes to see the Year 2 estimated figures on a graph.

(c) Prepare and label the following on the graph in the Question Paper:

- fixed costs
- total costs
- sales revenue
- break-even point
- margin of safety, measured in sales units
- angle of incidence
- profit for the year.

(7)

(d) Evaluate the use of ICT in break-even analysis.

(6)

(Total for Question 3 = 30 marks)

4 You are the Finance Director for Lam Tin Investments plc. You have to report at a shareholders meeting on the financial performance of the company for the year ended 30 September 2017. The following information is available for the year ended 30 September 2017.

Issued share capital:	
£1 Ordinary shares	£25 000 000
6% £1 Irredeemable preference shares	£3 000 000
Revenue	£82 000 000
Gross profit	£6 560 000
Net profit after interest and tax	£480 000
8% bank loan repayable 2021	£5 000 000
Ordinary dividends paid for year:	
Interim	£40 000
Final	£120 000
Share price	43.2 pence (£0.432)

Required

(a) Calculate the following ratios:

(i) gross profit as a percentage of revenue

(3)

(ii) return on capital employed

(4)

(iii) earnings per ordinary share

(4)

(iv) dividend paid per ordinary share

(3)

(v) dividend cover

(4)

(vi) price/earnings ratio

(3)

(vii) dividend yield.

(3)

Shareholders have been concerned about the performance of the company. They have expressed a view that they would like to see an improvement on last year's results.

Results for the year ended 30 September 2016 are shown below.

Gross profit as a percentage of revenue	10%
Return on capital employed	1.82%
Earnings per ordinary share	0.08p per share
Dividend per share	2.50p per share
Dividend cover	0.6 times
Price/Earnings ratio	40 times
Dividend yield	5.3%

Required

(b) Evaluate the performance of Lam Tin Investments plc for the year ended 30 September 2017, compared to the financial year ended 30 September 2016.

(6)

(Total for Question 4 = 30 marks)

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QUESTION 5 BEGINS ON THE NEXT PAGE.

5 Episkopi Engineering Ltd manufactures printers and uses a flexible budget system when preparing annual budgets. The production budget for Year 8 is based on the production budget for Year 7.

Production budget for Year 7

Output (units)	21 000
Costs	**£**
Direct labour	201 600
Direct materials	310 800
Production overheads – semi-variable	59 080
Production overheads – semi-fixed	10 640
Machine maintenance overheads – fixed	38 750
Other overheads – semi-variable	22 640
Total costs	643 510

The following information is available for the production budget for Year 8:

- Direct labour will rise by 10% per unit.
- Direct materials will rise by 5% per unit.
- Semi-variable production overheads include a fixed element of £42 700
- The semi-fixed production overhead is depreciation on machinery. Each machine can only produce 3 000 units per year. Each machine costs £8 000 and will operate for 5 years, before being sold for £400
- The other overheads include a variable element of 19 pence (£0.19) per unit.

Required

(a) Complete the table in the question paper to show the costs for the flexible budget for output levels of 20 000, 22 000 and 25 000 units for year 8.

(24)

(b) Evaluate the usefulness of a flexible budget system for Episkopi Engineering Ltd.

(6)

(Total for Question 5 = 30 marks)

6 The Statement of Cash Flows for Kontire Digital plc has been prepared according to International Accounting Standard 7 (IAS 7) and is shown below.

Statement of Cash Flows - Kontire Digital plc for the year ended 30 September 2017

	£ 000's	£ 000's
Cash flows from operating activities		
Profit from operations	1 260	
Add depreciation on non-current assets	324	
Add loss on sale of non-current asset	11	
Operating cash flow before working capital changes	**1 595**	
Decrease in inventories	79	
Increase in trade receivables	(38)	
Decrease in trade payables	(26)	
Cash generated from operations	**1 610**	
Less interest paid: Bank overdraft	(2)	
Bank loan	(22)	
Less tax paid	(270)	
Net cash from operating activities		**1 316**
Cash flows from investing activities		
Payments to purchase non-current assets	(103)	
Proceeds from sale of non-current assets	51	
Payments to purchase shares in other companies	(28)	
Dividends received from shares in other companies	7	
Net cash used in investing activities		**(73)**

Cash flows from financing activities		
Redemption of ordinary shares	(110)	
Dividends paid: Final 2016	(29)	
Interim 2017	(12)	
Preference	(8)	
Net cash used in financing activities		**(159)**
Net increase in cash and cash equivalents		**1 084**
Cash and cash equivalents at the beginning of the year		**119**
Cash and cash equivalents at the end of the year		**1 203**

Required

(a) Prepare answers to the following:

(i) Inventories decreased during the year.

State:

- **one** advantage of a decrease in inventories
- **one** disadvantage of a decrease in inventories

(2)

(ii) Customers owed £45 000 at the start of the year. Calculate the amount customers owed at the end of the year.

(2)

(iii) Suppliers were owed £33 000 at the end of the year. Calculate the amount suppliers were owed at the start of the year.

(2)

(iv) The 6% bank loan for £400 000 was taken out in 2014. Calculate the amount of interest accrued on the loan for the year ended 30 September 2017.

(3)

(v) Calculate the profit or loss after interest payments for the year ended 30 September 2017.

(2)

(vi) The non-current asset which was sold during the year consisted of one item. State the book value of the plant when sold.

(3)

(vii) State **two** reasons why Kontire Digital plc would purchase shares in other companies.

(2)

(viii) The preference shares have a dividend rate of 4% per year, which was paid in full. Calculate the value of the preference shares.

(2)

(ix) At 1 October 2016, Kontire Digital plc had an overdraft of £27 000. Calculate the cash balance the company had at this date.

(2)

(x) At 30 September 2017, Kontire Digital plc had £609 000 in cash. Calculate the movement on the bank balance during the year.

(4)

At the Annual General Meeting, a shareholder stated, "All the figures in the cash flows from financing activities section are negative. This is very worrying."

(b) Evaluate the statement made by the shareholder.

(6)

(Total for Question 6 = 30 marks)

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