GradeMax

Please check the examination details below before entering your candidate information

Candidate surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | Candidate Number

Tuesday 6 November 2018

Afternoon (Time: 3 hours) | Paper Reference **WAC12/01**

Accounting

International Advanced Level
Paper 2: Corporate and Management Accounting

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 ▶

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SECTION A

Answer BOTH questions in this section.

Source material for Question 1 is on pages 2 to 5 of the source booklet.

1 (a) Calculate the purchase price of Roseberry plc.

(5)

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(b) Calculate the value of the goodwill paid by Tittan Foods plc when purchasing Roseberry plc.

(11)

(c) Prepare the Acquisition Account in the books of Tittan Foods plc to show the purchase of Roseberry plc.

(11)

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(d) Prepare the Statement of Financial Position of Tittan Foods plc at 1 October 2018 **after** the purchase of Roseberry plc.

(16)

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(e) Evaluate the purchase by Tittan Foods plc of Roseberry plc, from the point of view of a shareholder of Tittan Foods plc. Your evaluation should include financial and non-financial considerations.

(12)

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(Total for Question 1 = 55 marks)

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QUESTION 2 BEGINS ON THE NEXT PAGE.

Source material for Question 2 is on pages 6 to 8 of the source booklet.

2 (a) Calculate, for the production of 462 curtains for October Week 3, the:

(i) budgeted labour cost of production

(3)

(ii) actual labour cost of production

(4)

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(iii) labour efficiency variance

(4)

(iv) labour rate variance

(4)

(v) total labour cost variance.

(3)

(b) Calculate, for the production of 462 curtains for October Week 3, the:

(i) actual material cost of production

(5)

(ii) budgeted material cost of production

(2)

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(iii) material usage variance

(4)

(iv) material price variance

(4)

(v) total material cost variance.

(3)

(c) Calculate, for the production of 462 curtains for October Week 3, the:

(i) total budgeted cost

(2)

(ii) total actual cost

(2)

(iii) total variance.

(3)

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(d) Evaluate the performance of the Curtains section for the third Week of October. Your evaluation should include some recommendations for improvements in the performance of the Curtains section.

(12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

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SECTION B BEGINS ON THE NEXT PAGE.

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 10 to 13 of the source booklet.

3 (a) (i) State **two** examples of intangible assets, other than brand names.

(1)

1 .....

2 .....

The cash balance is £377 000

(ii) Calculate the bank balance.

(2)

.....

.....

.....

.....

Interest on the bank loan is paid monthly. The interest for June 2018 has not been paid.

(iii) Calculate the amount of interest owing on the bank loan.

(2)

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Debenture interest is paid in two instalments, every six months.

(iv) Calculate the value of **one** instalment.

(2)

The debenture is secured.

(v) Explain the meaning of the term **secured**.

(2)

The Retained Earnings Account had a debit balance of £743 000 at the start of the financial year. The profit or loss for the year was the only entry into the Retained Earnings Account.

(vi) Calculate the profit or loss for the year ended 30 June 2018.

(2)

(vii) State under which line item on the Statement of Financial Position you would show each of the following:

- rent paid in advance for the warehouse
- unsold books in the warehouse.

(2)

(viii) Explain what is meant by the term **irredeemable** when describing the Preference shares.

(2)

.....

.....

.....

.....

(ix) State **two** examples of provisions that could be included in the figure of £400 000 for Provisions under Current liabilities.

(2)

1 .....

2 .....

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(b) Prepare the following accounts for the year ended 30 June 2018:

(i) Property, Plant and Equipment Cost Account

(3)

(ii) Property, Plant and Equipment Provision for Depreciation Account.

(4)

(c) Evaluate whether it is beneficial for a company to create provisions.

(6)

(Total for Question 3 = 30 marks)

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QUESTION 4 BEGINS ON THE NEXT PAGE.

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

Source material for Question 4 is on page 14 of the source booklet.

4 (a) Prepare, for **each** of the **four** months from January to April 2019, the:

(i) purchases budget, in pounds (£)

(2)

(ii) cash budget extract, showing the amount paid to suppliers

(8)

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(iii) trade payables budget showing the amount owed to suppliers at the end of each month.

(10)

Suppliers have stated that they will offer a 2% discount if Zimba Timber Limited pay for its **credit purchases** within the same month as the purchase.

(b) Calculate, for the four months January to April 2019, the total amount of discount Zimba Timber Limited would receive if it accepted the offer of a 2% discount for payment within the same month as the credit purchase.

(4)

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(c) Evaluate, from the viewpoint of Zimba Timber Limited, whether it should pay suppliers within the same month as purchase.

(6)

(Total for Question 4 = 30 marks)

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

Source material for Question 5 is on pages 16 and 17 of the source booklet.

5 (a) Calculate, for the year ended 28 February 2019, the:

(i) number of drinks that need to be sold to break-even

(11)

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(ii) forecast profit for the year.

(5)

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(b) Calculate, in order to achieve the target profit:

(i) the required contribution per drink sold

(5)

(ii) a suitable pay rate to pay sellers for each drink sold, and a selling price for each drink sold.

(3)

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The town authorities require all businesses that sign a contract with them to produce audited financial statements for their inspection.

(c) Evaluate the decision of the town authorities requiring Jacinda's business to produce audited financial statements for inspection.

(6)

(Total for Question 5 = 30 marks)

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

Source material for Question 6 is on pages 18 and 19 of the source booklet.

6 (a) Calculate, for Chinoso plc, the:

(i) total ordinary dividend paid for the year

(3)

(ii) market price of shares

(3)

(iii) dividend yield.

(3)

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(b) Calculate, for Paxorient plc, the:

(i) earnings per ordinary share

(6)

(ii) dividend cover

(3)

(iii) price earnings ratio

(3)

(iv) dividend paid per share.

(3)

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(c) Evaluate the relevant information available and recommend to Fu Wong which company he should invest in.

(6)

(Total for Question 6 = 30 marks)

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

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GradeMax

Pearson Edexcel International Advanced Level

Tuesday 6 November 2018

Afternoon | Paper Reference **WAC12/01**

Accounting

International Advanced Level
Paper 2: Corporate and Management Accounting

Source Booklet

Do not return this source booklet with the question paper.

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SECTION A

Answer BOTH questions in this section.

1 Tittan Foods plc is a large, multinational producer of a range of foods, including chocolate products.

Roseberry plc has been producing a chocolate bar, Cocoatopa, from its factory for many years.

On 1 October 2018 Tittan Foods plc agreed to purchase Roseberry plc.

The purchase price was agreed as follows:

For every five shares held in Roseberry plc, shareholders would receive:

- two shares in Tittan Foods plc, valued at the trading price of £1.95 per share
- a cash payment of £0.32 (32 pence)

The Statements of Financial Position of the two companies on 30 September 2018, before any revaluations were as follows:

	TITTAN FOODS plc		**ROSEBERRY plc**	
	£ 000	**£ 000**	**£ 000**	**£ 000**
Assets				
Non-current Assets (carrying value)				
Property, plant and equipment	525 000		74 280	
Intangible assets	142 000		28 000	
		667 000		102 280
Current Assets				
Inventories	41 900		11 788	
Trade and other receivables	21 600		2 354	
Cash and cash equivalents	238 000		164	
		301 500		14 306
Total Assets		968 500		116 586

Equity and Liabilities				
Equity				
Ordinary shares of £1 each	210 000		- - -	
Ordinary shares of £0.25 each	- - -		38 000	
Share premium	50 000		4 750	
General reserve	40 000		14 250	
Retained earnings	314 597		9 137	
Total Equity		614 597		66 137
Non-current Liabilities				
Mortgage	185 000		26 475	
Debenture	75 000		- - -	
Bank loan	- - -		15 000	
		260 000		41 475
Current Liabilities				
Trade and other payables	18 638		3 393	
Current tax payable	75 265		4 781	
Short-term provisions	- - -		800	
		93 903		8 974
Total Equity and Liabilities		968 500		116 586

Required

(a) Calculate the purchase price of Roseberry plc.

(5)

The directors at Tittan Foods plc proposed the following:

Tittan Foods plc to take-over all of the assets of Roseberry plc except cash and cash equivalents.

Tittan Foods plc to settle all the liabilities of Roseberry plc except:

- the current tax payable
- trade payables of £2 170 000
- the short-term provision of £800 000

The assets of Roseberry plc were revalued:

- property with a carrying value of £27 000 000 to a current market value of £35 000 000
- plant with a carrying value of £11 000 000 was reduced by 10%
- inventories were reduced by £750 000
- the chocolate brand, Cocoatopa, was classed as an intangible, and the total intangible assets value increased to £62 000 000

The proposals of the directors of Tittan Foods plc were approved by the shareholders of Roseberry plc.

Required

(b) Calculate the value of the goodwill paid by Tittan Foods plc when purchasing Roseberry plc.

(11)

(c) Prepare the Acquisition Account in the books of Tittan Foods plc to show the purchase of Roseberry plc.

(11)

(d) Prepare the Statement of Financial Position of Tittan Foods plc at 1 October 2018 **after** the purchase of Roseberry plc.

(16)

Two weeks after the purchase of Roseberry plc, Tittan Foods plc announced that the:

- factory producing the Cocoatopa would be closed and production would move to a low cost factory abroad
- size of the chocolate bars would be reduced although the price would remain the same, in order to increase profits.

(e) Evaluate the purchase by Tittan Foods plc of Roseberry plc, from the point of view of a shareholder of Tittan Foods plc. Your evaluation should include financial and non-financial considerations.

(12)

(Total for Question 1 = 55 marks)

2 Galle Homes Limited produces soft furnishings at its factory. You are the Cost Accountant and have been asked to look at the performance of the Curtains section in October Week 3.

- The company has a contract to supply 462 curtains a week, which must be met.
- Each member of staff has a target output of 66 curtains per week.
- The section employs 7 workers.
- The standard cost of producing one curtain is:
  - 40 minutes labour, with labour being paid at £7.20 per hour
  - 6 square metres of cotton material at 28 pence (£0.28) per square metre.
- Labour is scheduled to work 44 hours per week paid at £7.20 per hour.
- Any overtime worked is paid at the rate of £9.60 per hour.

The staff production sheets for the Curtains section for October Week 3 recorded the following details.

STAFF PRODUCTION SHEET		
NAME	**HOURS**	**PRODUCTION – CURTAINS**
Ashan De Silva	44	66
Amaya Corea	44	63
Lakmal Jayasuriya	44	68
Pradeep Jayakody	28	42
Ravi Liyange	49	74
Roshani Perera	50	76
Sanju Ranatunga	48	73

Pradeep Jayakody was absent for two days.

Required

(a) Calculate, for the production of 462 curtains for October Week 3, the:

(i) budgeted labour cost of production

(3)

(ii) actual labour cost of production

(4)

(iii) labour efficiency variance

(4)

(iv) labour rate variance

(4)

(v) total labour cost variance.

(3)

Galle Homes Limited's inventory records for the start of October Week 3 recorded the following:

- opening balance of 1 150 metres of cotton material, valued at £0.27 (27 pence) per metre, in the inventory at the start of the week
- deliveries received:
  - October 16 – 1 500 metres at £0.28 (28 pence) per metre
  - October 18 – 1 500 metres at £0.29 (29 pence) per metre
- At the end of October Week 3 there were 1 020 metres of cotton material in inventory
- The company uses the FIFO (First In First Out) method of inventory valuation.

Required

(b) Calculate, for the production of 462 curtains for October Week 3, the:

(i) actual material cost of production

(5)

(ii) budgeted material cost of production

(2)

(iii) material usage variance

(4)

(iv) material price variance

(4)

(v) total material cost variance.

(3)

(c) Calculate, for the production of 462 curtains for October Week 3, the:

(i) total budgeted cost

(2)

(ii) total actual cost

(2)

(iii) total variance.

(3)

(d) Evaluate the performance of the Curtains section for the third week of October. Your evaluation should include some recommendations for improvements in the performance of the Curtains section.

(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 Dolphin plc produces a wide range of books. The Statement of Financial Position of Dolphin plc at 30 June 2018 has been drawn up in accordance with International Accounting Standards (IAS) 1 and is shown below.

Statement of Financial Position at 30 June 2018	
ASSETS	**£000**
Non-current assets	
Intangibles	266
Property, plant and equipment carrying value	14 000
	14 266
Current assets	
Inventories	5 608
Trade receivables	1 846
Other receivables	104
Cash and cash equivalents	249
	7 807
Total Assets	22 073
Equity	
Share capital - Ordinary shares of £1	11 323
5% Irredeemable preference shares of £1	1 200
Share premium	2 500
Revaluation reserve	2 000
Retained earnings	(578)
Total equity	16 445

Non-current liabilities	
5.75% Debenture	2 500
6.5% Bank loan	800
	3 300
Current liabilities	
Trade payables	1 484
Other payables	51
Current tax payable	393
Provisions	400
	2 328
Total liabilities	5 628
Total Equity and Liabilities	22 073

Required

(a) (i) State **two** examples of intangible assets, other than brand names.

(1)

The cash balance is £377 000

(ii) Calculate the bank balance.

(2)

Interest on the bank loan is paid monthly. The interest for June 2018 has not been paid.

(iii) Calculate the amount of interest owing on the bank loan.

(2)

Debenture interest is paid in two instalments, every six months.

(iv) Calculate the value of **one** instalment.

(2)

The debenture is secured.

(v) Explain the meaning of the term **secured**.

(2)

The Retained Earnings Account had a debit balance of £743 000 at the start of the financial year. The profit or loss for the year was the only entry into the Retained Earnings Account.

(vi) Calculate the profit or loss for the year ended 30 June 2018.

(2)

(vii) State under which line item on the Statement of Financial Position you would show each of the following:

- rent paid in advance for the warehouse
- unsold books in the warehouse.

(2)

(viii) Explain what is meant by the term **irredeemable** when describing the Preference shares.

(2)

(ix) State **two** examples of provisions that could be included in the figure of £400 000 for Provisions under Current liabilities.

(2)

At the start of the year, the company had property, plant and equipment that cost £15 000 000 with a carrying value of £14 500 000

During the year, the following transactions took place:

- 22 October 2017, sold a property that cost £3 500 000, with accumulated depreciation of £300 000, for £3 800 000 payment being received by cheque
- 20 December 2017, bought printing equipment for £1 600 000 on credit from Crown Printing Machinery Limited
- The Revaluation reserve was created on 3 January 2018.

Required

(b) Prepare the following accounts for the year ended 30 June 2018:

(i) Property, Plant and Equipment Cost Account

(3)

(ii) Property, Plant and Equipment Provision for Depreciation Account.

(4)

(c) Evaluate whether it is beneficial for a company to create provisions.

(6)

(Total for Question 3 = 30 marks)

4 Zimba Timber Limited is to start business on 1 January 2019 buying timber from suppliers, which is then sold to customers.

The following budgeted information is available concerning purchases for the store:

- In the period January to April 2019 purchases are expected to be 2 600 units per month
- The average cost of purchase will be £14 per unit
- The breakdown of purchases will be:
  - 45% for cash
  - 35% on one month's credit
  - 15% on two months credit
  - 5% on three months credit.

You are the accountant for Zimba Timber Limited, and have to prepare the budgets in columnar format.

Required

(a) Prepare, for **each** of the **four** months from January to April 2019, the:

(i) purchases budget, in pounds (£)

(2)

(ii) cash budget extract, showing the amount paid to suppliers

(8)

(iii) trade payables budget showing the amount owed to suppliers at the end of each month.

(10)

Suppliers have stated that they will offer a 2% discount if Zimba Timber Limited pay for its **credit purchases** within the same month as the purchase.

(b) Calculate, for the four months January to April 2019, the total amount of discount Zimba Timber Limited would receive if it accepted the offer of a 2% discount for payment within the same month as the credit purchase.

(4)

(c) Evaluate, from the viewpoint of Zimba Timber Limited, whether it should pay suppliers within the same month as purchase.

(6)

(Total for Question 4 = 30 marks)

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5 Jacinda started a business selling soft drinks from mobile freezers in sites popular with tourists. The town authorities have signed a contract that allowed Jacinda to sell drinks from four sites, for the seven summer months of the year, starting 1 March 2018. For the remaining five months, Jacinda does not trade.

The following information is available for the business for the year ended 28 February 2019:

- Each site will be rented for seven months of the year. Rent of site per month:

Downs Park	North Beach	Pavilion Park	South Beach
£100	£120	£80	£160

- Drinks are sold for £0.55 (55 pence) each
- Drink sellers receive £0.20 (20 pence) for each drink sold
- Insurance for the year is £1 250
- Drinks are purchased for £0.11 (11 pence) each from wholesalers
- The mobile freezers cost £2 700 each and are expected to last for nine years. Jacinda has one for each site and a spare in case of a breakdown
- A small storage warehouse is rented for £275 per quarter (three months). This warehouse is rented for a full year
- Electricity bill is £35 per month, for every month of the year
- As part of the contract, the town authorities will charge a local tax of £0.01 (1 pence) on every drink sold
- Loan interest and repayment is £285 per month, for every month of the year
- Sales for each site (drinks per day) are:

Downs Park	North Beach	Pavilion Park	South Beach
110	210	175	180

- Drinks are sold for 200 days of the year.

Required

(a) Calculate, for the year ended 28 February 2019, the:

(i) number of drinks that need to be sold to break-even

(11)

(ii) forecast profit for the year.

(5)

The following information is available for the second year of trading, ended 29 February 2020:

- Fixed costs will total £11 000 for the year
- Drinks will be purchased for £0.12 (12 pence) each
- The council will charge a tax of £0.02 (2 pence) for every drink sold
- Jacinda has promised the drink sellers a pay rise, for every drink sold, in the second year
- Target profit for the year will be £21 400
- The number of drinks sold will remain constant.

Required

(b) Calculate, in order to achieve the target profit:

(i) the required contribution per drink sold

(5)

(ii) a suitable pay rate to pay sellers for each drink sold, and a selling price for each drink sold.

(3)

The town authorities require all businesses that sign a contract with them to produce audited financial statements for their inspection.

(c) Evaluate the decision of the town authorities requiring Jacinda's business to produce audited financial statements for inspection.

(6)

(Total for Question 5 = 30 marks)

6 Fu Wong has a sum of money, which he wishes to invest in shares. He has decided to invest in one of two companies, Chinoso plc or Paxorient plc. Fu Wong has carried out research on the internet and found the following information.

	Chinoso plc	**Paxorient plc**
Number of £0.50 (50 pence) ordinary shares issued	15 000 000	20 000 000
5% Bank loan repayable 2020	£5 000 000	----------
6% Debenture payable in 2022	----------	£2 500 000
Net profit before interest and tax for year	£2 800 000	£3 600 000
Tax payable	£300 000	£450 000
Earnings per ordinary share	£0.15 (15 pence)	**To be calculated**
Total ordinary dividend paid for the year	**To be calculated**	£1 000 000
Dividend cover	2.5 times	**To be calculated**
Market price of shares	**To be calculated**	£0.90 (90 pence)
Price earnings ratio	8.4 times	**To be calculated**
Dividend paid per share	£0.06 (6 pence)	**To be calculated**
Dividend yield	**To be calculated**	5.55%

Fu Wong knows you are an accountant and asks you for advice. He would like your assistance in calculating the missing information in the table.

Required

(a) Calculate, for Chinoso plc, the:

(i) total ordinary dividend paid for the year

(3)

(ii) market price of shares

(3)

(iii) dividend yield.

(3)

(b) Calculate, for Paxorient plc, the:

(i) earnings per ordinary share

(6)

(ii) dividend cover

(3)

(iii) price earnings ratio

(3)

(iv) dividend paid per share.

(3)

(c) Evaluate the relevant information available and recommend to Fu Wong which company he should invest in.

(6)

(Total for Question 6 = 30 marks)

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

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