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 | | | | |

Monday 10 June 2019

Morning (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 Source Booklet 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 ▶

P56554A

©2019 Pearson Education Ltd.

1/1/1/1/1/1/1/1/1/1/1/1

P 5 6 5 5 4 A 0 1 3 6

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) Prepare the cash budget, in columnar format, for **each** of the **first three months** of the business.

(22)

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

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

Marina's Nail Parlour – Cash Budget

	Month 1	Month 2	Month 3

	Month 1	Month 2	Month 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) Prepare the budgeted Statement of Profit or Loss and Other Comprehensive Income for Marina's nail parlour for the **first year** of business.

(21)

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

GradeMax

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 use of budgets for a new business.

(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

GradeMax

(Total for Question 1 = 55 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

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 2 is on pages 4 and 5 of the Source Booklet.

2 (a) Calculate, for the year ending 31 March 2019, giving your answers to two decimal places, the:

(i) gross profit as a percentage of revenue

(4)

(ii) net profit for the year after tax as a percentage of revenue

(3)

(iii) return on capital employed

(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

(iv) earnings per ordinary share

(4)

(v) price earnings ratio

(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

(vi) dividend per share

(4)

(vii) dividend cover

(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

(viii) dividend yield

(3)

(ix) gearing ratio.

(5)

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

Highlands Fruit Trading plc disclosed in its Annual Report that it would not be continuing to operate its own ships to deliver its fruit to foreign customers. In the future it will be paying other shipping companies to deliver the fruit.

(b) Explain how **continuing activities** and **discontinued activities** would be disclosed in the Annual Report available to shareholders, and why it is important to disclose the activities in this way.

(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

(c) Evaluate the financial performance and position of Highlands Fruit Trading plc, to determine if the company would be a good investment for the stockbroker's clients.

(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

GradeMax

(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

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 page 6 of the Source Booklet.

3 (a) Prepare the flexed budget to show the total material cost and the total labour cost of producing 2 280 pairs of shoes in May 2019.

(4)

GradeMax

(b) Calculate, for May 2019, the following variances:

(i) material usage

(4)

(ii) material price

(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

GradeMax

(iii) total material

(2)

(iv) labour efficiency

(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

GradeMax

(v) labour rate

(4)

(vi) total labour.

(2)

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 performance of Colombo Footwear Ltd for May 2019.

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

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

Source material for Question 4 is on pages 8 and 9 of the Source Booklet.

4 (a) State **one** factor that would be considered when deciding on the value to be agreed for each of the following. You should use a different factor for **each** asset or liability.

(5)

- Property, plant and equipment

- Motor vehicles

- Other inventory

- Trade receivables

- Trade payables

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 value of the goodwill paid by Autoflow plc for Pumping Gas plc.

(5)

(c) Prepare extracts from the Statement of Financial Position of Autoflow plc at 1 April 2019, showing the individual items and the total, of:

(i) non-current assets

(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

GradeMax

(ii) equity.

(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

Natalie is an investor, who held shares in Pumping Gas plc.

(d) Evaluate the merger from Natalie's point of view.

(6)

(Total for Question 4 = 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

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

Source material for Question 5 is on pages 10 and 11 of the Source Booklet.

5 (a) Calculate the weighted average cost of capital for **Option B**.

(6)

(b) Identify which of the two options, A or B, would be the best to finance the project, giving a reason for your answer.

(2)

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

(c) Explain **two** reasons why the interest rate on a bank loan may be higher than the expected return of an ordinary shareholder.

(4)

1 .....

.....

.....

2 .....

.....

.....

(d) Calculate the net present value of the project at the end of Year 5.

(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

GradeMax

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

(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

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

Source material for Question 6 is on pages 12 and 13 of the Source Booklet.

6 (a) Calculate the number of bonus ordinary shares of £1 issued to:

(4)

- Ali

- Dev.

(b) Calculate the number of shares now held by shareholders not in the family after the bonus issue.

(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) Explain **two** reasons why a bonus issue of shares may be made by a company.

(4)

1 .....

.....

.....

.....

.....

2 .....

.....

.....

.....

.....

(d) Prepare the Journal entries for the issue of the bonus shares.
Dates and narratives must be shown.

(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

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

An interim dividend of 0.6 pence (£0.006) per share was paid in October 2018.

At the end of the financial year 2018–2019, the company decided to pay a final dividend of 1.8 pence (£0.018) per share, to be paid on 28 March 2019.

(e) Calculate the total amount paid as dividends for the financial year 2018–2019.

(4)

During the financial year 2018–2019, the company decided to reduce the general reserve to £6 000, transferring the balance to retained earnings.

The net profit after tax for the year was £219 000

(f) Calculate the balance in the Retained Earnings Account at 31 March 2019.

(4)

Sunshine Stores Ltd proposed raising further capital to open another store. The company decided to issue 5% preference shares, but was not sure whether they should be redeemable preference shares or irredeemable preference shares. Ali prepared a summary of the two types of preference shares, which was to be discussed at the next board meeting.

(g) Evaluate, from the viewpoint of the company, whether Sunshine Stores Ltd should issue redeemable preference shares or irredeemable preference shares.

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

GradeMax

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

GradeMax

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

BLANK PAGE

GradeMax

Pearson Edexcel International Advanced Level

Monday 10 June 2019

Morning | 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.

Turn over ▶

P56554A

©2019 Pearson Education Ltd.

1/1/1/1/1/1/1/1/1/1/1/1/1

P 5 6 5 5 4 A

Pearson

SECTION A

Answer BOTH questions in this section.

1 Marina plans to open a nail parlour, providing manicures to customers. You are the accountant for Marina. The following forecast information relating to cash payments of the business is shown below.

- Marina will invest £10 000 of her savings in cash.
- Marina will borrow £10 000 from a bank at an interest rate of 9% per year.
- Repayment of the loan will be in 60 monthly instalments of £240, starting on the last day of Month 1. Each £240 instalment will consist of £75 interest and £165 loan repayment.
- The bank has agreed an overdraft limit of £2 000. Interest is to be charged on overdrawn balances at the end of each month at a yearly rate of 12%, to be paid monthly on the first day of the following month.
- Premises, at a rental of £840 a month, require immediate alterations costing £7 375, which will be depreciated over 25 years.
- The premises will also be redecorated at a cost of £1 450
- Fixtures and fittings costing £4 700 will be purchased and depreciated over 20 years.
- Furniture costing £2 900 will be purchased and depreciated over 10 years.
- Equipment costing £1 600 will be purchased and depreciated over 5 years.
- Marina will sell nail accessories, e.g. polish and lotions, to customers. The initial inventory of nail accessories will be purchased for £1 200
- The electricity bill will be £125 a month, payable in advance on the first day of each month as from Month 1.
- The gas bill will be £210 per quarter (three-month period), payable in arrears on the last day of Month 3 and then every three months.
- The water bill will be £570 for the year, payable in full on the first day of Month 1.

The business will be open for customers from the start of Month 2. The following forecast information is shown below.

- The nail parlour will be open for nine hours a day, six days a week. There are four weeks in a month.
- On average, each customer will be charged £25 for a manicure and spend £5 on nail accessories.
- There will be 12 customers per day.
- The mark-up on nail accessories will be 100%.
- Nail accessories sold will be replaced and paid for at the end of each week.

- One member of staff, Florentia, will be employed by Marina and she will serve half of the customers. Florentia will be paid commission only, earning 35% of the income from manicures she carries out, and 50% of the income from nail accessories she sells. Florentia will sell half of all nail accessories.
- Florentia will be paid weekly.
- Starting in Month 2, Marina will take £400 per week as drawings from the business.

The bank has asked for certain documents to be prepared if it is to provide the loan and overdraft facilities. As Marina's accountant you have to prepare these documents.

Required

(a) Prepare the cash budget, in columnar format, for **each** of the **first three months** of the business.

(22)

(b) Prepare the budgeted Statement of Profit or Loss and Other Comprehensive Income for Marina's nail parlour for the **first year** of business.

(21)

(c) Evaluate the use of budgets for a new business.

(12)

(Total for Question 1 = 55 marks)

2 You are an accountant for Ngugi Kinyor stockbrokers. You have to report on the financial statements of Highlands Fruit Trading plc to help the partners advise their clients on possible investments.

Information concerning the performance of Highlands Fruit Trading plc for the financial year ending 31 March 2019 is given below.

Issued share capital	48 million ordinary shares of 25 pence (£0.25) issued at a premium of 60 pence (£0.60) per share. 5 million 7% irredeemable preference shares of £1.20 each
Other reserves	£26 950 000
9% Debenture 2024	£6 000 000
11% bank loan repayable 2022	£10 000 000
Revenue	£211 000 000
Cost of sales	£157 000 000
Net profit for the year after interest	£3 812 000
Tax on profit	£635 000
Interim ordinary dividend paid for the year	0.8 pence (£0.008) per share
Final ordinary dividend paid for the year	£1 152 000
Market share price	£1.44

Required

(a) Calculate, for the year ending 31 March 2019, giving your answers to two decimal places, the:

(i) gross profit as a percentage of revenue

(4)

(ii) net profit for the year after tax as a percentage of revenue

(3)

(iii) return on capital employed

(8)

(iv) earnings per ordinary share

(4)

(v) price earnings ratio

(3)

(vi) dividend per share

(4)

(vii) dividend cover

(3)

(viii) dividend yield

(3)

(ix) gearing ratio.

(5)

Highlands Fruit Trading plc disclosed in its Annual Report, that it would not be continuing to operate its own ships to deliver its fruit to foreign customers. In the future, it will be paying other shipping companies to deliver the fruit.

(b) Explain how **continuing activities** and **discontinued activities** would be disclosed in the Annual Report available to shareholders, and why it is important to disclose the activities in this way.

(6)

(c) Evaluate the financial performance and position of Highlands Fruit Trading plc, to determine if the company would be a good investment for the stockbroker's clients.

(12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

SECTION B

Answer THREE questions from this section.

3 Colombo Footwear Ltd employs skilled workers to manufacture high quality leather shoes. The company uses a flexed budget system.

The budget for May 2019 was:

- production of 2 400 pairs of shoes
- 1 600 square metres of leather material at £120 per square metre
- 1 800 hours of labour at £14.00 per hour.

During May 2019, the wholesale market price of leather increased.

The actual figures for May 2019 were:

- production of 2 280 pairs of shoes
- 1 440 square metres of leather material at £125 per square metre
- 1 584 hours of labour at £14.50 per hour.

Required

(a) Prepare the flexed budget to show the total material cost and total labour cost of producing 2 280 pairs of shoes in May 2019.

(4)

(b) Calculate, for May 2019, the following variances:

(i) material usage

(4)

(ii) material price

(4)

(iii) total material

(2)

(iv) labour efficiency

(4)

(v) labour rate

(4)

(vi) total labour.

(2)

(c) Evaluate the performance of Colombo Footwear Ltd for May 2019.

(6)

(Total for Question 3 = 30 marks)

BLANK PAGE

QUESTION 4 BEGINS ON THE NEXT PAGE.

4 Pumping Gas plc decided to merge with Roadside Fuel plc to form a new company called Autoflow plc, which was formed on 1 April 2019.

Both companies operate service and petrol filling stations on major roads and in towns.

The Statement of Financial Position of the two merging companies at 31 March 2019, before any revaluations, are shown below.

	Pumping Gas plc		**Roadside Fuel plc**	
ASSETS	£m	£m	£m	£m
Non-current assets				
Property, plant and equipment	313		177	
Fixtures and fittings	8		3	
Motor vehicles	1		1	
		322		181
Current assets				
Inventory – fuel	55		44	
Other inventory	8		7	
Trade receivables	4		3	
Other receivables	1		1	
Cash and cash equivalents	18		9	
		86		64
Total Assets		**408**		**245**
EQUITY AND LIABILITIES				
Equity				
Ordinary shares of £1 each	90		80	
Share premium	35		44	
Retained earnings	21		(3)	
General reserve	14		7	
Total Equity		160		128
Non-current liabilities				
Mortgage	147		66	
Debenture	25		--	
Bank loan	34		24	
		206		90
Current liabilities				
Trade payables	37		24	
Other payables	5		3	
		42		27
Total Equity and Liabilities		**408**		**245**

Autoflow plc took over all the assets and all the liabilities of both companies at book value, with the following exceptions.

- The property value was increased as follows:

  Pumping Gas plc by £28 m

  Roadside Fuel plc by £16 m.

- The plant of Roadside Fuel plc was reduced in value by £3m.
- The fixtures and fittings of Pumping Gas plc were valued at £7m.
- The value of the fuel inventory in the Statement of Financial Position was based on a fuel price of £1.10 per litre.
- The fuel inventory was to be revalued using the wholesale market price on 31 March 2019 of £1.20 per litre.
- Goodwill of £5 million was paid for Roadside Fuel plc.
- The purchase price of Pumping Gas plc was agreed at £200 million.

Autoflow plc settled the purchase consideration by issuing to the shareholders of Pumping Gas plc and Roadside Fuel plc, 50 pence (£0.50) ordinary shares in Autoflow plc valued at £1.25 each, which includes a premium of 75 pence (£0.75) per share.

Required

(a) State **one** factor that would be considered when deciding on the value to be agreed for each of the following. You should use a different factor for **each** asset or liability.

- Property, plant and equipment
- Motor vehicles
- Other inventory
- Trade receivables
- Trade payables

(5)

(b) Calculate the value of the goodwill paid by Autoflow plc for Pumping Gas plc.

(5)

(c) Prepare extracts from the Statement of Financial Position of Autoflow plc at 1 April 2019, showing the individual items and the total, of:

(i) non-current assets

(6)

(ii) equity.

(8)

Natalie is an investor, who held shares in Pumping Gas plc.

(d) Evaluate the merger from Natalie's point of view.

(6)

(Total for Question 4 = 30 marks)

5 MegaMedia plc is a company that produces CDs and DVDs. The company is considering the possibility of introducing robots in the packing department. The total cost of purchasing and installing six robots will be £320 000

The finance director suggested two possible methods to finance the robot project:

Option A – a bank loan for the full £320 000, at an interest rate of 11% per year.

Option B – a funding package from a range of sources. The details are shown below.

Option B	**£**	**Interest rate/ Expected return**
Debenture	150 000	15%
Bank loan	100 000	12%
Redeemable preference shares	20 000	7%
Ordinary shares	50 000	5%
Total	320 000	

Required

(a) Calculate the weighted average cost of capital for Option B.

(6)

(b) Identify which of the two options, A or B, would be the best to finance the project, giving a reason for your answer.

(2)

(c) Explain **two** reasons why the interest rate on a bank loan may be higher than the expected return of an ordinary shareholder.

(4)

The following information applies to the proposed introduction of the robots.

- Each of the six robots will replace two members of staff.
- At present, members of staff each earn £8 per hour, and work a 40-hour week for 50 weeks in a year.
- In Year 1 and Year 2 each robot will require maintenance costing £800 per year.
- In Year 1 and Year 2 each robot will use electricity costing £2 750 per year.
- In Year 3 and Year 4 the maintenance and electricity costs will be 10% higher than Year 1 and Year 2.
- In Year 5 the maintenance and electricity costs will be 10% higher than Year 3 and Year 4.
- The expected life of a robot will be five years, after which the robot will be scrapped with no residual value.

Required

(d) Calculate the net present value of the project at the end of Year 5.

(12)

A table showing the discount factors is given.

Year	8%	9%	10%	11%	12%	13%
1	0.926	0.917	0.909	0.901	0.893	0.885
2	0.857	0.842	0.826	0.812	0.797	0.783
3	0.794	0.772	0.751	0.731	0.712	0.693
4	0.735	0.708	0.683	0.659	0.636	0.613
5	0.681	0.650	0.621	0.593	0.567	0.543

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

(6)

(Total for Question 5 = 30 marks)

6 Sunshine Stores Ltd is a family run business that was started by Ali and Binu 30 years ago. Their three children Chanda, Dev and Esha, also work for and hold shares in the company.

The company has issued 80 000 ordinary shares of £1 each.

The shares are held in the following percentages:

Ali 26%
Binu 26%
Chanda 10%
Dev 8%
Esha 6%

The remaining shares are held by people not in the family.

The following are the opening balances for the financial year on the Statement of Changes in Equity at 1 April 2018.

Ordinary shares of £1	Share premium	Retained earnings	General reserve	Non-current asset replacement reserve	Revaluation reserve	Total equity
£80 000	£12 000	£653 000	£15 000	£23 000	£65 000	£848 000

A bonus issue of five shares for every one held was made on 2 April 2018.

Required

(a) Calculate the number of bonus ordinary shares of £1 issued to:

- Ali
- Dev.

(4)

(b) Calculate the number of shares now held by shareholders not in the family after the bonus issue.

(4)

(c) Explain **two** reasons why a bonus issue of shares may be made by a company.

(4)

(d) Prepare the Journal entries for the issue of the bonus shares.
Dates and narratives must be shown.

(4)

An interim dividend of 0.6 pence (£0.006) per share was paid in October 2018.

At the end of the financial year 2018–2019, the company decided to pay a final dividend of 1.8 pence (£0.018) per share, to be paid on 28 March 2019.

Required

(e) Calculate the total amount paid as dividends for the financial year 2018–2019.

(4)

During the financial year 2018–2019, the company decided to reduce the general reserve to £6 000, transferring the balance to retained earnings.

The net profit after tax for the year was £219 000

Required

(f) Calculate the balance in the Retained Earnings Account at 31 March 2019.

(4)

Sunshine Stores Ltd proposed raising further capital to open another store. The company decided to issue 5% preference shares, but was not sure whether they should be redeemable preference shares or irredeemable preference shares. Ali prepared a summary of the two types of preference shares, which was to be discussed at the next board meeting.

	Redeemable preference shares	**Irredeemable preference shares**
Shown in section of Statement of Financial Position	Non-current liabilities	Equity
Dividend payment	Treated as an expense	Deducted in Statement of Changes in Equity

Required

(g) Evaluate, from the viewpoint of the company, whether Sunshine Stores Ltd should issue redeemable preference shares or irredeemable preference shares.

(6)

(Total for Question 6 = 30 marks)

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

GradeMax

BLANK PAGE

BLANK PAGE

GradeMax

BLANK PAGE