GradeMax

Pearson Edexcel International Advanced Level

Wednesday 20 May 2020

Afternoon (Time: 3 hours) | 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 ▶

P62449A

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SECTION A

Answer BOTH questions in this section.

1 You are a shareholder in Tyche Insurance plc and have been informed by the company that there are two larger companies interested in taking over Tyche Insurance plc. You have received a copy of the Statement of Financial Position of Tyche Insurance plc at March 2020 with some additional information.

Statement of financial position of Tyche Insurance plc at 31 March 2020

	£'000	£'000
Assets		
Non-current assets		
Property, plant and equipment	9 500	
Computers	2 200	
Fixtures and fittings	600	
Furniture	450	
		12 750
Current assets		
Inventory	220	
Trade receivables	3 370	
Cash and cash equivalents	1 110	
		4 700
Total assets		**17 450**
Equity		
Ordinary shares of £0.80 each	10 000	
Retained earnings	3 800	
Total equity		13 800
Liabilities		
Non-current liabilities		
Mortgage	2 300	
Bank loan	500	
		2 800
Current liabilities		
Trade payables	660	
Other payables	190	
		850
Total liabilities		3 650
Total equity and liabilities		**17 450**

The additional information states that there had been some changes to asset values after 31 March 2020.

- Property was revalued upwards by £1 850 000
- Computers were revalued downwards by £600 000
- Fixtures and fittings were valued at £380 000
- Inventory had a market value of £180 000

Required

(a) Calculate the value of Tyche Insurance plc after the revaluations.

(6)

One of the larger companies, Zeus plc, a bank, has offered each shareholder in Tyche Insurance plc the following terms:

- £1.40 cash for every one share held in Tyche Insurance plc.

Required

(b) Calculate the total value of the offer from Zeus plc.

(3)

(c) Calculate the goodwill included in the offer from Zeus plc.

(3)

(d) Explain **two** possible reasons why Zeus plc is willing to pay goodwill when purchasing Tyche Insurance plc.

(4)

Another insurance company, Apollo plc, has also made an offer for Tyche Insurance plc. Apollo plc has offered shareholders in Tyche Insurance plc the following terms:

- for every 10 shares in Tyche Insurance plc, shareholders receive four shares in Apollo plc.

The shares in Apollo plc have a nominal value of £1 but are currently trading on the Stock Exchange at a premium of £2.58 per share.

Required

(e) Calculate the total value of the offer from Apollo plc.

(4)

The shareholders of Tyche Insurance plc decided to accept the offer from Apollo plc. The takeover took place on 1 May 2020.

The statement of financial position of Apollo plc at 30 April 2020 is shown below.

Statement of financial position of Apollo plc at 30 April 2020

	£'000	£'000
Assets		
Non-current assets		
Property, plant and equipment	52 700	
Computers	9 500	
Fixtures and fittings	3 100	
Furniture	1 860	
		67 160
Current assets		
Inventory	560	
Trade receivables	18 730	
Cash and cash equivalents	5130	
		24 420
Total assets		**91 580**
Equity		
Ordinary shares of £1.00 each	50 000	
General reserve	3 500	
Retained earnings	20 180	
Total equity		73 680
Liabilities		
Non-current liabilities		
Mortgage	11 590	
Bank loan	2 400	
		13 990
Current liabilities		
Trade payables	3 130	
Other payables	780	
		3 910
Total liabilities		17 900
Total equity and liabilities		**91 580**

Required

(f) Prepare the statement of financial position of Apollo plc at 1 May 2020.

(23)

(g) Evaluate the **two** offers (from Apollo plc and Zeus plc) for Tyche Insurance plc to decide whether the shareholders of Tyche Insurance plc were correct to accept the offer from Apollo plc.

(12)

(Total for Question 1 = 55 marks)

2 Saxonflow Gas plc owns four gas fields, extracting gas from rocks, which is then sold in the gas market.

Saxonflow Gas plc cannot set its own prices in the gas market, but only follows the market price.

Output for the four gas fields for the year ended 31 March 2020 were:

Gas field	Archton	East Downs	Kingham	Waverley
Daily gas output (therms)	380	320	430	270

Additional information.

- The gas fields operate for 365 days in a year.
- The price in the gas market is £68 per therm.
- All output for the year is sold.

Required

(a) Calculate the volume of gas, in therms, produced by **each** of the four gas fields for the **year** ended 31 March 2020.

(4)

The fixed costs for the four gas fields for the year ended 31 March 2020 consisted of the following three costs.

- On-site managers salaries.

Gas field	Archton	East Downs	Kingham	Waverley
On-site managers salaries	£47 000	£44 000	£82 000	£38 000

- Head Office overheads – total £1 800 000 to be apportioned in the following ratio.

Gas field	Archton	East Downs	Kingham	Waverley
Ratio	3	2	3	1

- Depreciation – at a rate of 8% on cost of plant and equipment.

Gas field	Archton	East Downs	Kingham	Waverley
Cost of plant and equipment	£2 000 000	£1 700 000	£2 500 000	£1 600 000

Required

(b) Calculate the fixed costs for **each** of the four gas fields for the year ended 31 March 2020.

(10)

The variable costs for the four gas fields for the year ended 31 March 2020 were as follows.

Gas field	Archton £	East Downs £	Kingham £	Waverley £
Direct materials	5 409 300	4 788 800	6 278 000	3 646 350
Direct labour	2 912 700	2 102 400	2 982 050	1 675 350
Other variable costs	1 803 100	1 284 800	1 412 550	985 500

Required

(c) Calculate the profit or loss for **each** of the four gas fields for the year ended 31 March 2020.

(13)

(d) Calculate the contribution made by **each** of the gas fields, **per therm** of gas for the year ended 31 March 2020.

(16)

The government is concerned about the extraction of gas being discontinued for financial reasons. For the next financial year, ended 31 March 2021, the government will pay £2.00 for every therm of gas output to Saxonflow Gas plc.

Required

(e) Evaluate the future of **each** of the four gas fields using your calculations and any other relevant information.

(12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

SECTION B

Answer THREE questions from this section.

3 Negombo Textiles plc produces a wide range of clothing. The statement of financial position of Negombo Textiles plc at 31 March 2020 has been prepared in accordance with International Accounting Standards (IAS) 1 and is shown below.

Statement of financial position at 31 March 2020

Assets	**£**
Non-current assets	
Intangibles	526 000
Property, plant and equipment carry over	27 000 000
	27 526 000
Current assets	
Inventories	12 348 000
Trade receivables	3 752 000
Other receivables	610 000
Cash and cash equivalents	85 000
	16 795 000
Total assets	**44 321 000**
Equity	
Share capital – Ordinary shares of £1.00 each	15 000 000
5% Redeemable preference shares of £1.00 each	2 800 000
Share premium	5 000 000
Revaluation reserve	5 500 000
Foreign exchange reserve	3 000 000
General reserve	2 000 000
Retained earnings	(1 028 000)
Total equity and reserves	32 272 000
Liabilities	
Non-current liabilities	
6.25% Debenture	3 300 000
8.75% Bank loan	3 300 000
	6 600 000
Current liabilities	
9% Bank loan	800 000
Trade payables	2 961 000
Other payables	104 000
Current tax payable	784 000
Provisions	800 000
	5 449 000
Total liabilities	12 049 000
Total equity and liabilities	**44 321 000**

Required

(a) (i) State under which line item of the statement of financial position you would record the following:

- an electricity bill owing
- a reel of cloth used for making t-shirts
- an amount to cover costs and damages in a court case
- an amount set aside to cover movements in currency values
- a patent.

(5)

(ii) Explain the term **other receivables** giving **one** example that could be included under this heading.

(2)

The bank balance is an overdraft of £117 000

(iii) Calculate the cash balance.

(2)

One month's interest is owing on the 9% bank loan.

(iv) Calculate the amount of interest owing on the 9% bank loan.

(2)

(v) Explain why the 8.75% bank loan is shown under non-current liabilities but the 9% bank loan is shown under current liabilities.

(2)

(vi) Give **one** example of how the General Reserve could be utilised (used).

(1)

The Retained Earnings Account had a credit balance of £645 000 at 1 April 2019.

(vii) Calculate the profit or loss made for the year ended 31 March 2020.

(2)

The following information applies to property, plant and equipment during the year ended 31 March 2020.

- At April 1 2019, the company had property, plant and equipment that cost £26 000 000 with a carry over value of £25 200 000
- On 4 April 2019 the company sold a property for £3 200 000 that had cost £3 000 000 earning a profit of £600 000
- Depreciation of property, plant and equipment for the year ended 31 March 2020 was £1 100 000

Required

(b) Prepare the following accounts for the year ended 31 March 2020.

(i) Disposals of Property, Plant and Equipment Account.

(4)

(ii) Property, Plant and Equipment Accumulated Depreciation Account.

(4)

In 2019, the company decided to borrow £6 600 000 to build a new factory. These funds were borrowed in the following ratio:

- 50% – a 6.25% debenture repayable in ten years
- 50% – a 8.75% bank loan repayable in five years.

Required

(c) Evaluate which of the **two** sources of finance is likely to be the most beneficial to the company.

(6)

(Total for Question 3 = 30 marks)

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QUESTION 4 BEGINS ON PAGE 12.

4 Kowloon Hypermarkets plc opens 24 hours a day, seven days a week and has 30 check-out tills in its store in Sham Shui Po.

The performance of the check-out tills is measured by management using variance analysis.

The number of hours each check-out till is budgeted to be open per day is shown in the table below.

Number of check-out tills	Hours open
1	24
1	20
4	18
10	12
8	9
6	6

Required

(a) Calculate the budgeted:

(i) total number of hours that check-out tills are open in **one day**

(4)

(ii) total number of hours that check-out tills are open in **one week**.

(1)

A check-out till when open is staffed by one check-out operator.

Each check-out operator works 8 hours per day and 40 hours per week.

(b) Calculate the:

(i) number of check-out operators required for **one day**

(2)

(ii) number of check-out operators required for **one week**.

(2)

Each check-out operator is expected to serve nine customers per hour.

The check-out operators are paid a basic rate of £8.28 per hour.

Required

(c) Calculate the:

(i) budgeted number of customers in **one week** for the store

(2)

(ii) standard cost of serving **one customer** at the check-out till

(2)

(iii) budgeted cost of serving **all the customers** in the store in **one week**.

(2)

Sometimes, a check-out operator has to work extra hours in the store. These extra hours are paid at a rate of basic time plus 25%.

The following information is available for Week 21.

- The actual number of customers served was exactly as budgeted.
- The actual hours worked by check-out operators was 2 493 hours.
- The actual wages cost of check-out operators was £20 830.74

Required

(d) Calculate, for Week 21, the:

(i) labour efficiency variance

(3)

(ii) labour rate variance

(4)

(iii) total labour variance.

(2)

Kowloon Hypermarkets plc operates with a total of 62 check-out operators at the Sham Shui Po store.

Evaluate the performance of the check-out operators for Week 21.

(6)

(Total for Question 4 = 30 marks)

5 You are the accountant for Bogra General Stores plc. You have to report on the financial statements of the company for a Board of Directors meeting. Information concerning the company for the financial year ended 31 March 2020 is given below.

Issued share capital	16 million (16 000 000) Ordinary shares of £1.50 each
Other reserves	£6 000 000
7% Bank loan 2023	£2 000 000
9% Debenture payable 2024	£8 000 000
Net profit after interest and tax	£960 000
Tax payable	£180 000
Interim dividend paid	£112 000
Final ordinary dividend paid	£368 000
Market share price	£2.40

Required

(a) Calculate the following ratios.

(i) Earnings per ordinary share.

(3)

(ii) Price/earnings ratio.

(3)

(iii) Dividend paid per share.

(4)

(iv) Dividend cover.

(3)

(v) Dividend yield.

(3)

(vi) Return on capital employed.

(8)

The Chair stated at a recent Board meeting, 'The stock markets see the earnings per ordinary share as a very important indicator of the financial health of a company. We must try to improve our earnings per ordinary share. There are a number of ways we could improve our earnings per ordinary share.'

Required

(b) Evaluate the possible ways Bogra General Stores plc could improve the earnings per ordinary share.

(6)

(Total for Question 5 = 30 marks)

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QUESTION 6 BEGINS ON PAGE 16.

6 Davondale Marine Limited is considering a project to buy a ship.
In 2020 it is hoped the ship will provide pleasure cruises for tourists on a river in the summer months.

The company has obtained a licence to operate on the river for five years.
The ship will require some refurbishment before being put into service.

The cost of the ship will be £399 000
The cost of the refurbishment will be £35 000

The company will depreciate the initial costs of the investment over five years.

The ship will operate for three months every year.

The ship has a capacity of 120 passengers.

The information shown below is available concerning the operations of the ship in 2020 and each of the four following years.

	June	**July**	**August**
Number of days operating	30	31	31
Number of trips per day	7	8	8
Percentage of capacity used	50%	80%	80%

The cost of a ticket for a passenger for a cruise will be £5

It is expected that each passenger will spend an average of £2 on refreshments.

Refreshments will be purchased and then marked up by 100% for sale.

There will be six staff members, each being paid a daily rate of £95

Fuel will cost £0.90 per litre. The ship will use 4 litres of fuel per kilometre.
Each trip will be 25 kilometres.

The company will pay the river authority a licence fee of £1 500 per month for the three months of operation per year.

Other overheads, excluding depreciation, will be £20 000 per year.

All costs and revenues are expected to stay the same for all five years.

Required

(a) Complete the table on **page 34** in the question paper for the project to show expected costs, revenues and net profit for the trading year 2020.

(16)

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

(3)

(c) Calculate the payback period of the project.

(5)

(d) Evaluate whether Davondale Marine Limited should proceed with the project.

(6)

(Total for Question 6 = 30 marks)

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

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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

Wednesday 20 May 2020

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 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 ▶

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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 value of Tyche Insurance plc after the revaluations.

(6)

(b) Calculate the total value of the offer from Zeus plc.

(3)

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(c) Calculate the goodwill included in the offer from Zeus plc.

(3)

(d) Explain **two** possible reasons why Zeus plc is willing to pay goodwill when purchasing Tyche Insurance plc.

(4)

1

2

(e) Calculate the total value of the offer from Apollo plc.

(4)

(f) Prepare the statement of financial position of Apollo plc at 1 May 2020.

(23)

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(g) Evaluate the **two** offers (from Apollo plc and Zeus plc) for Tyche Insurance plc to decide whether the shareholders of Tyche Insurance plc were correct to accept the offer from Apollo plc.

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(Total for Question 1 = 55 marks)

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

2 (a) Calculate the volume of gas, in therms, produced by **each** of the four gas fields for the **year** ended 31 March 2020.

(4)

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(b) Calculate the fixed costs for **each** of the four gas fields for the year ended 31 March 2020.

(10)

	Archton	East Downs	Kingham	Waverley
Managers Salaries				
Head Office Overheads				
Depreciation				
Total Fixed Costs				

Workings

(c) Calculate the profit or loss for **each** of the four gas fields for the year ended 31 March 2020.

(13)

	Archton	**East Downs**	**Kingham**	**Waverley**
Therms per year				
Revenue (Sales)				
Costs				
Direct materials				
Direct labour				
Other variable costs				
Fixed costs				
Total costs				
Profit (Loss)				

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Workings

(d) Calculate the contribution made by **each** of the gas fields, **per therm** of gas for the year ended 31 March 2020.

(16)

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(e) Evaluate the future of **each** of the four gas fields using your calculations and any other relevant information.

(12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

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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 10 of the Source Booklet.

3 (a) (i) State under which line item of the statement of financial position you would record the following:

- an electricity bill owing
- a reel of cloth used for making t-shirts
- an amount to cover costs and damages in a court case
- an amount set aside to cover movements in currency values
- a patent.

(5)

Item	Found under
An electricity bill owing	
A reel of cloth used for making t-shirts	
An amount to cover costs and damages in a court case	
An amount set aside to cover movements in currency values	
A patent	

(ii) Explain the term **other receivables** giving **one** example that could be included under this heading.

(2)

(iii) Calculate the cash balance.

(2)

(iv) Calculate the amount of interest owing on the 9% bank loan.

(2)

(v) Explain why the 8.75% bank loan is shown under non-current liabilities but the 9% bank loan is shown under current liabilities.

(2)

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(vi) Give **one** example of how the General Reserve could be utilised (used).

(1)

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(vii) Calculate the profit or loss made for the year ended 31 March 2020.

(2)

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(b) Prepare the following accounts for the year ended 31 March 2020.

(i) Disposals of Property, Plant and Equipment Account.

(4)

(ii) Property, Plant and Equipment Accumulated Depreciation Account.

(4)

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(c) Evaluate which of the **two** sources of finance is likely to be the most beneficial to the company.

(6)

(Total for Question 3 = 30 marks)

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

Source material for Question 4 is on pages 12 and 13 of the Source Booklet.

4 (a) Calculate the budgeted:

(i) total number of hours that check-out tills are open in **one day**

(4)

(ii) total number of hours that check-out tills are open in **one week**.

(1)

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(b) Calculate the:

(i) number of check-out operators required for **one day**

(2)

(ii) number of check-out operators required for **one week**.

(2)

(c) Calculate the:

(i) budgeted number of customers in **one week** for the store

(2)

(ii) standard cost of serving **one customer** at the check-out till

(2)

(iii) budgeted cost of serving **all the customers** in the store in **one week**.

(2)

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(d) Calculate, for Week 21, the:

(i) labour efficiency variance

(3)

(ii) labour rate variance

(4)

(iii) total labour variance.

(2)

Kowloon Hypermarkets plc operates with a total of 62 check-out operators at the Sham Shui Po store.

(e) Evaluate the performance of the check-out operators for Week 21.

(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 14 of the Source Booklet.

5 (a) Calculate the following ratios.

(i) Earnings per ordinary share.

(3)

(ii) Price/earnings ratio.

(3)

(iii) Dividend paid per share.

(4)

(iv) Dividend cover.

(3)

(v) Dividend yield.

(3)

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(vi) Return on capital employed.

(8)

The Chair stated at a recent Board meeting, 'The stock markets see the earnings per ordinary share as a very important indicator of the financial health of a company. We must try to improve our earnings per ordinary share. There are a number of ways we could improve our earnings per ordinary share.'

(b) Evaluate the possible ways Bogra General Stores plc could improve the earnings per ordinary share.

(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 16 and 17 of the Source Booklet.

6 (a) Complete the table for the project to show expected costs, revenues and net profit for the trading year 2020.

(16)

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	June £	July £	August £	All 2020 £
Revenue				
Passenger revenues				
Refreshments				
Total revenues				
Costs				
Staff wages				
Fuel				
Licence fee				
Refreshments purchase				
Costs sub total				
			Depreciation	
			Other Overheads	
			Net profit	

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Workings

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

(3)

(c) Calculate the payback period of the project.

(5)

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(d) Evaluate whether Davondale Marine Limited should proceed with the project.

(6)

(Total for Question 6 = 30 marks)

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

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