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 12 January 2021

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

Accounting

International Advanced Level
Paper 1: 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.
- All calculations must be shown.
- Answer **both** questions in Section A and **three** questions from Section B.
- 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 and 3 of the Source Booklet.

1 (a) Complete the Statement of Changes in Equity opposite to show figures for the information in the Source Booklet, for the year ended 31 December 2020.

You should show any workings where appropriate, in the lined space available.

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Statement of Changes in Equity of Bangla Aluminium plc for year ended 31 December 2020

Figures are in £ millions	Ordinary Shares of £1	Share Premium	Retained Earnings	General Reserve	A	B	C	Total Equity
(i) Balance at 1 January 2020								
(ii) Final Dividend								
(iii) Transfer								
(iv) Transfer								
(v) Revaluation								
(vi) Rights Issue								
(vii) Transfer								
(viii) Interim Dividend 2020								
(ix) Loss for the year								
(x) Balance at 1 December 2020								

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(b) State **three** examples of capital reserves from the Statement of Changes in Equity.

(3)

1 .....

2 .....

3 .....

(c) Calculate the **maximum** that could be paid **per share** as a final dividend for 2020.

(5)

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(d) Prepare the Journal entries for the following transactions (narratives are **not** required).

(i) 12 February, the transfer from Retained earnings

(2)

.....

.....

.....

.....

(ii) 21 April, the revaluation of the property

(2)

(iii) 11 May, the purchase of the smelting equipment

(2)

(iv) 31 December the entry for the loss for the year

(2)

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(e) Calculate the gearing ratio at 31 December 2020 showing the formula used.

(5)

(f) Evaluate the effects on Bangla Aluminium plc of the change in the gearing ratio from 31 December 2019 to 31 December 2020.

(12)

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(Total for Question 1 = 55 marks)

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

2 (a) Calculate the number of labour hours required to meet **all** the demand for **all four** pottery products for one week.

(5)

(b) Explain the term **limiting factor.**

(2)

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(c) Calculate the contribution for **one** item of **each** of the four pottery products.

(12)

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(d) Calculate the order of production of the four pottery products required to maximise profits each week.

(6)

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(e) Calculate the quantities of production of **each** pottery product that would maximise profit each week.

(6)

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(f) Calculate the profit **per week** for Maria's business.

(7)

(g) Calculate the:

(i) number of hours a sales assistant would be required to work

(1)

(ii) total wage which Maria could pay her sales assistant and still make the same amount of profit

(3)

(iii) hourly rate to be paid to the sales assistant.

(1)

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(h) Evaluate whether Maria should introduce ICT to help with the bookkeeping and finances of the business. Your answer should include financial, technical and human aspects.

(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 6, 7 and 8 of the Source Booklet.

3 (a) Calculate the purchase price of Waverley plc.

(5)

(b) Calculate the value of goodwill paid by Peninsular Medicines plc.

(9)

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(c) Prepare the Acquisition Account in the books of Peninsular Medicines plc to show the purchase of Waverley plc.

(10)

(d) Evaluate whether the value of goodwill paid by Peninsular Medicines plc is appropriate in the take-over of Waverley plc.

(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 and 11 of the Source Booklet.

4 (a) Calculate the number of rooms Kapita Residential plc will need to rent out each **month** to break-even.

(8)

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(b) Calculate the expected profit or loss for the next financial **year**.

(6)

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(c) Calculate the margin of safety for the **year**, measured:

(i) in revenue in pounds (£)

(5)

(ii) as a percentage of sales.

(3)

(d) Explain **one** advantage of completing break-even analysis to a business.

(2)

(e) Evaluate the proposed change on behalf of Kapita Residential plc.

(6)

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(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 12 and 13 of the Source Booklet.

5 (a) Calculate, for Port Shelter Trading plc, for the year ended 31 December 2020, the following:

(i) Earnings per ordinary share

(5)

(ii) Dividend per ordinary share

(4)

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(iii) Dividend cover

(3)

(iv) Price/earnings ratio

(3)

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(v) Dividend yield

(3)

(vi) Return on Capital employed.

(6)

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(b) Evaluate whether the software in the ICT system is beneficial to Benson Pensions, selling shares in companies when the share price has fallen by 50%.

(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 14 and 15 of the Source Booklet.

6 (a) Calculate the net present value of the project at the end of year 5.

(15)

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(b) Explain:

(i) **one advantage** of using the net present value method to assess an investment project

(2)

(ii) **one disadvantage** of using the net present value method to assess an investment project.

(2)

(c) Calculate the profitability index of the proposed investment project with Akme Robotics plc.

(3)

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(d) Explain **one advantage** of calculating the profitability index of a project.

(2)

(e) Evaluate the two possible investment projects being considered by Dubai Foods plc and recommend one of the projects for investment.

(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 12 January 2021

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

Accounting

International Advanced Level
Paper 1: Corporate and Management Accounting

Source Booklet

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1 You are the accountant responsible for preparing the Statement of Changes in Equity of Bangla Aluminium plc for the year ended 31 December 2020.

The following information is available.

(1) The balances in the books at 1 January 2020 were:
Ordinary shares of £1 each – £54 million
Share premium – £8 million
Retained earnings – £16 million credit balance
General reserve – £7 million

(2) On 27 January, a final dividend for 2019 of 17 pence (£0.17) per share was paid to shareholders.

(3) On 12 February, £3 million was transferred from Retained Earnings to be set aside for new smelter equipment as the existing smelter is now worn out. A suitable heading must be inserted at A.

(4) On 15 March, £2 million was transferred from the General Reserve and set aside to cover possible falls in the currency. A suitable heading must be inserted at B.

(5) On 21 April, property in the books for £40 million was revalued upwards by 12% to reflect the market value. A suitable heading must be inserted at C.

(6) On 19 May, a rights issue of one ordinary share of £1 for every 20 ordinary shares of £1 held took place, at a premium of 14 pence (£0.14) per share. The rights issue was fully subscribed.

(7) On 10 August, after a new smelter had been bought, the £3 million was transferred back to Retained Earnings.

(8) On 23 September, an interim dividend of 6 pence (£0.06) per share was paid to **all** shareholders.

(9) The loss for the year ended 31 December 2020 was £3.91 million.

(10) The balances at 31 December 2020 and the Total Equity at that date require completion.

Required

(a) Complete the Statement of Changes in Equity in the Question Paper to show the figures for the information above, for the year ended 31 December 2020.

You should show any workings where appropriate, in the lined space available.

(22)

(b) State **three** examples of capital reserves from the Statement of Changes in Equity.

(3)

The directors of Bangla Aluminium plc will pay a final dividend for 2020 to shareholders in January 2021.

(c) Calculate the **maximum** that could be paid **per share** as a final dividend for 2020.

(5)

The new smelter equipment was purchased on 11 May 2020 for £2.9 million, from AM Equipment plc.

Required

(d) Prepare the Journal entries for the following transactions (narratives are **not** required):

(i) 12 February, the transfer from Retained earnings

(ii) 21 April, the revaluation of the property

(iii) 11 May, the purchase of the smelting equipment

(iv) 31 December, the entry for the loss for the year.

(8)

On 1 September 2020 a £60 million, 10-year debenture, was taken out to expand the business.

At 31 December 2020 the balance outstanding on a 5-year bank loan was £23.614 million.

(e) Calculate the gearing ratio at 31 December 2020 showing the formula used.

(5)

At 31 December 2019 the gearing ratio was 35%.

(f) Evaluate the effects on Bangla Aluminium plc of the change in the gearing ratio from 31 December 2019 to 31 December 2020.

(12)

(Total for Question 1 = 55 marks)

2 Maria owns a small pottery business in a seaside town where she makes and sells hand-made pottery products for cash. At present she only works 25 hours a week producing pottery products. She also serves customers in the shop.

The following information is available for the four pottery items produced and sold. The table shows information for **one** item of each product.

Product	**Pot**	**Vase**	**Mug**	**Plate**
Clay material used (grams)	700 g	500 g	300 g	600 g
Labour time required	15 minutes	10 minutes	20 minutes	30 minutes
Selling price	£7.00	£6.00	£6.80	£10.00
Weekly demand	20	18	42	12

Maria buys the clay material in 250 kg sacks that cost £250 for each sack.

There are 1000 grams in a kilogram.

Maria pays herself £12 per hour.

Required

(a) Calculate the number of labour hours required to meet **all** the demand for **all four** pottery products for one week.

(5)

(b) Explain the term **limiting factor**.

(2)

(c) Calculate the contribution for **one** item of **each** of the four pottery products.

(12)

(d) Calculate the order of production of the four pottery products required to maximise profits each week.

(6)

(e) Calculate the quantities of production of **each** pottery product that would maximise profit each week.

(6)

Maria has the following fixed costs.

Rent £2 000 per year.

Electricity and water bills £120 per month.

A kiln (oven) was bought 2 years ago for £1 600 which will last for 5 years before being scrapped for £100

Assume 50 weeks in a year and 4 weeks in a month.

Required

(f) Calculate the profit **per week** for Maria's business.

(7)

Maria knows that 25 hours making pottery products is not enough to fully meet demand.

She is considering employing a sales assistant in the shop, to allow Maria to spend enough time making pottery products so she can fully meet demand.

Required

(g) Calculate the:

(i) number of hours a sales assistant would be required to work

(1)

(ii) total wage which Maria could pay her sales assistant and still make the same amount of profit

(3)

(iii) hourly rate to be paid to the sales assistant.

(1)

Maria is considering introducing ICT to help with the bookkeeping and finances of the business.

(h) Evaluate whether Maria should introduce ICT to help with the bookkeeping and finances of the business. Your answer should include financial, technical and human aspects.

(12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

3 Peninsular Medicines plc purchased Waverley plc on 1 January 2021.

The directors of both companies agreed the following purchase price.

For every eight shares held in Waverley plc:
- three Ordinary shares of £1 each in Peninsular Medicines plc, valued at the trading price of £3.52 per share and
- a cash payment of 37 pence (£0.37)

The Statement of Financial Position of Waverley plc at 31 December 2020, before any revaluations, was as follows:

	Waverley plc	
	£	**£**
Assets		
Non-current assets		
Property, plant and equipment	43 616 000	
Intangible assets	11 500 000	
		55 116 000
Current assets		
Inventories	6 853 000	
Trade and other receivables	1 019 000	
Cash and cash equivalents	62 000	
		7 934 000
Total assets		63 050 000
Equity and liabilities		
Equity		
Ordinary shares of £0.50 each	21 000 000	
Share premium	2 100 000	
General reserve	6 430 000	
Retained earnings	5 173 000	
Total equity		34 703 000

Non-current liabilities		
Mortgage on property	15 574 000	
Bank loan	8 000 000	
		23 574 000
Current liabilities		
Trade and other payables	1 683 000	
Current tax payable	3 090 000	
		4 773 000
Total equity and liabilities		63 050 000

Required

(a) Calculate the purchase price of Waverley plc.

(5)

The directors agreed that Peninsular Medicines plc take over all the assets of Waverley plc except cash and cash equivalents.

The assets of Waverley plc were revalued as follows.

- Property with a book value of £25 000 000 was increased by 15%.
- Equipment with a book value of £6 000 000 was reduced to a market value of £4 600 000
- Inventories were reduced by £940 000
- A well-known skin cream, Kalm Balm, was to be classed as an intangible non-current asset, valued at £3 000 000 and entered in the books of account.

Peninsular Medicines plc agreed to settle all the liabilities of Waverly plc except:

- the current tax payable
- trade payables of £880 000

(b) Calculate the value of goodwill paid by Peninsular Medicines plc.

(9)

Required

Peninsular Medicines plc has used an Acquisition Account as part of its double entry system to record the purchase of Waverley plc.

(c) Prepare the Acquisition Account in the books of Peninsular Medicines plc to show the purchase of Waverley plc.

(10)

(d) Evaluate whether the value of goodwill paid by Peninsular Medicines plc is appropriate in the take-over of Waverley plc.

(6)

(Total for Question 3 = 30 marks)

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QUESTION 4 BEGINS ON PAGE 10.

4 You work for Kapita Residential plc, that owns a property in Midtown. The property has been converted into ten rooms which are available to rent for accommodation.

The following information is available for the next financial year.

- The rent for **each room** will be £480 per month.
- Interest on loan repayments will be £2 115 per month.
- A tax paid to the local government will be £675 per month.
- A contract will be signed with a building company who will maintain the building and carry out small repairs and maintenance of the building. The contract will be for £395 per month.

If a room is rented out the following monthly costs will be incurred by Kapita Residential plc.

- Electricity £10
- Gas £10
- Water £5

Required

(a) Calculate the number of rooms Kapita Residential plc will need to rent out each **month** to break-even.

(8)

The table below shows the number of rooms Kapita Residential plc expect to rent out each month for the next financial year.

Month	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
Number of rooms rented	6	8	8	9	9	7	7	7	7	8	10	6

Required

(b) Calculate the expected profit or loss for the next financial **year**.

(6)

(c) Calculate the margin of safety for the **year**, measured:

(i) in revenue in pounds (£)

(5)

(ii) as a percentage of sales.

(3)

(d) Explain **one** advantage of completing break-even analysis to a business.

(2)

The local government are considering changing the basis of how they tax companies who provide accommodation for rental purposes.

At present, the tax is calculated using the size of the floor space of the property.

The local government is considering changing to a tax that takes 15% of all rental sales revenue.

The local government is asking all property rental businesses for their opinion of the possible change.

(e) Evaluate the proposed change on behalf of Kapita Residential plc.

(6)

(Total for Question 4 = 30 marks)

5 You work for Benson Pensions, managing a range of investments.

The performance of a company in which an investment has been made, Port Shelter Trading plc, for the financial year ended 31 December 2020, is given below.

Issued share capital	28 million Ordinary shares of £0.50 (50 pence) 8 million 5% Irredeemable Preference shares of £0.60 (60 pence)
Profit for the year after interest	£1 250 000
Tax on profit for year	£200 000
9% Debenture 2024	£5 000 000
Profit and Loss reserve	£900 000 Credit balance
General reserve	£300 000
Interim Ordinary dividend paid for year	£0.0015 (0.15 pence) per share
Final Ordinary dividend paid for year	£210 000
Market price per share	£0.32 (32 pence)

Required

(a) Calculate, for Port Shelter Trading plc, for the year ended 31 December 2020, the following.

(i) Earnings per ordinary share

(5)

(ii) Dividend per ordinary share

(4)

(iii) Dividend cover

(3)

(iv) Price/earnings ratio

(3)

(v) Dividend yield

(3)

(vi) Return on Capital employed.

(6)

Benson Pensions bought the shares in Port Shelter Trading plc for £0.64 (64 pence) per share.

Benson Pensions have software in their ICT system which automatically sells shares when the market price of the share falls to 50% of the price paid when buying the share.

The share price of Port Shelter Trading plc has now fallen to £0.32 (32 pence).

(b) Evaluate whether the software in the ICT system is beneficial to Benson Pensions, selling shares in companies when the share price has fallen by 50%.

(6)

(Total for Question 5 = 30 marks)

6 Dubai Foods plc is considering computerising its food processing production line.

Dubai Foods plc is considering a proposal put forward by Akme Robotics plc who have stated that the cost of the computerised equipment will be £135 000

The following information is available.

- The computerised equipment will give labour savings of £54 000 per year.
- The computerised equipment will have a life of 5 years, after which it will be sold for scrap for £5 000
- Depreciation using the straight-line method will be applied.
- There will be extra costs each year, **including** depreciation.
  - In year 1, the extra costs **including** depreciation will be £42 000 per year.
  - In year 2 and year 3, the extra costs **excluding** depreciation will be 5% higher each year than year 1.
  - In year 4 and year 5, the extra costs **excluding** depreciation will be 5% higher each year than year 2 and year 3.
- Dubai Foods plc's cost of capital will be 8%.
- A table showing the discount factors for 8% is given below.

Year	8%
1	0.926
2	0.857
3	0.794
4	0.735
5	0.681

Required

(a) Calculate the net present value of the project at the end of year 5.

(15)

(b) Explain

(i) **one advantage** of using the net present value method to assess an investment project

(2)

(ii) **one disadvantage** of using the net present value method to assess an investment project.

(2)

(c) Calculate the profitability index of the proposed investment project with Akme Robotics plc.

(3)

(d) Explain **one advantage** of calculating the profitability index of a project.

(2)

Another company, Dijital Solutions Limited, are also interested in providing the computerised equipment for the food processing production line. Dubai Foods plc have considered the offer from Dijital Solutions Limited and have calculated the following.

Initial cost of investment – £80 000

Net present value after 5 years – £12 000

Required

(e) Evaluate the two possible investment projects being considered by Dubai Foods plc and recommend one of the projects for investment.

(6)

(Total for Question 6 = 30 marks)

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

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