GradeMax

Pearson Edexcel International Advanced Level

Time 3 hours

Paper reference **WAC12/01**

Accounting

International Advanced Level
PAPER 2: Corporate and Management Accounting

Source Booklet

Do not return this Booklet with the question paper.

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SECTION A

Answer BOTH Questions

1 Sofa So Good plc produces sofas at its factory. The sofas are then delivered to customers' shops. At 31 March 2021, the following balances and information were available.

	Debit	Credit
	£	£
Allowance for irrecoverable debts		13 000
Auditors fees	12 300	
Bank current account	65 000	
Bank current account interest		400
Cash	27 000	
Commission on sales	62 340	
8.5% Debenture December 2021		500 000
Debenture interest	21 250	
Delivery costs	119 000	
Direct materials	1 670 000	
Discount allowed	61 000	
Discount received		28 000
Factory buildings (carrying value)	2 950 000	
General reserve		25 000
Goodwill	40 000	
Head office expenses	320 000	
Inventory at 1 April 2020	451 000	
Irrecoverable debts	18 000	
Marketing	203 000	
Motor lorries at cost	228 000	
Motor lorries provision for depreciation		121 000
Motor lorries running expenses	27 500	

	Debit	Credit
	£	£
Ordinary shares of £1.00 each		2 100 000
Other payables		11 700
Production machinery (carrying value)	266 000	
Rent on warehouse	148 000	
Retained earnings	160 710	
Revenue		6 840 000
Share premium		420 000
Trade payables		126 000
Trade receivables	595 000	
Wages	2 740 000	
	10 185 100	10 185 100

Additional information at 31 March 2021

(1) Auditor's fees for £2 600 are outstanding.

(2) A Corporation Tax bill of £188 000 has been calculated, which is to be paid by 31 December 2021, and a provision needs to be made.

(3) The factory buildings are being depreciated over a 40-year life, using the straight-line method. Fifteen years depreciation has been calculated to date. Depreciation for the present year needs to be calculated and entered into the books.

(4) The motor lorries are to be depreciated using the straight-line method over a six-year life assuming a residual value of £18 000

(5) The production machinery is to be depreciated at 20% per year, using the reducing balance method.

(6) The interest payments on the debenture are made in two equal instalments at the end of March and the end of September. The payment for March 2021 is outstanding.

(7) Inventory £498 000

(8) Marketing paid in advance is £22 000

(9) The allowance for irrecoverable debts is to be 4% of trade receivables.

(10) Wages are to be apportioned on the following basis:
Factory 65%; Warehouse 10%; Transport 5%; Sales 15%; Head office 5%

Required

(a) Prepare for Sofa So Good plc, in accordance with International Accounting Standard 1 (Revised), a:

(i) Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2021

(27)

(ii) Statement of Financial Position at 31 March 2021.

(16)

A meeting was recently held between the Board of Directors and the auditors. The auditors expressed concern in the following areas of corporate governance.

1) Leadership – the Chairman is also the Chief Executive Officer.

2) Effectiveness – length of intervals between election of Board members.

3) Accountability – checks that are made when taking over another company.

4) Remuneration – one director sits on the Remuneration Committee and was involved in setting his own pay level.

5) Relations with shareholders – notice being given concerning the date of the Annual General Meeting.

(b) Evaluate the role of the auditor in the corporate governance of a limited company. You must include in your answer how the auditors' concerns above should be addressed.

(12)

(Total for Question 1 = 55 marks)

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2 Galana Saw Mill Limited produces timber for the construction industry. Tree trunks that have been cut down are brought to the mill where they are sawn into timber lengths.

You are the Cost Accountant for the company. You are looking at the performance of the Cutting Department.

- The Cutting Department employs four labourers.
- Budgeted production for the Cutting Department for Week 43 is 480 timber lengths, which must be met.
- Each labourer has a target output of 120 timber lengths per week.
- The standard time for producing one timber length is 20 minutes, with labourers being paid £9.60 per hour.
- Each labourer is scheduled to work eight hours a day, five days a week.
- If a labourer fails to meet their production target in normal time, the labourer must work overtime to reach their target.
- If a minimum of an extra 30 minutes is recorded on the time card, this will represent half an hour (30 minutes) overtime.
- Overtime is paid at the rate of £14.40 per hour.

The labourers' time cards for the Cutting Department for week 43 are shown below.

GALANA SAW MILL LIMITED						
DEPARTMENT : CUTTING						
NAME : ADAMU						
WEEK 43						
	IN	OUT		IN	OUT	
Mon	8.00	12.00		1.00	5.00	
Tues	8.00	12.00		1.00	5.00	
Weds	8.00	12.00		1.00	5.00	
Thurs	8.00	12.00		1.00	5.00	
Fri	8.00	12.00		1.00	5.00	

GALANA SAW MILL LIMITED						
DEPARTMENT : CUTTING						
NAME : BARASA						
WEEK 43						
	IN	OUT		IN	OUT	
Mon	8.00	12.00		1.00	5.00	
Tues	8.00	12.00		1.00	6.00	
Weds	8.00	12.00		1.00	5.00	
Thurs	8.00	12.00		1.00	6.00	
Fri	8.00	12.00		1.00	5.00	

GALANA SAW MILL LIMITED						
DEPARTMENT : CUTTING						
NAME : CHITUNDU						
WEEK : 43						
	IN	OUT		IN	OUT	
Mon	8.00	12.00		1.00	5.00	
Tues	8.00	12.00		1.00	5.00	
Weds	8.00	12.00		1.00	5.30	
Thurs	8.00	12.00		1.00	6.00	
Fri	8.00	12.00		1.00	7.00	

GALANA SAW MILL LIMITED						
DEPARTMENT : CUTTING						
NAME : DARWESHI						
WEEK: 43						
	IN	OUT		IN	OUT	
Mon	8.00	12.00		1.00	5.00	
Tues	8.00	12.00		1.00	6.00	
Weds	8.00	12.00		1.00	6.30	
Thurs	8.00	12.00		1.00	7.00	
Fri	8.00	12.00		1.00	6.30	

Required

(a) Calculate, for Week 43, the:

(i) number of hours worked by each labourer

(4)

(ii) total hours worked in the Cutting Department.

(1)

(b) Calculate, for the budgeted production of 480 timber lengths for Week 43, the:

(i) budgeted labour cost of production

(2)

(ii) actual labour cost of production

(3)

(iii) labour efficiency variance

(3)

(iv) labour rate variance

(5)

(v) total labour variance.

(3)

Trees are cut down then delivered by suppliers and cut into timber lengths.

The following budgeted information for Week 43 is available.

Each tree has enough material for 12 timber lengths.

The price per tree is £19.50

The actual information for Week 43 is shown below.

The budgeted production target of 480 timber lengths was met.

41 trees were purchased and used for a total of £779

(c) Calculate the:

(i) budgeted number of trees required to meet the budgeted production.

(2)

(ii) budgeted material cost of production

(1)

(iii) actual cost per tree

(2)

(iv) material usage variance

(3)

(v) material price variance

(3)

(vi) total material variance.

(3)

The actual accounting figures for Week 43 showed the following:

- a favourable variance for total fixed overheads
- no variance for total variable overheads.

The Accounts Assistant stated "This is strange, I thought the variable overheads would be likely to change and the fixed overheads would stay the same."

(d) (i) Explain why the actual fixed overhead figure may be different from the budgeted fixed overhead figure but the actual variable overhead figure is equal to the budgeted variable overhead figure.

(4)

(ii) State **two** examples of fixed overheads that may decrease over time. Give a reason why each of these may decrease.

(4)

(e) Evaluate the performance of Galana Saw Mill Limited in Week 43, considering any changes that may be beneficial for the company in the future.

(12)

(Total for Question 2 = 55 marks)

SECTION B

Answer THREE questions from this section.

3 The Statement of Cash Flows for Maldisun plc has been drawn up according to International Accounting Standard 7 (IAS7) and is shown below.

Statement of Cash Flows for Maldisun plc for year ended 31 March 2021		
	£m	£m
Cash flows from operating activities		
Profit from operations	68	
Add depreciation on non-current assets	22	
Less profit on sale of non-current asset	(11)	
Operating cash flow before working capital changes	**79**	
Decrease in inventories	15	
Increase in trade receivables	(20)	
Decrease in trade payables	(14)	
Cash generated from operations	**60**	
Less interest paid: bank overdraft	(1)	
Less interest paid: bank loan	(6)	
Less tax paid	(13)	
Net cash from operating activities		**40**
Cash flows from investing activities		
Payments to acquire tangible non-current assets	(41)	
Proceeds from sale of tangible non-current assets	33	
Payments to acquire intangible non-current assets	(8)	
Payments to acquire shares in other companies	(10)	
Dividends received from shares in other companies	3	
Net cash used in investing activities		**(23)**

	£m	£m
Cash flows from financing activities		
Issue of ordinary shares	15	
Dividends paid: Ordinary shares – Final 2020	(12)	
Ordinary shares – Interim 2021	(4)	
Preference shares	(7)	
Net cash used in financing activities		**(8)**
Net increase in cash and cash equivalents		**9**
Cash and cash equivalents at the beginning of the year		**6**
Cash and cash equivalents at the end of the year		**15**

Required

(a) Calculate the profit or loss after interest payments for the year ended 31 March 2021.

(2)

Inventories decreased during the year.

(b) (i) Explain **one** advantage of a decrease in inventories.

(2)

(ii) Explain **one** disadvantage of a decrease in inventories.

(2)

Customers owed £36 400 000 at the end of the year.

(c) Calculate the amount customers owed at the start of the year.

(1)

Trade payables decreased during the year.

(d) Explain **one** advantage of a decrease in trade payables.

(2)

A 12% bank loan was issued on 1 October 2016.

(e) Calculate the amount of the loan.

(2)

Equipment was the only non-current asset sold in the year.

(f) State the carrying value of the equipment when sold.

(3)

(g) State **two** reasons, excluding receiving dividends, why Maldisun plc would buy shares in other companies.

(2)

(h) State **two** reasons why a company may issue additional shares.

(2)

At 1 April 2020, Maldisun plc had £7 050 000 in cash.

(i) Calculate the bank balance of the company at this date.

(2)

During the year ended 31 March 2021, the bank balance increased by £7 900 000

(j) Calculate the cash balance at the end of the year.

(4)

At a Board Meeting of Maldisun plc, a director made the following statement. "The increase in cash and cash equivalents in the year was quite small. This increase could have been much bigger if we had not paid £23 million of dividends in the year."

(k) Evaluate whether it is appropriate for Maldisun plc to pay £23 million in dividends in the year ended 31 March 2021.

(6)

(Total for Question 3 = 30 marks)

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4 You are the accountant for Aberdeen Publishers Ltd, which produces a magazine for teenagers titled "Missy". The company is concerned that the magazine may now be starting to make a loss.

Information concerning revenues and costs of the magazine is shown below.

Total sales for the last four quarters (three-month periods) are:

2020 Quarter 2	2020 Quarter 3	2020 Quarter 4	2021 Quarter 1
Numbers sold	Numbers sold	Numbers sold	Numbers sold
98 000	91 000	82 000	71 000

- The magazine sells for 95 pence (£0.95) and is issued once every month.
- There are 12 members of staff, all on contracts. The average salary for each member of staff is £16 500 per year.
- Staff costs are treated as a fixed cost.
- Printing is done on a machine that cost £107 000 when purchased and is expected to last seven years before being sold for scrap for £2 000
- Premises are rented for £1 800 per month.
- Paper costs are four pence (£0.04) per magazine.
- Ink costs are 14 pence (£0.14) per magazine.
- Distribution costs are two pence (£0.02) per magazine.
- Other fixed costs such as heating, insurance etc. are £450 per month.

Required

(a) Calculate the break-even point in sales units for **one quarter (three month period)**.

(10)

(b) Calculate the profit or loss for 2021 Quarter 1.

(4)

Aberdeen Publishers Ltd has carried out market research and realises teenagers now prefer to read magazines from their mobile phones. Aberdeen Publishers Ltd is now considering issuing the magazine as an electronic edition **only** starting in 2021 Quarter 2. The printed version of the magazine will not be produced, after 2021 Quarter 1, if the electronic edition goes ahead.

Information concerning revenues and costs of the electronic magazine is shown below.

- Sales for the next four quarters (three-month periods) are expected to be:

2021 Quarter 2	2021 Quarter 3	2021 Quarter 4	2022 Quarter 1
Numbers sold	Numbers sold	Numbers sold	Numbers sold
20 000	25 000	30 000	35 000

- The magazine will sell for £0.80 and will be issued once a month.
- There will be one less member of staff. All staff will be on contracts. The average salary for staff will be £17 400 per year. Staff costs are still treated as a fixed cost.
- Hardware and software costing £120 000 will need to be purchased and is expected to last five years with no residual value.
- Premises rent will increase by £125 per month
- There will be no paper, ink or distribution costs.
- There will be an electricity cost of three pence (£0.03) per customer per quarter.
- Other fixed costs such as heating and insurance etc. will be £665 per month.

(c) Calculate, for the electronic edition only, the break-even point in sales units for **one quarter (three-month period)**.

(10)

(d) Evaluate the option of moving the magazine to an electronic only edition.

(6)

(Total for Question 4 = 30 marks)

5 The Statement of Changes in Equity of Tangail Logistics plc for the year ended 31 March 2021 is being prepared.

You are the accountant responsible for preparing the Statement of Changes in Equity for Tangail Logistics plc.

(a) Complete the Statement of Changes in Equity in the Question Paper using the information shown below, for the year ended 31 March 2021.

You should show all your workings.

(1) The following balances were in the books at 1 April 2020.

£ 1 Ordinary shares	£320 million
Share premium	£40 million
Retained earnings	£11 million credit balance
General reserve	£9 million
Foreign exchange reserve	£2 million

Enter the opening balances for the year, including the Total Equity figure.

(2) On 29 April 2020, the final dividend for 2019 of 1.75 pence (£0.0175) per share was paid to shareholders.

(3) On 18 May 2020, £1.5 million was transferred from the General Reserve to the Foreign Exchange Reserve to cover falls in the currency.

(4) On 1 June 2020, a rights issue of one ordinary share of £1 for every 10 ordinary shares of £1 held took place, at a premium of 15 pence (£0.15) per share. The rights issue was fully subscribed.

(5) On 22 July 2020, property bought for £28 million was revalued upwards by 25% to reflect the market value.

(6) On 24 September 2020, an interim dividend of 0.25 pence (£0.0025) per share was paid to all shareholders.

(7) On 18 March 2021, a redemption of £2 million of ordinary shares of £1 took place at a premium of 10 pence (£0.10) per share.

(8) The loss for the year ended 31 March 2021 was £4.7 million.

(9) Enter the closing balances at 31 March 2021 and the Total Equity Figure.

(20)

(b) Explain **two** reasons why a redemption of shares may take place.

(4)

At a Board Meeting on 1 May 2021, the Board decided to raise more capital. The Board considered the possibility of an issue of a debenture to raise capital.

(c) Evaluate the issue of a debenture as a method to raise capital by Tangail Logistics plc.

(6)

(Total for Question 5 = 30 marks)

6 Hercules plc manufactures a range of brakes that are used in cars. One model in the range, the RG57, is used in a car, the Sunray, which has recently stopped being produced. However, the Sunray car is still being used and the RG57 is still in demand as brakes wear out over time and must be replaced. Hercules plc plans to reduce the inventory of RG57 in the next three months as drivers replace the Sunray with a new car.

The following information is available:

- Inventory of RG57 at the end of June 2021 will be 34 500 units.
- Inventory at the end of September 2021 is planned to be 23 400 units.
- Inventory will be reduced by the same amount each month during the three-month period.
- Sales of the RG57 are expected to be 20 000 units in June 2021. Sales will then fall by 10% each month for the next four months, i.e. sales will be 10% lower than the previous month for each of the following four months.
- Production takes place one month before a sale.
- 2% of the finished products are rejected after inspection at the end of the production process.

Required

(a) Prepare for Hercules plc the following budgets for the RG57 for each of the three months from July 2021 to September 2021. You should round to the nearest whole number where appropriate.

(i) Inventory budget (in units)

(2)

(ii) Sales budget (in units)

(3)

(iii) Production budget (in units)

(10)

All production is ordered on a monthly basis by the manufacturer of the Sunray, who then distributes the RG57 to garages.

Sales of the RG57 are on credit and the customer always pays one month after the sale.

A discount of 5% is given on the total of the order, if an order is for more than 15 000 units for the month.

The RG57 is sold for £19.50 per unit.

Required

(b) Prepare for Hercules plc the Trade Receivables budget for the RG57 for the three months from July 2021 to September 2021, showing the amount receivable at the end of each month.

You should round to the nearest whole number where appropriate.

(5)

(c) Prepare for Hercules plc an extract from the cash budget, showing amounts received during the three months from July 2021 to September 2021 for sales of the RG57. You should round to the nearest whole number where appropriate.

(4)

The Hercules plc factory would make 100 000 of the RG57 in one month to supply the manufacturer of the Sunray when this car was in full production.

The Production Director of Hercules plc now has a suggestion concerning the production of the RG57 for the Sunray. At a Board Meeting he states, "I think we should make 100 000 units in July and then discontinue the RG57 product, instead of making smaller quantities for a number of months".

(d) Evaluate the suggestion of the Production Director of Hercules plc.

(6)

(Total for Question 6 = 30 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

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.
- Good luck with your examination.

Turn over ▶

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SECTION A

Answer BOTH questions in this section.

Source material for Question 1 is on pages 2 to 4 of the Source Booklet.

1 (a) Prepare for Sofa So Good plc, in accordance with International Accounting Standard 1 (Revised), a:

(i) Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2021

(27)

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(ii) Statement of Financial Position at 31 March 2021.

(16)

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(b) Evaluate the role of the auditor in the corporate governance of a limited company. You must include in your answer how the auditors' concerns should be addressed.

(12)

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(Total for Question 1 = 55 marks)

Source material for Question 2 is on pages 6 to 9 of the Source Booklet.

2 (a) Calculate, for Week 43, the:

(i) number of hours worked by each labourer

(4)

(ii) total hours worked in the Cutting Department.

(1)

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(b) Calculate, for the budgeted production of 480 timber lengths for Week 43, the:

(i) budgeted labour cost of production

(2)

(ii) actual labour cost of production

(3)

(iii) labour efficiency variance

(3)

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(iv) labour rate variance

(5)

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(v) total labour variance.

(3)

(c) Calculate the:

(i) budgeted number of trees required to meet the budgeted production

(2)

(ii) budgeted material cost of production

(1)

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(iii) actual cost per tree

(2)

(iv) material usage variance

(3)

(v) material price variance

(3)

(vi) total material variance.

(3)

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(d) (i) Explain why the actual fixed overhead figure may be different to the budgeted fixed overhead figure but the actual variable overhead figure is equal to the budgeted variable overhead figure.

(4)

(ii) State **two** examples of fixed overheads that may decrease over time. Give a reason why each of these may decrease.

(4)

1

2

(e) Evaluate the performance of Galana Saw Mill Limited in Week 43, considering any changes that may be beneficial for the company in the future.

(12)

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(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

SECTION B

Answer THREE questions from this section.

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

If you answer Question 3 put a cross in the box ☐ .

Source material for Question 3 is on pages 10 to 12 of the Source Booklet.

3 (a) Calculate the profit or loss after interest payments for the year ended 31 March 2021.

(2)

Inventories decreased during the year.

(b) (i) Explain **one** advantage of a decrease in inventories.

(2)

(ii) Explain **one** disadvantage of a decrease in inventories.

(2)

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Customers owed £36 400 000 at the end of the year.

(c) Calculate the amount customers owed at the start of the year.

(1)

Trade payables decreased during the year.

(d) Explain **one** advantage of a decrease in trade payables.

(2)

A 12% bank loan was issued on 1 October 2016.

(e) Calculate the amount of the loan.

(2)

Equipment was the only non-current asset sold in the year.

(f) State the carrying value of the equipment when sold.

(3)

(g) State **two** reasons, *ex*cluding receiving dividends, why Maldisun plc would buy shares in other companies.

(2)

1 .....

.....

2 .....

.....

(h) State **two** reasons why a company may issue additional shares.

(2)

1 .....

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2 .....

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At 1 April 2020, Maldisun plc had £7 050 000 in cash.

(i) Calculate the bank balance of the company at this date.

(2)

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During the year ended 31 March 2021, the bank balance increased by £7 900 000

(j) Calculate the cash balance at the end of the year.

(4)

At a board meeting of Maldisun plc, a director made the following statement. "The increase in cash and cash equivalents in the year was quite small. This increase could have been much bigger if we had not paid £23 million of dividends in the year."

(k) Evaluate whether it is appropriate for Maldisun plc to pay £23 million in dividends in the year ended 31 March 2021.

(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 14 and 15 of the Source Booklet.

4 (a) Calculate the break-even point in sales units for **one quarter (three-month period)**.

(10)

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(b) Calculate the profit or loss for 2021 Quarter 1.

(4)

(c) Calculate, for the electronic edition only, the break-even point in sales units for **one quarter (three-month period)**.

(10)

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(d) Evaluate the option of moving the magazine to an electronic only edition.

(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 pages 16 to 18 of the Source Booklet.

5 (a) Complete the Statement of Changes in Equity using the information shown in the Source Booklet, for the year ended 31 March 2021.

You should show all your workings.

(20)

Figures are in £ millions	Ordinary Share £1 Capital £	Share Premium £	Retained Earnings £	General Reserve £	Foreign Exchange Reserve £	£	£	Total Equity £
(1) Balance at 1 April 2020								
(2)								
(3)								
(4)								
(5)								
(6)								
(7)								
(8)								
(9) Balance at 31 March 2021								

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(b) Explain **two** reasons why a redemption of shares may take place.

(4)

1 .....

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2 .....

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At a Board Meeting on 1 May 2021, the Board decided to raise more capital. The Board considered the possibility of an issue of a debenture to raise capital.

(c) Evaluate the issue of a debenture as a method to raise capital by Tangail Logistics plc.

(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 20 and 21 of the Source Booklet.

6 (a) Prepare for Hercules plc the following budgets for the RG57 for each of the three months from July 2021 to September 2021. You should round to the nearest whole number where appropriate.

(i) Inventory budget (in units)

(2)

	July	August	September
Inventory (units)			

Workings

(ii) Sales budget (in units)

(3)

	July	August	September
Sales (units)			

Workings

(iii) Production budget (in units)

(10)

	July	August	September

Workings

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(b) Prepare for Hercules plc the Trade Receivables budget for the RG57 for the three months from July 2021 to September 2021, showing the amount receivable at the end of each month.

You should round to the nearest whole number where appropriate.

(5)

	July	August	September

Workings

(c) Prepare for Hercules plc an extract from the cash budget, showing amounts received during the three months from July 2021 to September 2021 for sales of the RG57.

You should round to the nearest whole number where appropriate.

(4)

	July	August	September

Workings

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(d) Evaluate the suggestion of the Production Director of Hercules plc.

(6)

(Total for Question 6 = 30 marks)

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

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