Pearson Edexcel
International Advanced Level

Accounting (Modular Syllabus)
Unit 2: Corporate and Management Accounting

Friday 10 June 2016 – Afternoon
Source Booklet

Paper Reference
WAC02/01

Do not return the insert with the question paper.

Turn over

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PEARSON

SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

1 Chong and Mei are starting Lantau Insurance Agency Limited, which will sell insurance policies.

The new company is to be funded with a capital of £90 000 in the following ways:

- Friends and family of Chong and Mei will buy shares in the company for 30% of the capital required
- 40% of the capital required will be raised as a bank loan
- The remainder of the capital will be invested equally by Chong and Mei. This is to be raised in the following ratio:
  two thirds shares purchased : one third personal loan.

Required:

(a) Prepare a Capital Budget for the start of the business.

(4)

The terms of the insurance policies sold mean the customer will pay a £30 premium on the date of the sale, then pay a monthly premium of £30 on the same date of each and every following month for the remainder of the policy. All policies have a minimum length of one year. The first three months of premiums collected are retained by Lantau Insurance Agency Limited as an introduction fee.

Chong and Mei are considering two options as business models on how to set up and run the company. Initial costs to set up the business will be £30 000, regardless of the option chosen. This is in addition to the costs shown below.

The two options are:

Option 1:

Operate the business from shop premises in the town centre.

Costs will be:

- Payment for lease on shop premises £10 000
- Purchase of furniture for shop £4 000
- Purchase of computers for shop £2 500
- Rent of shop premises £500 per month
- All other expenses total £1 800 per month.

Staff will receive basic pay, but will not be paid commission. Basic pay will be at a rate of £1 000 per month per employee. Six staff will be employed and each staff member will sell eight insurance policies per month.

Style plc is to settle the purchase consideration by issuing to the shareholders of Bangla Homes Furnishings plc and Red Sun Department Stores plc, ordinary shares of £1 in Style plc, at a value of £1.40 each.

Style plc is to take over all the assets and liabilities at book value, with the following exceptions:

- The buildings were revalued at:
  Bangla Homes Furnishings plc £27m
  Red Sun Department Stores plc £30m.
- The fixtures and fittings were revalued at:
  Bangla Homes Furnishings plc £4m
  Red Sun Department Stores plc £5m.
- The computer systems were revalued at:
  Bangla Homes Furnishings plc £2m
  Red Sun Department Stores plc £2m.
- The inventories of Red Sun Department Stores plc were revalued at £11m.
- The following trade receivables were written off as bad debts:
  Bangla Homes Furnishings plc £1m
  Red Sun Department Stores plc £2m.
- Goodwill was valued at:
  Bangla Homes Furnishings plc £3m
  Red Sun Department Stores plc £2m.
- The purchase price of Red Sun Department Stores plc was £42m.

Required:

(a) (i) Calculate the purchase price of Bangla Homes Furnishings plc.

(7)

(ii) Calculate the total number of shares in Style plc that the shareholders of Bangla Homes Furnishings plc will receive.

(4)

(b) Prepare in the books of Bangla Homes Furnishings plc the:

(i) Realisation Account

(8)

(ii) Sundry Shareholders Account.

(7)

SOURCE MATERIAL FOR USE WITH QUESTION 3

3 Mashariki Railways plc was formed to build and run a high-speed railway between two large cities. Since the railway opened, the line has been run at an operating profit. However, a high level of borrowing, has meant that Mashariki Railways plc has not been able to make a profit after interest payments.

The Equity and Liabilities section of the Statement of Financial Position of Mashariki Railways plc at 1 April 2015, the start of the financial year, is shown below.

Equity and Liabilities

Equity	**£m**	**£m**
Ordinary shares of £1	600	
Share Premium reserve	150	
Retained earnings	(120)	
General reserve	20	
		650
Non-current Liabilities		
8% Debenture 2022	500	
11% Debenture 2024	400	
9% Bank loan	100	
		1 000

The directors decided to raise another £200 million by an issue of shares.

On 1 May 2015, the company offered 160 million £1 ordinary shares at a price of £1.25 on the following terms:

- £0.60 on application
- £0.30 on allotment (including the 25p premium)
- £0.35 first and final call.

On 10 June 2015 applications for 185 million shares had been received. The directors rejected applications for 5 million shares and allotted shares to the remaining applicants on the basis of 8 shares for every 9 applied for.

On 20 June 2015 monies were returned to the unsuccessful applicants of the 5 million shares.

The balances due on allotment were fully received on 30 July 2015.

The first and final call was made on 1 December 2015 and the amounts were fully received on 30 December 2015.

If Silverseal plc decides to sell the inventory of 20 000 batteries to Konichiwa plc, the company has two options to supply the remainder of the order.

Option 1
Silverseal plc will produce 30 000 extra batteries to fulfil the order. This would require workers to work overtime at a wage rate of £6.60 an hour. Other costs remain the same.

Option 2
Silverseal plc can buy the 30 000 extra batteries at a price of £4.60 from another firm.

Required:

(c) Using **marginal costing**, advise, stating your reasons, which of the following courses of action Silverseal plc should select:

- Option 1
- Option 2
- reject the order.

(6)

(d) Evaluate the use of marginal costing in decision making.

(8)

(Total for Question 4 = 32 marks)

Answer space for Question 4 is on pages 21 to 24 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 6

6 You are the Cost Accountant at Sliema Domestics Limited, which produces steel radiators and uses a standard costing system. You have been working on the management accounts for May 2016 and the report is partly completed and shown below.

	BUDGET £	ACTUAL £	VARIANCE £
Revenue	76 800	A	1 500 ADV
Less			
Material Costs	8 928	B	C
Labour Costs	10 120	D	88 ADV
Variable Overheads	3 080	E	156 FAV
= Cost of Sales	22 128	F	G
Gross Profit	54 672	H	I
Less Fixed Overheads	17 575	J	195 FAV
Net Profit	37 097	K	L

The following information is also available for May 2016:

- A budgeted production of 1 600 radiators for May 2016 was achieved
- There was no opening inventory of steel on 1 May 2016
- During the month of May, Sliema Domestics Limited purchased 14 550 kilograms of steel at a price of £0.60 per kilogram
- The closing inventory of steel was 70 kilograms at 31 May 2016
- Each radiator was budgeted to use 9 kilograms of steel at a price of £0.62 per kilogram
- The budgeted sales figure of 1 600 radiators was achieved.

Required:

(a) Complete the spaces in the columns in the question paper, showing figures for A to L.

(12)

(b) Calculate for the month of May 2016 the:

(i) material usage variance

(5)

(ii) material price variance

(5)

(iii) total material cost variance.

(2)