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Pearson Edexcel International Advanced Level		Centre Number	Candidate Number
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<h1>Accounting</h1> <h2>International Advanced Level</h2> <h3>Paper 2: Corporate and Management Accounting</h3>			
Monday 15 January 2018 – Morning Time: 3 hours		Paper Reference WAC12/01	
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.
- Answer the questions in the spaces provided – *there may be more space than you need.*
- Do not return insert 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) Calculate the net cash flow for each of the five years of the project.

(15)

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(b) Calculate the net present value of the project.

(7)

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

(12)

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(e) Evaluate the project for Barind Stone plc, using the calculations made in (a) to (d) and any other relevant non-financial factors.

(12)

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(Total for Question 1 = 55 marks)



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QUESTION 2 BEGINS ON THE NEXT PAGE.



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Figures are in £ millions	£1 Ordinary share capital £m	Share premium £m	Retained earnings £m	General reserve £m	Foreign exchange reserve £m	Capital replacement reserve £m	Revaluation reserve £m	Total equity £m
(1) Balance at 1 January 2017								
(2)								
(3)								
(4)								
(5)								
(6)								
(7)								
(8)								
(9)								
(10) Balance at 31 December 2017								



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(b) State the difference between a revenue reserve and a capital reserve.

(2)

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(c) Identify from the Statement of Changes in Equity:

(i) **two** revenue reserves

(2)

1

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2

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(ii) **two** capital reserves.

(2)

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(f) Explain **three** roles or activities the auditor should carry out.

(6)

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In February the Board of Kandy Tea plc considered an issue of preference shares, but decided to issue ordinary shares.

- (g) Evaluate the decision to issue ordinary shares instead of preference shares, giving advantages and disadvantages of each type of share from the point of view of the company.

(12)

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(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS



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SECTION B BEGINS ON THE NEXT PAGE.



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(b) Calculate the increase or decrease in profit for the year ended 31 December 2016 using absorption costing instead of marginal costing for inventory valuation.

(4)

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(c) Calculate the units in inventory at 31 December 2017.

(4)

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(iii) State **two** reasons that may explain the difference between the value of opening inventory and the value of closing inventory.

(2)

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The cost of renting the warehouse is £26 per square metre per year.

(iv) Calculate the size of the warehouse in square metres.

(1)

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(v) State **two** actions that may be taken in the future to decrease the amount of bad debts written off.

(2)

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(vi) State **two** reasons that may explain the change in the amount of the allowance for doubtful debts.

(2)

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The interest rate on the debenture is 5.75% per year.

(vii) Calculate the value of the debenture.

(3)

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The Other Income is a gain made by buying and selling shares in another company through the stock exchange. Paola Products plc bought £50 000 worth of shares at a price of £1.25 per share. All the shares were sold.

(viii) Calculate the price of each share at the time of sale by Paola Products plc.

(4)

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No corporation tax is due on the first £24 000 of profit.

(ix) Calculate the rate of corporation tax charged on profit over £24 000 per year.

(3)

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

Source material for Question 5 is on page 11 of the source booklet.

5 (a) Calculate, for the year ended 31 December 2017, the:

(i) return on capital employed

(6)

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(ii) earnings per ordinary share

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(v) price/earnings ratio

(3)

(vi) dividend yield.

(3)

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P 5 4 5 1 9 A 0 2 9 3 6

(b) Calculate the expected profit or loss by Hasana in the year ended 31 March 2019 if the toys are produced in the factory.

(3)

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(c) Calculate the number of toys to be produced and sold in the year ended 31 March 2019 to break-even using workers to produce toys at home.

(9)

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P 5 4 5 1 9 A 0 3 3 3 6

(d) Calculate the expected profit or loss by Hasana in the year ended 31 March 2019 using workers to produce toys at home.

(3)

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(e) Evaluate the **two** possible production options for Hasana.

(6)

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(Total for Question 6 = 30 marks)

TOTAL FOR SECTION B = 90 MARKS

TOTAL FOR PAPER = 200 MARKS



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Pearson Edexcel
International Advanced Level

Accounting

International Advanced Level
Paper 2: Corporate and Management Accounting

Monday 15 January 2018 – Morning
Source Booklet

Paper Reference
WAC12/01

Do not return this Source Booklet with the question paper.



SECTION A**Answer BOTH questions in this section.**

- 1** Barind Stone plc has bought land where it plans to extract gravel for use in the construction industry. The land is expected to supply gravel for five years and then be sold.

The following information is available:

- The initial cost of the land and the equipment is £2 000 000
- In year one, sales will be 180 tons of gravel per week, at a price of £20 per ton.
- In years two and three, sales will be 190 tons of gravel per week, at a price of £21 per ton.
- In years four and five, sales will be 170 tons of gravel per week, at a price of £22 per ton.
- In years one and two, the running costs (including depreciation) are expected to be £2 000 a week.
- In years three and four, the running costs (including depreciation) are expected to be £2 200 a week.
- In year five, the running costs (including depreciation) are expected to be £2 500 a week.
- On the last day of year five, the land and equipment will be sold for £1 800 000
- Barind Stone plc will extract gravel for 52 weeks in each year.

Required

- (a) Calculate the net cash flow for each of the five years of the project.

(15)

The cost of capital of Barind Stone plc is 5%. The discount factors for 5% are shown below.

Year	5% Discount Factor
1	0.952
2	0.907
3	0.864
4	0.823
5	0.784

(b) Calculate the net present value of the project. (7)

(c) Calculate the average rate of return (accounting rate of return) of the project. (12)

Barind Stone plc is also appraising the project using the internal rate of return method. Using a discount rate of 4%, the accountant has calculated a net present value of £37 696

(d) Calculate, clearly stating the formula used, the internal rate of return correct to two decimal places. (9)

(e) Evaluate the project for Barind Stone plc, using the calculations made in (a) to (d) and any other relevant non-financial factors. (12)

(Total for Question 1 = 55 marks)

- 2 The Statement of Changes in Equity of Kandy Tea plc for the year ended 31 December 2017 is being prepared and is shown on page 11 of the Question Paper.

You are the accountant responsible for preparing the Statement of Changes in Equity for Kandy Tea plc.

Required

- (a) Complete, in the Question Paper, the Statement of Changes in Equity, to record the information shown below, for the year ended 31 December 2017.

You may show your workings in the space provided in the Question Paper.

- (1) Balances at 1 January 2017:

£1 Ordinary shares - £750 million

Share premium - £50 million

Retained earnings - £17 million credit

General reserve - £11 million

Capital replacement reserve - £7 million

Total equity figure - to be calculated

- (2) On 1 February 2017 a rights issue of 1 ordinary share of £1 for every 5 ordinary shares of £1 held took place. The issue was at a premium of 14 pence (£0.14) per share. The rights issue was fully subscribed.
- (3) On 14 March 2017 the final dividend for 2016, of 2 pence (£0.02) per share, was paid to shareholders. Only the shareholders who held shares **before** 1 February 2017 were eligible for the dividend.
- (4) On 12 April 2017 the balance on the Capital replacement reserve was transferred to Retained earnings.
- (5) On 23 May 2017 property with a book value of £60 million was revalued upwards by 20% to reflect the market value.
- (6) On 15 July 2017 an amount was transferred from the General reserve to a Foreign exchange reserve to cover falls in the currency. The company was awaiting payments of £125 million and decided to place 8% of this amount in a Foreign exchange reserve.
- (7) On 13 August 2017 the balance on the General reserve was transferred to Retained earnings.
- (8) On 24 September 2017 an interim dividend of 0.9 pence (£0.009) per share was paid to all shareholders.
- (9) The loss for the year ended 31 December 2017 was £2.9 million.
- (10) Complete the balances at 31 December 2017 and the Total equity at that date.

(21)

- (b) State the difference between a revenue reserve and a capital reserve. (2)
- (c) Identify from the Statement of Changes in Equity:
- (i) **two** revenue reserves (2)
 - (ii) **two** capital reserves. (2)
- (d) Calculate the maximum that could be paid per share as a final dividend for 2017. (4)
- (e) Explain **three** reasons why a rights issue of shares may be made. (6)
- (f) Explain **three** roles or activities the auditor should carry out. (6)

In February the Board of Kandy Tea plc considered an issue of preference shares, but decided to issue ordinary shares.

- (g) Evaluate the decision to issue ordinary shares instead of preference shares, giving advantages and disadvantages of each type of share from the point of view of the company. (12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

SECTION B**Answer THREE questions from this section.**

- 3** You have recently been appointed as the accountant for Icarus Limited. The company started trading on 1 January 2016, producing batteries for mobile phones. You notice that the financial statements for the year ended 31 December 2016 have been prepared using marginal costing for inventory valuation. After discussion with the Board, it is agreed that the financial statements for 31 December 2017 are to be drawn up using absorption costing.

The following information is available for the year ended 31 December 2016.

	£
Direct labour	2 693 600
Direct materials	1 202 500
Semi-variable costs	1 106 300
Fixed overheads	1 827 800
Revenue	8 826 300

The semi-variable costs include a fixed element of £288 600

Production 962 000 units

Sales 934 000 units

Closing inventory £137 200

Required

- (a) Calculate the value of the closing inventory at 31 December 2016 using absorption costing. (8)
- (b) Calculate the increase or decrease in profit for the year ended 31 December 2016 using absorption costing instead of marginal costing for inventory valuation. (4)

Icarus Limited recorded actual **monthly** production and sales on a **quarterly (three monthly)** basis for 2017.

2017	Production per month (units)	Sales per month (units)
Quarter 1 : Jan, Feb, March	90 000	85 000
Quarter 2 : April, May, June	95 000	92 000
Quarter 3 : July, Aug, Sept	88 000	91 000
Quarter 4 : Oct, Nov, Dec	86 000	90 000

- (c) Calculate the units in inventory at 31 December 2017. (4)

For the year ended 31 December 2017, all costs and revenues per unit remain the same as those in the year ended 31 December 2016.

- (d) Calculate, using absorption costing, the profit or loss for the year ended 31 December 2017. (8)

A director commented, "I think absorption costing is better than marginal costing, as it will **always** give a higher profit".

- (e) Evaluate the statement made by the director. (6)

(Total for Question 3 = 30 marks)

- 4 This table shows the Statement of Profit or Loss and Other Comprehensive Income and notes to the financial statements of Paola Products plc for the year ended 31 December 2017. The Statement of Profit or Loss and Other Comprehensive Income has been drawn up in accordance with International Accounting Standard (IAS) 1.

Statement of Profit or Loss and Other Comprehensive Income for Paola Products plc for year ended 31 December 2017		Notes	
	£	Cost of sales	
		Opening inventory	3 764
		Direct materials	160 480
Revenue	1 183 693	Less discount received	(4 012)
		Factory depreciation	29 500
Cost of sales	<u>(408 549)</u>	Machinery depreciation	24 000
		Factory power	14 270
Gross profit	775 144	Machinery maintenance	18 970
		Production staff	165 432
Other income	10 000	Less closing inventory	<u>(3 855)</u>
			<u>408 549</u>
Distribution costs	(449 716)		
		Distribution costs	
Administrative expenses	(132 928)	Commission on sales	52 750
		Fuel	17 783
Financial cost	<u>(34 500)</u>	Motor lorries depreciation	27 610
		Promotions and advertising	35 000
Profit on ordinary activities before tax	168 000	Rent on warehouse premises	147 888
		Running cost of lorries	13 750
Corporation tax	<u>(36 000)</u>	Shop staff wages	98 590
		Transport staff wages	<u>56 345</u>
Profit on ordinary activities after tax	<u>132 000</u>		<u>449 716</u>

		Administrative expenses	
		Bad debts written off	3 850
		Decrease in allowance for doubtful debts	(3 000)
		Discount allowed	23 541
		Office stationery	1 579
		Accountancy staff wages	34 568
		Office staff wages	<u>72 390</u>
			<u>132 928</u>
		Financial cost	
		Interest on debenture	<u>34 500</u>

Required

- (a) (i) Calculate the percentage of discount received on purchases of direct materials. (2)

Machines are bought for £11 000 each and last for seven years before being sold for £500 each.

The machines are depreciated using straight line depreciation.

- (ii) Calculate the number of machines Paola Products plc owns. (5)

- (iii) State **two** reasons that may explain the difference between the value of opening inventory and the value of closing inventory. (2)

The cost of renting the warehouse is £26 per square metre per year.

- (iv) Calculate the size of the warehouse in square metres. (1)

- (v) State **two** actions that may be taken in the future to decrease the amount of bad debts written off. (2)

- (vi) State **two** reasons that may explain the change in the amount of the allowance for doubtful debts. (2)

The interest rate on the debenture is 5.75% per year.

(vii) Calculate the value of the debenture.

(3)

The Other Income is a gain made by buying and selling shares in another company through the stock exchange. Paola Products plc bought £50 000 worth of shares at a price of £1.25 per share. All the shares were sold.

(viii) Calculate the price of each share at the time of sale by Paola Products plc.

(4)

No corporation tax is due on the first £24 000 of profit.

(ix) Calculate the rate of corporation tax charged on profit over £24 000 per year.

(3)

International Accounting Standard 1 (IAS1) recommends costs to be placed under the headings of cost of sales, distribution costs, administrative expenses and financial cost.

(b) Evaluate the IAS recommendation.

(6)

(Total for Question 4 = 30 marks)

- 5 You are the accountant for Yau Tong Marketing plc and have to report on the financial statements of the company to the Board of Directors meeting.

Information concerning the performance of the company for the financial year ended 31 December 2017 is as follows:

Issued share capital	8 million £0.75 Ordinary shares 4 million 6% Redeemable preference shares of £0.50
Profit for the year before tax	£412 000
Tax on profit for the year	£92 000
8% Debenture 2022	£1 200 000
Reserves	£800 000
Interim ordinary dividend paid for year	£40 000
Final ordinary dividend paid for year	£140 000
Market price per share	£ 0.90

Required

(a) Calculate, for the year ended 31 December 2017, the:

- (i) return on capital employed (6)
- (ii) earnings per ordinary share (5)
- (iii) dividend per share (4)
- (iv) dividend cover (3)
- (v) price/earnings ratio (3)
- (vi) dividend yield. (3)

At a Board meeting, the Chief Executive stated, "Last year, the dividend per share was 2.5 pence per share. It is important that the dividend per share increases every year".

- (b) Evaluate the statement made by the Chief Executive. (6)

(Total for Question 5 = 30 marks)

- 6 Hasana Kwemoi will start a business producing soft toys, on 1 April 2018. She has yet to decide whether to produce the toys in a small factory, or use workers to produce the toys at home.

The following information is available for the factory.

Rent of factory £1 290 per quarter (three-month period).

Direct materials for production £0.32 per toy.

Labour to be paid a **fixed** rate of £115 per week, working a 40-hour week.

Insurance per year £510

Loan interest £250 a month.

Delivery costs £0.02 per toy.

Other fixed costs £65 a month.

All production will be sold, selling at £1.99 per toy.

Each worker can produce 3 toys per hour and 5 workers are to be employed.

Production is over a full year of 52 weeks.

Required

- (a) Calculate the number of toys to be produced and sold in the year ended 31 March 2019 to break-even if the toys are produced in the factory. (9)
- (b) Calculate the expected profit or loss by Hasana in the year ended 31 March 2019 if the toys are produced in the factory. (3)

The following information is available for production using workers at home.

Hasana would run the business from a small office and rent would be £425 per quarter.

Direct materials for production £0.32 per toy.

Labour would be paid a rate of £0.75 per toy produced.

Insurance would be £220 per year less than the factory.

Loan interest £125 a month.

Delivery costs £0.11 per toy.

Other fixed costs would be £25 a month less than the factory.

A motor van would have to be purchased for £5 000. This would last 8 years before being sold for £400.

All production will be sold at a selling price of £1.49 per toy.

Each worker would produce 20 toys a day, working for 5 days a week and 7 workers are to be employed.

Production is over a full year of 52 weeks.

Required

- (c) Calculate the number of toys to be produced and sold in the year ended 31 March 2019 to break-even using workers to produce toys at home. (9)
- (d) Calculate the expected profit or loss by Hasana in the year ended 31 March 2019 using workers to produce toys at home. (3)
- (e) Evaluate the **two** possible production options for Hasana. (6)

(Total for Question 6 = 30 marks)

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

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