Summer 2015
Past Paper (Mark Scheme)

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Accounting Unit 2
WAC02 or WAC12

Mark Scheme (Results)

Summer 2015

Pearson Edexcel IAL Accounting (WAC02/01)

Unit 2 Corporate and Management Accounting

Summer 2015
Past Paper (Mark Scheme)

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Accounting Unit 2
WAC02 or WAC12

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Accounting Unit 2
WAC02 or WAC12

Question 1a Mark Scheme

Ticks in first column shows workings

Statement of Cash Flows for Maltese Construction for y/e 31 March 2015		√	1
Cash Flows from operating activities			
Profit from operations (481 600√ + 55 000 /2√ + 90 000/2√)	554 100	√√√	
Add Depreciation	689 000	(5) below	
Add Loss on Sale of Non-current Asset (900 000-360 000) √ - 420 000√	120 000	√√	
Operating cash flow before working capital changes	**1 363 100**	√ o/f	
Decrease in inventories	88 000	√	
Decrease in trade receivables	84 000	√	19
Decrease in trade payables	(31 000)	√	
Cash generated from operations	**1 504 100**	√ o/f	
Less Interest Paid: Debenture	(27 500)	√	
: Bank Loan	(45 000)	√	
Less Tax Paid	(208 000)	√	
Net Cash from Operating Activities	**1 223 600**	√ o/f	
Cash Flow from Investing Activities			
Payments to acquire tangible non-current assets	(1 200 000)	√	
Proceeds from sale of tangible non-current assets	420 000	√	4
Payments to acquire shares in other companies	(175 000)	√	
Net Cash Used in Investing Activities	**(955 000)**	√ o/f	
Cash Flow from Financing Activities			
Redemption of Ordinary shares (500 000√ + 50 000√)	(550 000)	√√	
Redemption of debenture	(1 000 000)	√	
Receipt of bank loan	1 500 000	√	
Dividends Paid : Final 2014 (3 500 000√ x 2p√)	(70 000)	√√	11
Interim 2015 (3 000 000√ x 1p√)	(30 000)	√√	
Preference (320 000√ x 3%√)	(9 600)	√√	
Net Cash Used in Financing Activities	**(159 600)**	√ o/f	
Net increase in cash and cash equivalents√	**109 000**	√o/f√C	3
Cash and cash equivalents at the beginning of the year	326 000	√	
Cash and cash equivalents at the end of the year	435 000	√	2
	TOTAL	√ x 40	**40 Marks**

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1(b)

Using the formula   Gearing Ratio = $\dfrac{\text{Debt}}{\text{Debt + equity}}$ x 100

Gearing ratio at 31 March 2014   = $\dfrac{(320\ 000 + 1\ 000\ 000)√}{(4\ 973\ 000\ + 1\ 000\ 000)\ √}$ x100   = 22.1% √

Gearing ratio at 31 March 2015   = $\dfrac{(320\ 000 + 1\ 500\ 000)}{(4\ 727\ 000\ + 1\ 500\ 000)\ √}$ √ x 100 = 29.2% √

Other formulas were accepted.

Strong points
Gearing ratio still below 30% o/f √ and therefore low. √
Interest payments are easily covered √ by profits for the period. √
Perhaps the bank loan does not have assets offered as security √ (ie no charge on assets) which the debenture may have had. √
Share price may rise if shares redeemed √

Weak points
Ratio has increased√ by 7.1% o/f points. √ which is a worsening/increased risk √ and increased interest payments √
Borrowing at 5.5% has been replaced √ by higher borrowing at 6%. √ Maybe the bank loan was the best interest rate available. √
Shares that were being given a nominal return of 3%, √ seem to be replaced by borrowing at 6%. √ What is the reason for this/ is there a reason? √
Shareholders equity holdings have been reduced √

Maximum of 8 marks for arguing one side.

Conclusion (2 marks)
Overall the gearing/financing position has worsened over the 12 months.

12 marks

Total 52 Marks

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(c) Answers could include:

Shop owner: (Maximum 5)
The order could be accepted √ on the grounds that £4.00 is greater √ than the marginal cost of £3.67√ o/f ie a positive contribution √ of £0.33 OR total contribution of £990√ However in the long term, √ selling at £4.00 would result in a Net Loss/ not all costs are covered. √

Market trader: (Maximum 5)
The order should be accepted √ on the grounds that £5.50 is greater √ than the marginal cost of £3.67√ o/f ie a positive contribution √ of £1.83 OR a total contribution of £3 660 √ Marginal costs and fixed costs are covered Or a profit is made √

Wholesaler (Maximum 5)
The order should not be accepted √ on the grounds that £3.50 is less√ than the marginal cost of £3.67√ o/f ie a negative contribution √ of £0.17 OR a total negative contribution of £680 √ A loss would be made in the short term or the long term. √

Other points (to be scored only once) (Maximum 5)
New customer may result in more orders in the future, √ perhaps at a higher price. √
May be an incentive to offload t-shirts quickly √ before they go out of fashion. √
Existing customer/overseas retailer would be unhappy √ to hear of this low price on offer. √
Possible damage to image √ if t-shirts appear on market stall. √
Marginal costing should be used to make these decisions. √

14 marks

(d) Answers could include:

Statement is correct, as a greater profit is shown.√ However, this is only due to a larger figure for closing inventory,√ and does not result in higher sales or cash inflow.√ ie a higher "paper" profit √ Also, this year closing inventory is next years opening inventory, √ so next year's profit will be reduced. √

Maximum of 8 marks for argument of one side.

Case for Absorption Costing
Sees costs allocated to products. √ Could be useful for management √ when fixing prices √ or reviewing if a product/project has been profitable√ in the long term √ Recommended√ by IAS 2 √
Follows the matching concept √ ie matches costs with revenues earned for a particular product √

Case for Marginal Costing
Could be said to help decision making √ in the short term √ when deciding whether to accept an offer price √ or make or buy √ or discontinue a product/profit centre. √
Sees costs allocated to a time period, √ so it may be argued that profit for that time period is more accurate.√ External accounts √ are drawn up on the basis of a time period. √
Follows the prudence concept √ as lower figures for profit and closing inventory. √
Business owners may like this method as it shows a lower profit √ so less tax is paid √ which is probably one of the reasons why final accounts should not use the method. √

Conclusion
Max 2 marks available.
Should draw up accounts according to absorption costing method. √√

(**12 marks**)

Total   52 marks

d) Average Rate of Return (£m)

Total Surplus of Project = £ 1 744 √o/f - £ 1 565 √o/f   =   £ 179 √o/f

Average Annual return   = $\underline{£179}$ o/f √   =   £35.8 per year o/f √
                                     5 years   √

Accounting rate of return = $\underline{£35.8}$ o/f √ x 100 = 8.95% √o/f
                                       £400   √

(9)

(e)
Answers may include :

Against Investment
ARR states do not invest √ as project fails to meet the percentage o/f return figure of 10%√

For Investment
NPV states invest √ as project has a positive NPV after 5 years. o/f √
NPV a good method of appraisal √ as it takes account of the falling value of money over time.√
Project is profitable overall √ having total cash inflow £179 000 √ o/f
How realistic is the 10% return target of the company? √ It is higher than the returns given to the providers of capital to the company. √√
Mobile phones is a growing sector of the economy. √
Payback period is within 5 years√
Increases brand awareness√

Other Relevant Points :
Accuracy of predictions? √
May be better investment projects available √
Objectives/strategy of company? √
What happens after 5 years? – renewal of contract?√ Any other/further business? √
Other appraisal techniques are available√ e.g. payback period and IRR (need both) √

Total of 8 marks for arguing one side only.

Conclusion : 2 marks
Must relate to points made above

12 marks

Total 52 marks

Q5. **Mark scheme**

(a) Purchase price = 24 000 000 √ x 4 √ x £1.03 √ = £98 880 000 √   **4 marks**

(b)

Acquisition account								
1 Apr	Property, Plant + Equipment	82 932 000	√	Apr 1	Bank loan	20 000 000		both
	Intangibles	14 000 000	√		Trade Payables	524 000	√	
	Inventories	3 120 000	both √		Short term provisions	125 000		both √
	Trade Receivables	561 600			Purchase price			
	Goodwill	18 915 400	√o/f		Cash	98 880 000	o/f	
		119 529000				119 529000		

6 marks

(c)

	Middle East Medical plc		
Assets			
Non-current Assets			
Property, plant and equipment	437 932 000	√	
Intangible assets	112 000 000	√	
Goodwill	18 915 400	√ o/f	
			568 847 400
Current Assets			
Inventories	30 920 000	√	
Trade and Other Receivables	15 221 600	√	
Cash and Cash equivalents	159 237 000	√	
-			205 378 600
Total Assets			774 226 000
Equity and Liabilities			
Equity			
Ordinary Shares of £1 each	250 000 000	√	
Share Premium	100 000 000	√	
Retained earnings	286 595 000	√	
Total capital and reserves			636 595 000
-			
Non-current liabilities			
Mortgage	100 000 000	√	
Bank Loan	20 000 000	√	
			120 000 000
Current Liabilities			
Trade and Other payables	12 787 000	√	
Current tax payable	4 719 000	√	
Short term provisions	125 000	√	
			17 631 000
Total Equity and Liabilities			774 226 000

14 marks

Q6. Mark Scheme

(a)

	BUDGET £	ACTUAL £	VARIANCE £
Revenue	165 000	162 500	(2 500) ADV √
Less			
Material Costs	(47 890)	(49 910)	(2 020) ADV √
Labour Costs	(24 640)	(24 057)	583 FAV √
Variable Overheads	(36 620)	(38 880)	(2 260) ADV √
= Cost of Sales	(109 150)	(112 847)	(3 697) ADV √
Gross Profit	55 850	49 653	6 197 ADV √
Less Fixed Overheads	(54 750)	(54 750)	0
Net Profit	1 100	(5 097)	6 197 ADV √

7 marks

(b)

(i)   Labour Efficiency Variance = (Actual Hours - Standard hours) x Standard Rate

$$= [(165√ \times 27√) - (160 \times 28)√] x £5.50 √$$
$$= (4455 - 4480) \times £5.50$$
$$= £137.50 \text{ Favourable}√$$

5 marks

(iii)   Labour Rate Variance = (Actual Rate - Standard Rate) x Actual Hours

$$= (5.40√ - £5.50√) \times (27√ \times 165√)$$
$$= (-0.10) \times 4455$$
$$= £445.50 \text{ Favourable } √$$

5 marks

(c)
(i) Fixed costs do not change with output, but they do change over time. √

1 mark

(ii) Rent √ may be increased each year/when lease is renewed. √
Salaries √ may rise during annual pay review/ in line with inflation. √
Depreciation √ may rise if more non-current assets are purchased in year. √

6 marks

7. Mark scheme

(a)

(i)   Return on Capital employed = $\dfrac{\text{Net profit before interest and tax}}{\text{Capital employed}} \times 100$

$$= \dfrac{£5\ 760\ 000}{£60\ 000\ 000} \surd \quad \times 100 \quad = \quad 9.6\ \% \ \surd$$

$\surd$

(3)

(ii)   Earnings per ordinary share = $\dfrac{\text{Net profit after interest and tax}}{\text{Issued ordinary shares}}$

$$= \dfrac{£4\ 320\ 000}{60\ 000\ 000} \surd \quad = 7.2\text{p per share} \ \surd$$

$\surd$

(3)

(iii)   Price/earnings ratio = $\dfrac{\text{Market price of share}}{\text{Earnings per share}}$

$$= \dfrac{120\text{p}}{7.2\text{p o/f}} \surd \quad = \ 16.67 \text{ times o/f} \ \surd$$

$\surd$

(3)

(iv)   Dividend paid per share = $\dfrac{\text{Total ordinary dividend}}{\text{Issued ordinary shares}}$

$$= \dfrac{£2\ 880\ 000}{60\ 000\ 000} \surd \quad = 4.8\text{p per share} \ \surd$$

$\surd$

(3)

(v)   Dividend cover = $\dfrac{\text{Net profit after interest and tax}}{\text{Total ordinary dividend}}$

$$= \dfrac{£4\ 320\ 000}{£2\ 880\ 000} \surd \quad = \quad 1.5 \text{ times} \ \surd$$

$\surd$

(3)

(vi)   Dividend yield = $\dfrac{\text{Dividend per share}}{\text{Market price of share}} \times 100$

$$= \dfrac{4.8\text{p o/f}}{120\text{p}} \surd \quad \times 100 \quad = \quad 4\% \text{ o/f} \ \surd$$

$\surd$

(3)

(b) (i) Capital gain - (£2.10 - £1.87) $\surd$ x   500 $\surd$ = £115.00 $\surd$

(3)

(ii) Revenue gain - 500 $\surd$ x 6.3p $\surd$o/f = £31.50 $\surd$

(3)