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**Pearson Edexcel**  
**International**  
**Advanced Level**

Centre Number

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Candidate Number

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**Accounting**  
**International Advanced Level**  
**Paper 2: Corporate and Management Accounting**

Friday 3 November 2017 – Morning <b>Time: 3 hours</b>	Paper Reference <b>WAC12/01</b>
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**You must have:**  
Source Booklet (enclosed)

Total Marks

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### 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 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.**

**1** Bengal Star Trousers Limited manufactures trousers at its factory.

The following **budgeted** information was available for September 2017.

Budgeted output 20 000 pairs of trousers.

Standard cost for **one pair** of trousers:

- 15 minutes cutting department labour and 30 minutes sewing department labour
- All labour is paid at a rate of £7.20 per hour
- 2.5 square metres of material at £3.46 per square metre.

Fixed overheads £17 000

The **actual** figures for the four weeks of September 2017 were:

Actual output 20 000 pairs of trousers, produced at a rate of 5 000 pairs per week.

The cutting department labour hours were as budgeted.

Due to problems with the electricity supply, the sewing department labour required an extra 850 hours to complete the output.

Halfway through the month, cutting department labour was awarded a 5% pay rise.

The last week's production of 5 000 pairs of trousers used material costing £3.56 per square metre.

Quantity of material used was as budgeted.

Fixed overheads £15 730

**Required**

(a) Calculate, for the month of September 2017, the:

- |   |      |
|---|------|
| (i) standard cost of <b>one pair</b> of trousers    | (4)  |
| (ii) actual cost of <b>20 000 pairs</b> of trousers | (10) |
| (iii) actual cost of <b>one pair</b> of trousers.   | (3)  |

- (b) Calculate, for the month of September 2017 the:
- (i) labour rate variance (5)
  - (ii) labour efficiency variance (4)
  - (iii) total labour variance (3)
  - (iv) material price variance. (5)
- (c) Complete, for the month of September 2017, in the Question Paper, the reconciliation statement of the total budgeted cost of output to the total actual cost of output.
- You must show clearly whether the variance is favourable or adverse. (6)
- (d) State **three** possible reasons why the fixed overheads for September were lower than budgeted. (3)
- The company operates a system of a 50% mark-up on cost to determine the selling price. The cost of producing each item has risen in September.
- (e) Evaluate whether the company should continue with a mark-up on cost of 50%. (12)

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**(Total for Question 1 = 55 marks)**

(c) Complete, for the month of September 2017, in the table below, the reconciliation statement of the total budgeted cost of output to the total actual cost of output.

You must show clearly whether the variance is favourable or adverse.

(6)

	£
Budgeted cost of output	
Labour variance	
Material variance	
Overhead variance	
Variances total	
Actual cost of output	

Workings

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Question Number	Answer	Mark
1 (a) (i)	<p><b>AO1 (4)</b> <b>AO1: Four marks for correct identification and calculation of costs to arrive at standard cost.</b></p> <p>Standard cost of one pair of trousers =</p> $(0.75 \text{ hours} \times \text{£}7.20) + (2.5 \text{ sq m} \times \text{£}3.46) + (\text{£}17\,000 / 20\,000)$ $= \text{£}5.40 \text{ (1) AO1} + \text{£}8.65 \text{ (1) AO1} + \text{£}0.85 \text{ (1) AO1} = \text{£}14.90 \text{ (1) o/f AO1}$	(4)

Question Number	Answer	Mark
1 (a) (ii)	<p><b>AO1 (6), AO2 (3), AO3 (1)</b> <b>AO1: Six marks for calculations to find cost totals and overall cost.</b> <b>AO2: Three marks for application of knowledge in calculations.</b> <b>AO3: One mark analysis of pay rise.</b></p> <p>Actual cost of 20 000 pairs of trousers =</p> <p>Labour  <math>(\text{£}7.20 \times 0.75) \text{ (1) AO2} \times 20\,000 = 108\,000 \text{ (1) AO1}</math>            Plus  <math>(850 \times \text{£}7.20) = 6\,120 \text{ (1) AO1}</math>            Plus  <math>(0.25 \text{ hour} \times \text{£}7.20 \text{ (1) AO2} \times 10\,000 \times 0.05 \text{ (1) AO3}) = \frac{900}{115\,020} \text{ (1) AO1}</math></p> <p>Material <math>(\text{£}8.65 \times 15\,000) = 129\,750 \text{ (1) AO1}</math>            Plus <math>(\text{£}8.9 \times 5\,000) = \frac{44\,500}{174\,250} \text{ (1) AO2}</math></p> <p style="text-align: right;">Fixed overheads = <math>\frac{15\,730}{305\,000} \text{ (1) AO1}</math> o/f AO1</p>	(10)

Question Number	Answer	Mark
<b>1 (a) (iii)</b>	<p><b>AO1 (3)</b> <b>AO1: Three marks for correct identification of figures and calculation to arrive at actual cost.</b></p> <p>Actual cost of one pair of trousers =</p> $\frac{\underline{\pounds 305\,000} (1) \text{ o/f } \text{AO1}}{20\,000 (1) \text{ AO1}} = \pounds 15.25 (1) \text{ o/f } \text{AO1}$	<b>(3)</b>

Question Number	Answer	Mark
<b>1 (b) (i)</b>	<p><b>AO2 (3), AO3 (2)</b> <b>AO2: Three marks for correct application of data and calculation of labour rate variance.</b> <b>AO3: Two marks for correct analysis of data and use in calculation of labour rate variance.</b></p> <p>Labour rate variance  <math display="block">= (\pounds 7.20 (1) \text{ AO2} - \frac{115\,020}{15\,850} (1) \text{ o/f } \text{AO3}) \times 15\,850 (1) \text{ AO2}</math> <math display="block">= (\pounds 7.20 - \pounds 7.2568) \times 15\,850 = \pounds 900 \text{ Adv } (1) \text{ o/f } \text{AO2}</math> </p>	<b>(5)</b>

Question Number	Answer	Mark
<b>1 (b) (ii)</b>	<p><b>AO2 (4)</b> <b>AO2: Four marks for application of data to calculate labour efficiency variance.</b></p> <p>Labour efficiency variance  <math display="block">= (15\,000 (1) \text{ AO2} - 15\,850 (1)) \times \pounds 7.20 (1) \text{ AO2}</math> <math display="block">= \pounds 6\,120 \text{ Adverse } (1) \text{ AO2}</math> </p>	<b>(4)</b>

Question Number	Answer	Mark
<b>1 (b) (iii)</b>	<p><b>AO2 (3)</b> <b>AO2: Three marks for application of data to calculate labour rate variance.</b></p> <p>Total labour rate variance  <math display="block">= (\pounds 900 \text{ Adv } (1) \text{ o/f } \text{AO2} + \pounds 6\,120 \text{ Adv } (1) \text{ o/f } \text{AO2})</math> <math display="block">= \pounds 7\,020 \text{ Adverse } (1) \text{ o/f } \text{AO2}</math> </p>	<b>(3)</b>

Question Number	Answer	Mark
1 (b) (iv)	<p><b>AO2 (2), AO3 (3)</b></p> <p><b>AO2: Two marks for correct application of data and calculation of material price variance.</b></p> <p><b>AO3: Three marks for correct analysis of data and use in calculation of material price variance.</b></p> <p>Material price variance =  <math display="block">\frac{(\pounds 3.46 (1) \text{ AO2} - \pounds 174\,250) (1) \text{ o/f AO3} \times 50\,000 (1) \text{ AO3}}{50\,000} (1) \text{ AO3}</math></p> <p>= <math>\pounds 1\,250</math> Adverse (1) o/f AO2</p>	(5)

Question Number	Answer	Mark														
1 (c)	<p><b>AO2 (6)</b> <b>AO2: Six marks for correct identification and calculation of costs and variances to complete reconciliation</b></p> <p><b><u>Reconciliation Statement for September 2017</u></b></p> <table border="1"> <thead> <tr> <th></th> <th>£</th> </tr> </thead> <tbody> <tr> <td>Budgeted Cost of Output</td> <td>298 000 (1) o/f AO2</td> </tr> <tr> <td>Labour variance</td> <td>7 020 Adv (1) o/f AO2</td> </tr> <tr> <td>Material variance</td> <td>1 250 Adv (1) o/f AO2</td> </tr> <tr> <td>Overhead Variance</td> <td>1 270 Fav (1) AO2</td> </tr> <tr> <td>Variances Total</td> <td>7 000 Adv (1) o/f AO2</td> </tr> <tr> <td>Actual Cost of Output</td> <td>305 000 (1) o/f AO2</td> </tr> </tbody> </table>		£	Budgeted Cost of Output	298 000 (1) o/f AO2	Labour variance	7 020 Adv (1) o/f AO2	Material variance	1 250 Adv (1) o/f AO2	Overhead Variance	1 270 Fav (1) AO2	Variances Total	7 000 Adv (1) o/f AO2	Actual Cost of Output	305 000 (1) o/f AO2	(6)
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Variances Total	7 000 Adv (1) o/f AO2															
Actual Cost of Output	305 000 (1) o/f AO2															

Question Number	Answer	Mark
1 (d)	<p><b>AO1 (3)</b> <b>AO1: Three marks for correct identification and of reasons.</b></p> <p>Reasons for fixed overheads being below budget:</p> <ul style="list-style-type: none"> <li>- reduction in rent payable (1) AO1</li> <li>- reduction in managers salaries (1) AO1</li> <li>- reduction in depreciation (1) AO1</li> <li>- reduction in heating costs (1) AO1</li> <li>- incorrect budget setting (1) AO1</li> <li>- any other suitable reason</li> </ul>	(3)



Question Number	Indicative content	Mark
1 (e)	<p><b>A01 (1), A02 (1), A03 (4), A04 (6)</b></p> <p><u>For Keeping 50% mark up</u></p> <ul style="list-style-type: none"> <li>• Need to maintain profit margin, cannot keep same selling price for ever.</li> <li>• Customers may be quite willing to pay the higher price. The market may be able to carry this level of mark-up.</li> <li>• New price may still be below that of rival firms.</li> <li>• The increase in costs is £0.35, so this would mean an increase of £0.52 pence in the sales price. The selling price would rise from £22.35 to £22.87. Would customers notice this increase?</li> <li>• Profit would rise to £7.62 per item from £7.45 per item.</li> </ul> <p><u>Against</u></p> <ul style="list-style-type: none"> <li>• Passing on the increase in production cost.</li> <li>• Could absorb rising costs by increasing efficiency. Some areas are becoming more efficient - there seems to have been some reduction in costs in overheads.</li> <li>• Customers could be unhappy and go to a rival supplier. The market may be very competitive.</li> <li>• New price could make firm's price higher than rivals.</li> <li>• The increase in costs is £0.35, so this would mean an increase of £0.52 pence in the sales price to £22.87. Would customers find this too much?</li> <li>• Some of the increased costs were because of the problems with the electricity supply – is it fair that customers should carry the burden of this problem?</li> <li>• The cutting department has been awarded a 5% wage rise but not the sewing department. This might cause dissent and a claim for a higher wage by sewing staff, thus leading to a rise in labour wages.</li> </ul> <p><u>Decision</u></p> <p>Candidates may argue for or against continuation of a mark-up of 50%. The decision should be supported by reference to key points of their argument.</p>	(12)

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-3	Isolated elements of knowledge and understanding recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
Level 2	4 - 6	Elements of knowledge and understanding, which are applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present.
Level 3	7 - 9	Accurate and thorough understanding, supported throughout by relevant application to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects. An attempt at an assessment is presented, using financial and maybe non-financial information, in an appropriate format and communicates reasoned explanations
Level 4	10 -12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and maybe non-financial information and makes informed recommendations and decision(s).

- 2 Digital Estates plc decided to merge with Homesales plc. A new company called Redbricks plc was formed on 1 October 2017 with ordinary shares of £1 each.

**The Statements of financial position at 30 September 2017**

	Digital Estates plc £ 000's	Homesales plc £ 000's
<b>ASSETS</b>		
<b>Non-current assets</b>		
Buildings	22 000	18 000
Computers	5 600	4 300
Fixtures and fittings	1 900	1 500
Motor vehicles	<u>1 200</u>	<u>875</u>
	30 700	24 675
<b>Current assets</b>		
Inventory	420	370
Trade receivables	2 950	2 210
Cash and cash equivalents	<u>870</u>	<u>565</u>
	<u>4 240</u>	<u>3 145</u>
<b>Total assets</b>	<u>34 940</u>	<u>27 820</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Ordinary shares of £1	20 000	10 000
Share premium	4 000	10 000
Retained earnings	<u>4 140</u>	<u>3 840</u>
	28 140	23 840
<b>Non-current liabilities</b>		
Bank loans	<u>5 500</u>	<u>3 100</u>
	5 500	3 100
<b>Current liabilities</b>		
Trade payables	1 050	770
Other payables	<u>250</u>	<u>110</u>
	<u>1 300</u>	<u>880</u>
<b>Total equity and liabilities</b>	<u>34 940</u>	<u>27 820</u>

Redbricks plc took over **all** the assets and liabilities at book value, with the following exceptions.

- Non-current assets were revalued as follows:

	Digital Estates plc £ 000's	Homesales plc £ 000's
Buildings	25 000	20 000
Computers	5 000	4 000
Fixtures and fittings	1 700	1 400
Motor vehicles	1 100	700

- Inventory of Digital Estates plc was reduced by £20 000
- Inventory of Homesales plc was reduced by £30 000
- Trade receivables of £100 000 of Homesales plc were written off as bad debts.

### Required

- (a) Calculate the value of Homesales plc **after** the revaluations.

(6)

The directors of Redbricks plc offered shareholders in Homesales plc one ordinary share of £1.00 in Redbricks plc, at a premium of £1.50 (making a total of £2.50), for every £1 ordinary share held.

The shareholders of Homesales plc rejected this offer.

- (b) Explain the financial reason why the shareholders of Homesales plc rejected this offer.

(4)

The directors of Redbricks plc made a new offer to shareholders in Homesales plc of one ordinary share of £1.00 in Redbricks plc, at a premium of £2.00 (making a total of £3.00), for every £1 ordinary share held. This offer was accepted by shareholders in Homesales plc.

- (c) Calculate the goodwill paid by Redbricks plc for Homesales plc.

(4)

The value of Digital Estates plc was agreed at £42 000 000 for the merger. Shareholders in Digital Estates plc received 14 000 000 ordinary shares of £1.00 each in Redbricks plc, at a premium of £2.00 per share.

The goodwill paid for Digital Estates plc was £11 780 000

(d) In the books of Digital Estates plc, prepare the:

(i) realisation account (8)

(ii) sundry shareholders account. (8)

(e) Prepare the statement of financial position of Redbricks plc at 1 October 2017 after the merger. (13)

At the first board meeting of Redbricks plc, the Finance Director stated, "We must treat goodwill correctly in the accounts."

(f) Evaluate the accounting treatment of goodwill during and after the merger process. (12)

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**(Total for Question 2 = 55 marks)**

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**TOTAL FOR SECTION A = 110 MARKS**

Question Number	Answer	Mark	
2 (a)	<p><b>A01 (6)</b>  <b>A01: Six marks for correct values and calculation to arrive at value.</b></p> <p>Calculation of Purchase price for Homesales plc</p>	<b>(6)</b>	
			Homesales plc (£000)
	Buildings		20 000
	Computers		4 000 (1) <b>A01</b> (any 2 NCA)
	Fixtures and Fittings		1 400
	Vehicles		700 (1) <b>A01</b> (next two NCA)
	Inventory		340
	Trade receivables		2 110 (1) <b>A01</b> (any 2 CA)
	Cash and Cash equivalents		565 (1) <b>A01</b>
	Bank loan		(3100)
	Trade payables		(770)
	Other payables		(110) (1) <b>A01</b> (all 3 Liabs)
	Value of Homesales plc	25 135 (1) o/f <b>A01</b>	

Question Number	Answer	Mark
2 (b)	<p><b>A02 (2), A03 (2)</b>  <b>A02: Two marks for correct application and calculation to arrive at value of offer.</b>  <b>A03: Two marks for correct analysis of offer and decision.</b></p> <p>The offer values Homesales plc at (10 m x £2.50)            (1) <b>A02</b> = £25 million (1) <b>A02</b>            This is less than the value of Homesales plc which is £25.135 (1) <b>A03</b>            There is no goodwill / goodwill is negative (1) <b>A03</b></p>	<b>(4)</b>

Question Number	Answer	Mark
2 (c)	<p><b>A01 (1), A02 (3)</b>  <b>A01: One mark for correct value of new offer.</b>  <b>A01: Three marks for analysis of offer and calculation of goodwill.</b></p> <p>New offer is (10m x £3) (1) <b>A02</b>                      = £30 million (1) <b>A01</b>                      Less Value of Homesales at (£25.135) million (1) o/f <b>A02</b>                      Goodwill = £4.865 million (1) o/f <b>A02</b></p>	(4)

Question Number	Answer	Mark																																								
2 (d) (i)	<p><b>A01 (1), A02 (7)</b>  <b>A01: One mark for correct balancing off account.</b>  <b>A01: Seven marks for correct entries into the account.</b></p> <p><b>Digital Estates plc Realisation Account</b></p> <table border="1"> <thead> <tr> <th></th> <th>£ 000's</th> <th></th> <th>£ 000's</th> </tr> </thead> <tbody> <tr> <td>Buildings</td> <td>22 000</td> <td>Bank loan</td> <td>5 500</td> </tr> <tr> <td>Computers</td> <td>5 600</td> <td>Trade payables</td> <td>1 050</td> </tr> <tr> <td>Fixtures and Fittings</td> <td>1 900</td> <td>Other payables</td> <td>250 (1) <b>A02</b> all three</td> </tr> <tr> <td>Motor vehicles</td> <td>1 200 (1) <b>A02</b> all four</td> <td>Redbricks plc <b>A02</b> (Purchase Consideration) (1)</td> <td>42 000 (1) <b>A02</b></td> </tr> <tr> <td>Inventory</td> <td>420</td> <td></td> <td></td> </tr> <tr> <td>Trade receivables</td> <td>2 950</td> <td></td> <td></td> </tr> <tr> <td>Cash and Cash equivalents</td> <td>870(1) <b>A02</b> all three</td> <td></td> <td></td> </tr> <tr> <td>Sundry Shareholders (Profit on Realisation)</td> <td>13 860 (1) o/f <b>A02</b> <b>A02</b> (1)</td> <td></td> <td></td> </tr> <tr> <td></td> <td><u>48 800</u></td> <td></td> <td><u>48 800</u> (1) <b>A01</b></td> </tr> </tbody> </table>		£ 000's		£ 000's	Buildings	22 000	Bank loan	5 500	Computers	5 600	Trade payables	1 050	Fixtures and Fittings	1 900	Other payables	250 (1) <b>A02</b> all three	Motor vehicles	1 200 (1) <b>A02</b> all four	Redbricks plc <b>A02</b> (Purchase Consideration) (1)	42 000 (1) <b>A02</b>	Inventory	420			Trade receivables	2 950			Cash and Cash equivalents	870(1) <b>A02</b> all three			Sundry Shareholders (Profit on Realisation)	13 860 (1) o/f <b>A02</b> <b>A02</b> (1)				<u>48 800</u>		<u>48 800</u> (1) <b>A01</b>	(8)
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2 (e)	<p><b>A01 (7), A02 (2), A03 (4)</b>  <b>A01: Seven marks for correct tangible non-current assets, current assets, liabilities, and balancing statement.</b>  <b>A02: Two marks for correct labels of goodwill and share premium.</b>  <b>A03: Four marks for correct figures for goodwill, shares and share premium.</b>  <b>Statement of Financial Position of Redbricks plc at 1 October 2017</b></p> <table border="1"> <thead> <tr> <th></th> <th>£ 000's</th> <th>£ 000's</th> </tr> </thead> <tbody> <tr> <td><b>Assets</b></td> <td></td> <td></td> </tr> <tr> <td><b>Non-current assets</b></td> <td></td> <td></td> </tr> <tr> <td>Buildings</td> <td>45 000</td> <td></td> </tr> <tr> <td>Computers</td> <td>9 000 (1) <b>A01</b> both</td> <td></td> </tr> <tr> <td>Fixtures and Fittings</td> <td>3 100</td> <td></td> </tr> <tr> <td>Motor vehicles</td> <td>1 800 (1) <b>A01</b> both</td> <td></td> </tr> <tr> <td>Goodwill (1) <b>A02</b>– Homes</td> <td>4 865 (1) o/f <b>A03</b></td> <td></td> </tr> <tr> <td>Digital Estates</td> <td>11 780 (1) <b>A03</b></td> <td></td> </tr> <tr> <td></td> <td></td> <td>75 545</td> </tr> <tr> <td><b>Current assets</b></td> <td></td> <td></td> </tr> <tr> <td>Inventory</td> <td>740</td> <td></td> </tr> <tr> <td>Trade receivables</td> <td>5 060 (1) <b>A01</b> both</td> <td></td> </tr> <tr> <td>Cash and Cash equivalents</td> <td>1 435 (1) <b>A01</b></td> <td></td> </tr> <tr> <td></td> <td></td> <td><u>7 235</u></td> </tr> <tr> <td></td> <td></td> <td><u>82 780</u></td> </tr> <tr> <td><b>Equity and Liabilities</b></td> <td></td> <td></td> </tr> <tr> <td><b>Equity</b></td> <td></td> <td></td> </tr> <tr> <td>Ordinary Shares of £1 each</td> <td>24 000 (1) <b>A03</b></td> <td></td> </tr> <tr> <td>Share Premium (1) <b>A02</b></td> <td>48 000 (1) <b>A03</b></td> <td></td> </tr> <tr> <td></td> <td></td> <td>72 000</td> </tr> <tr> <td><b>Non-current liabilities</b></td> <td></td> <td></td> </tr> <tr> <td>Bank loan</td> <td>8 600 (1) <b>A01</b></td> <td></td> </tr> <tr> <td></td> <td></td> <td>8 600</td> </tr> <tr> <td><b>Current Liabilities</b></td> <td></td> <td></td> </tr> <tr> <td>Trade payables</td> <td>1 820</td> <td></td> </tr> <tr> <td>Other payables</td> <td>360 (1) <b>A01</b> both</td> <td></td> </tr> <tr> <td></td> <td></td> <td><u>2 180</u></td> </tr> <tr> <td></td> <td></td> <td><u>82 780</u> (1) o/f <b>A01</b></td> </tr> </tbody> </table>		£ 000's	£ 000's	<b>Assets</b>			<b>Non-current assets</b>			Buildings	45 000		Computers	9 000 (1) <b>A01</b> both		Fixtures and Fittings	3 100		Motor vehicles	1 800 (1) <b>A01</b> both		Goodwill (1) <b>A02</b> – Homes	4 865 (1) o/f <b>A03</b>		Digital Estates	11 780 (1) <b>A03</b>				75 545	<b>Current assets</b>			Inventory	740		Trade receivables	5 060 (1) <b>A01</b> both		Cash and Cash equivalents	1 435 (1) <b>A01</b>				<u>7 235</u>			<u>82 780</u>	<b>Equity and Liabilities</b>			<b>Equity</b>			Ordinary Shares of £1 each	24 000 (1) <b>A03</b>		Share Premium (1) <b>A02</b>	48 000 (1) <b>A03</b>				72 000	<b>Non-current liabilities</b>			Bank loan	8 600 (1) <b>A01</b>				8 600	<b>Current Liabilities</b>			Trade payables	1 820		Other payables	360 (1) <b>A01</b> both				<u>2 180</u>			<u>82 780</u> (1) o/f <b>A01</b>	(13)
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Question Number	Indicative content	Mark
2 (f)	<p><b>AO1(1), AO2 (1), AO3 (4), AO4 (6)</b> Possible answers could include:</p> <p>Goodwill is the difference between the value of a business as a whole, and the fair value of its net assets. The value of the business could be said to be the price that a buyer agrees to pay for the business. The fair value of the business is agreed after the possible revaluation of assets and liabilities.</p> <p>The correct treatment of the goodwill paid, or purchased, would be to amortize the goodwill over its useful economic life.</p> <p><u>For this treatment</u> The buyer is likely to derive benefits from the expenditure over a number of years, so spreading the cost of this expenditure over a number of years agrees with the matching concept and gives a true and fair view of the accounts. This treatment is in line with recommended practice. i.e. FRS102 / IAS 38</p> <p>To write the goodwill off immediately may make profit unrealistically low, and the tax charge on profits would be unfairly low.</p> <p><u>Case against this treatment</u> If goodwill were to be written off immediately against reserves, the prudence concept is followed. It is difficult to estimate the number of years the buyer will benefit from the purchase of the business assets. Thus, the annual amortisation charge in the accounts may be unrealistic.</p> <p><u>Decision</u> Writing off over a number of years is recommended and beneficial as it gives a true and fair view of the accounts. The decision should be supported by reference to key points of their argument.</p>	(12)

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1 - 3	Isolated elements of knowledge and understanding which are recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
Level 2	4 - 6	Elements of knowledge and understanding, which may be applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present.
Level 3	7 - 9	Accurate and thorough understanding, supported by relevant application to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects. An attempt at an assessment is presented, using financial and maybe non-financial information, in an appropriate format and communicates reasoned explanations.
Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and maybe non-financial information and makes an informed decision(s).

**SECTION B**

**Answer THREE questions from this section.**

**3** Soundz Around won a contract to supply 35 000 headphone sets in its first year of trading to a multinational retailer. You are the Cost Accountant, and the following information is available for Year 1:

- factory rent was £7 275 per quarter (three months)
- material costs per headphone set £3.85
- direct labour costs per headphone set £5.35
- electricity £6 500 per year plus 3 pence (£0.03) per headphone set
- insurance for the whole business was £220 per month
- other fixed costs were £2 980 per month
- each headphone set sells for £14.99
- the business operates for 50 weeks in a year.

**Required**

(a) Calculate, for Year 1, the break-even point in:

(i) sales units (8)

(ii) sales revenue. (2)

(b) Calculate, for Year 1, the:

(i) margin of safety in sales revenue (3)

(ii) profit for the year. (4)

The following figures are estimated for Year 2:

- factory rent will rise to £7 500 per quarter (three months)
- insurance for the whole business will rise by 10%
- other fixed costs will rise by £125 per month
- material costs will rise by 2 pence (£0.02) per headphone set
- labour costs will rise by 5 pence (£0.05) per headphone set
- output and sales are to remain at 35 000 headphone sets
- all other costs and the selling price will remain the same.

The owner of Soundz Around wishes to see the Year 2 estimated figures on a graph.

(c) Prepare and label the following on the graph in the Question Paper:

- fixed costs
- total costs
- sales revenue
- break-even point
- margin of safety, measured in sales units
- angle of incidence
- profit for the year.

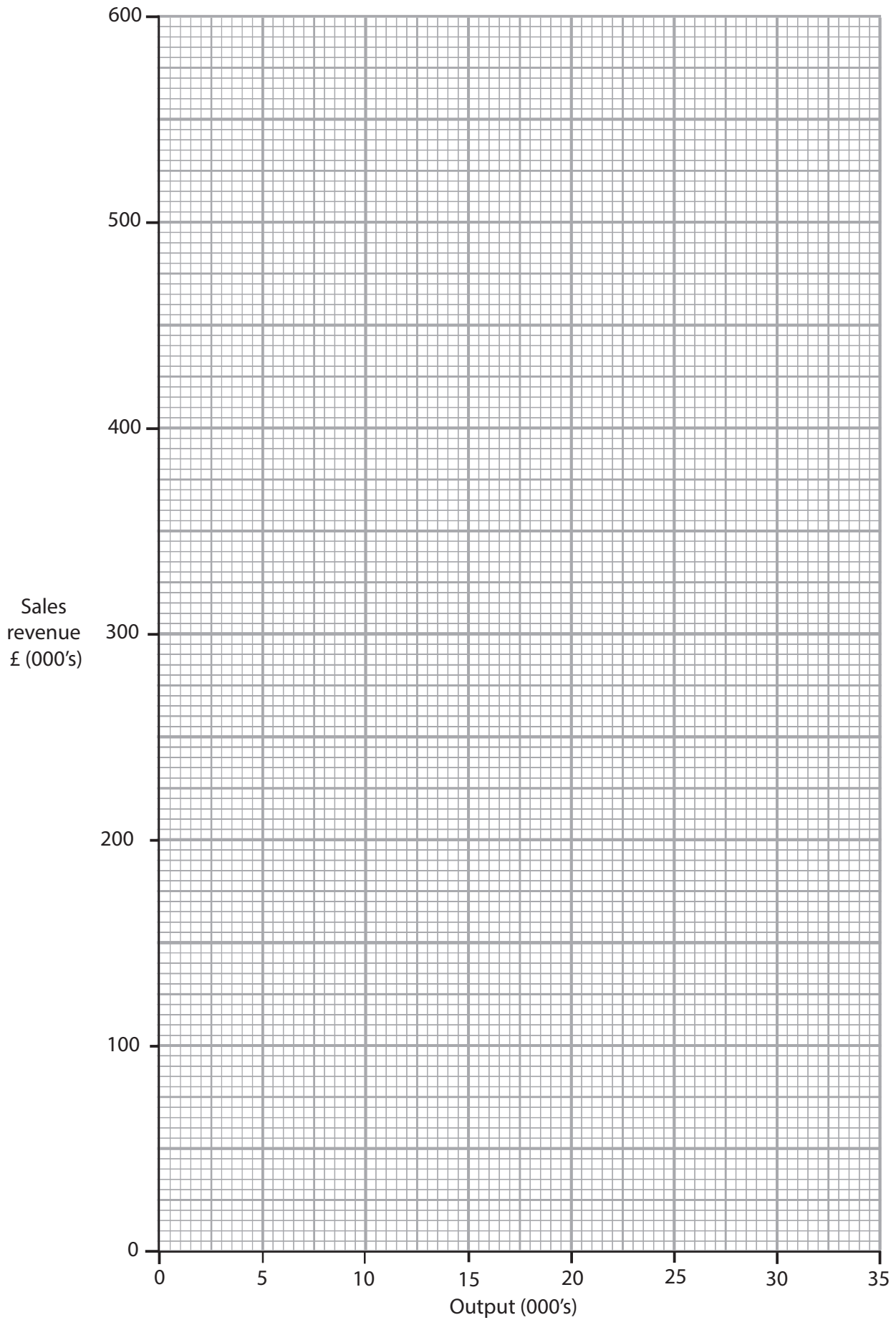
(7)

(d) Evaluate the use of ICT in break-even analysis.

(6)

**(Total for Question 3 = 30 marks)**

DO NOT WRITE IN THIS AREA





Question Number	Answer	Mark
3 (b) (ii)	<p><b>AO2 (2), AO3 (2)</b></p> <p><b>AO2: Two marks for correct calculation of contribution and profit.</b></p> <p><b>AO3: Two marks for analysis of data to help calculation of contribution and fixed costs.</b></p> <p>Profit</p> <p>Contribution (£5.76 o/f x 35 000) (1) <b>AO3</b> = £201 600 o/f (1) <b>AO2</b></p> <p>Less FC = (£74 000) o/f (1) <b>AO3</b></p> <p>Profit = £127 600 o/f (1) <b>AO2</b></p>	(4)

Question Number	Answer	Mark
3 (c)	<p><b>AO2 (7)</b></p>	(7)



Question Number	Answer	Mark
3 (d)	<p><b>AO4 (6)</b></p> <p><u>Case for ICT</u></p> <ul style="list-style-type: none"> <li>• Saves time and therefore money, compared to preparing accounts by hand.</li> <li>• Spreadsheets can be used for calculations for break-even analysis.</li> <li>• Spreadsheets can also be used to generate graphical information.</li> </ul> <p><u>Case against ICT</u></p> <ul style="list-style-type: none"> <li>• Financial cost of hardware, software, staff training, running costs, maintenance etc.</li> <li>• If staff are not trained or are unskilled, they can make errors, which may lead to generation of incorrect information.</li> <li>• Security risks if management or company wish to keep the information confidential.</li> <li>• Computer crashes, freezes etc which may result in a loss of information and waste of staff time.</li> </ul> <p><u>Decision</u></p> <p>ICT is very advantageous for break-even analysis. The decision should be supported by reference to key points of their argument.</p>	(6)
Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding that are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide-ranging, using financial and perhaps non-financial information and an appropriate decision is made.

- 4 You are the Finance Director for Lam Tin Investments plc. You have to report at a shareholders meeting on the financial performance of the company for the year ended 30 September 2017. The following information is available for the year ended 30 September 2017.

Issued share capital:	
£1 Ordinary shares	£25 000 000
6% £1 Irredeemable preference shares	£3 000 000
Revenue	£82 000 000
Gross profit	£6 560 000
Net profit after interest and tax	£480 000
8% bank loan repayable 2021	£5 000 000
Ordinary dividends paid for year:	
Interim	£40 000
Final	£120 000
Share price	43.2 pence (£0.432)

### Required

- (a) Calculate the following ratios:
- (i) gross profit as a percentage of revenue (3)
  - (ii) return on capital employed (4)
  - (iii) earnings per ordinary share (4)
  - (iv) dividend paid per ordinary share (3)
  - (v) dividend cover (4)
  - (vi) price/earnings ratio (3)
  - (vii) dividend yield. (3)

Shareholders have been concerned about the performance of the company. They have expressed a view that they would like to see an improvement on last year's results.

Results for the year ended 30 September 2016 are shown below.

Gross profit as a percentage of revenue	10%
Return on capital employed	1.82%
Earnings per ordinary share	0.08p per share
Dividend per share	2.50p per share
Dividend cover	0.6 times
Price/Earnings ratio	40 times
Dividend yield	5.3%

**Required**

- (b) Evaluate the performance of Lam Tin Investments plc for the year ended 30 September 2017, compared to the financial year ended 30 September 2016.

(6)

**(Total for Question 4 = 30 marks)**

---

Question Number	Answer	Mark
4 (a) (i)	<p><b>AO1 (3)</b>  <b>AO1: Three marks for correct calculation.</b>                      Gross profit as a percentage of revenue = <math>\frac{\text{Gross profit} \times 100}{\text{Revenue}}</math></p> $= \frac{6\,560\,000 \times 100}{82\,000\,000} \text{ (1) AO1}$ $= 8\% \text{ (1) AO1}$	(3)

Question Number	Answer	Mark
4 (a) (ii)	<p><b>AO2 (2), AO3 (2)</b>  <b>AO2: Two marks for correct calculation of capital employed and ROCE.</b>  <b>AO3: Two marks for analysis of data to calculate net profit before interest and tax.</b></p> <p>Return on Capital employed                      = <math>\frac{\text{Net profit before interest and tax} \times 100}{\text{Capital employed}}</math></p> $= \frac{£480\,000 \text{ (1) AO3} + £400\,000 \text{ (1) AO3} \times 100}{£33\,000\,000 \text{ (1) AO2}} = 2.67\% \text{ (1) AO2}$	(4)

Question Number	Answer	Mark
4 (a) (iii)	<p><b>AO2 (2), AO3] (2)</b>  <b>AO2: Two marks for application of data to find correct number of shares and EPS.</b>  <b>AO3: Two marks for correct calculation of earnings.</b></p> <p>Earnings per share =  <math>\frac{\text{Net profit after interest and tax} - \text{preference dividend}}{\text{Number of issued ordinary shares}}</math></p> $= \frac{£480\,000 \text{ (1) AO3} - £180\,000 \text{ (1) AO3}}{25\,000\,000 \text{ (1) AO2}}$ $= 1.2 \text{ p per share (1) AO2}$	(4)

Question Number	Answer	Mark
4 (a) (iv)	<p><b>AO2 (2), AO3 (1)</b>  <b>AO2: Two marks for application of data to find correct number of shares and dividend per share.</b>  <b>AO3: One mark for correct calculation of total ordinary dividend.</b></p> <p>Dividend paid per share = <math>\frac{\text{Total ordinary dividend}}{\text{Number of issued ordinary shares}}</math></p> <p>= <math>\frac{\pounds 160\,000}{25\,000\,000}</math> (1) <b>AO3</b> = 0.64 p per share (1) <b>AO2</b></p>	<b>(3)</b>

Question Number	Answer	Mark
4 (a) (v)	<p><b>AO2 (2), AO3 (2)</b>  <b>AO2: Two marks for application of data to find total ordinary dividend and dividend cover.</b>  <b>AO3: Two marks for correct calculation of available funds for dividends.</b></p> <p>Dividend cover = <math>\frac{\text{Net profit after interest and tax} - \text{preference dividends}}{\text{Total ordinary dividend}}</math></p> <p>= <math>\frac{\pounds 480\,000 - \pounds 180\,000}{\pounds 160\,000}</math> (1) <b>AO3</b> (1) <b>AO2</b></p> <p>= 1.875 times (1) <b>AO2</b></p>	<b>(4)</b>

Question Number	Answer	Mark
4 (a) (vi)	<p><b>AO1 (2), AO2 (1)</b>  <b>AO1: Two marks for correct substitution into formula.</b>  <b>AO2: One mark for correct calculation of P/E Ratio.</b></p> <p>Price/earnings ratio = <math>\frac{\text{Market price of share}}{\text{Earnings per share}}</math> MP is £0.72 as per QP</p> <p>= <math>\frac{43.2\text{p}}{1.2\text{p o/f}}</math> (1) <b>AO1</b> = 36 times o/f (1) <b>AO2</b></p>	<b>(3)</b>

Question Number	Answer	Mark
4 (a) (vii)	<p><b>AO2 (3)</b>  <b>AO2: Three marks for correct substitution into formula and calculating dividend yield.</b></p> <p>Dividend yield = <math>\frac{\text{Dividend per share}}{\text{Market price of share}} \times 100</math></p> <p>= <math>\frac{0.64 \text{ p o/f (1) AO2}}{43.2 \text{ (1) AO2}} \times 100 = 1.48 \% \text{ o/f (1) AO2}</math></p>	<b>(3)</b>

Question Number	Answer	Mark
4 (b)	<p><b>AO4 (6)</b></p> <p><u>Better than 2016</u></p> <ul style="list-style-type: none"> <li>• ROCE better by 0.85 % points.</li> <li>• Earnings per ordinary share is better 1.12 pence per share.</li> <li>• Dividend cover is greater so funds are being retained in the business by 1.275 times.</li> </ul> <p><u>Worse than 2016</u></p> <ul style="list-style-type: none"> <li>• Gross profit as a percentage of revenue is worse by 2%.</li> <li>• Dividend per share is worse from the shareholders point of view by 1.86 p per share.</li> <li>• Dividend cover could be said to be worse from the shareholders point of view as a lower percentage of profit is paid as a dividend by 1.275 times.</li> <li>• Price/Earnings ratio is worse by 4.</li> <li>• Dividend yield is worse by 3.82%.</li> </ul> <p><u>Decision</u>  Key ratio ROCE for 2017, shows an improvement for Lam Tin Investments plc.  Shareholders may still be unhappy as dividends paid out have reduced, which makes some ratios look worse.</p>	<b>(6)</b>

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding that are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario.

		<p>Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid.</p> <p>An attempt at an evaluation is presented, using financial and perhaps non-financial information with a decision.</p>
Level 3	5-6	<p>Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present.</p> <p>Evaluation is balanced and wide-ranging, using financial and perhaps non-financial information and an appropriate decision is made.</p>

- 5 Episkopi Engineering Ltd manufactures printers and uses a flexible budget system when preparing annual budgets. The production budget for Year 8 is based on the production budget for Year 7.

**Production budget for Year 7**

Output (units)	21 000
<b>Costs</b>	<b>£</b>
Direct labour	201 600
Direct materials	310 800
Production overheads – semi-variable	59 080
Production overheads – semi-fixed	10 640
Machine maintenance overheads – fixed	38 750
Other overheads – semi-variable	<u>22 640</u>
Total costs	643 510

The following information is available for the production budget for Year 8:

- Direct labour will rise by 10% per unit.
- Direct materials will rise by 5% per unit.
- Semi-variable production overheads include a fixed element of £42 700
- The semi-fixed production overhead is depreciation on machinery. Each machine can only produce 3 000 units per year. Each machine costs £8 000 and will operate for 5 years, before being sold for £400
- The other overheads include a variable element of 19 pence (£0.19) per unit.

**Required**

- (a) Complete the table in the question paper to show the costs for the flexible budget for output levels of 20 000, 22 000 and 25 000 units for year 8. (24)
- (b) Evaluate the usefulness of a flexible budget system for Episkopi Engineering Ltd. (6)

**(Total for Question 5 = 30 marks)**



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

Source material for Question 5 is on page 13 of the source booklet.

- 5 (a) Complete the table to show the costs for the flexible budget for output levels of 20 000, 22 000 and 25 000 units for year 8.

(24)

Output (units)	20 000	22 000	25 000
<b>Costs</b>	<b>£</b>	<b>£</b>	<b>£</b>
Direct labour			
Direct materials			
Production overheads – semi-variable			
Production overheads – semi-fixed			
Machine maintenance overheads – fixed			
Other overheads – semi-variable			
Total costs			

Workings

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Question Number	Answer	Mark																																				
5 (a)	<p><b>AO1 (5), AO2 (12), AO3 (7)</b></p> <p><b>AO1: Five marks for insertion of fixed overheads, calculation of depreciation per year, and calculation of total costs.</b></p> <p><b>AO2: Twelve marks for correct calculation of direct labour, direct materials and semi-variable overheads.</b></p> <p><b>AO3: Seven marks for correct calculation of number of machines required and semi-fixed overheads, also variable element in semi variable production overheads and fixed element in other overheads.</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Output (units)</th> <th style="text-align: center;"><u>20000</u></th> <th style="text-align: center;"><u>22000</u></th> <th style="text-align: center;"><u>25000</u></th> </tr> </thead> <tbody> <tr> <td>Costs</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Direct Labour</td> <td style="text-align: right;">211 200 (1) AO2</td> <td style="text-align: right;">232 320 (1) AO2</td> <td style="text-align: right;">264 000 (1) AO2</td> </tr> <tr> <td>Direct Materials</td> <td style="text-align: right;">310 800 (1) AO2</td> <td style="text-align: right;">341 880 (1) AO2</td> <td style="text-align: right;">388 500 (1) AO2</td> </tr> <tr> <td>Production overheads – semi variable</td> <td style="text-align: right;">58 300 (1) AO2</td> <td style="text-align: right;">59 860 (1) AO2</td> <td style="text-align: right;">62 200 (1) AO2</td> </tr> <tr> <td>Production overhead – semi fixed</td> <td style="text-align: right;">10 640 (1) AO3</td> <td style="text-align: right;">12 160 (1) AO3</td> <td style="text-align: right;">13 680 (1) AO3</td> </tr> <tr> <td>Machine maintenance overheads - fixed</td> <td style="text-align: right;">38 750</td> <td style="text-align: right;">38 750</td> <td style="text-align: right;">38 750 (1) AO1</td> </tr> <tr> <td>Other overheads – semi variable</td> <td style="text-align: right;"><u>22 450</u> (1) AO2</td> <td style="text-align: right;"><u>22 830</u> (1) AO2</td> <td style="text-align: right;"><u>23 400</u> (1) AO2</td> </tr> <tr> <td><b>Total costs</b></td> <td style="text-align: right;"><u>652 140</u> (1) of AO1</td> <td style="text-align: right;"><u>707 800</u> (1) of AO1</td> <td style="text-align: right;"><u>790 530</u> (1) of AO1</td> </tr> </tbody> </table> <p><u>Workings:</u>            Production overheads – semi variable:  <math>59\,080 - 42\,700 = 16\,380</math>  <math>16\,380 / 21\,000 = 0.78</math> (1) o/f AO3            variable element per unit            Production overhead – semi fixed:  <math>(£8\,000 - £400) = £7\,600 \div 5 = £1\,520</math> (1) AO1            depreciation per machine per year</p>	Output (units)	<u>20000</u>	<u>22000</u>	<u>25000</u>	Costs				Direct Labour	211 200 (1) AO2	232 320 (1) AO2	264 000 (1) AO2	Direct Materials	310 800 (1) AO2	341 880 (1) AO2	388 500 (1) AO2	Production overheads – semi variable	58 300 (1) AO2	59 860 (1) AO2	62 200 (1) AO2	Production overhead – semi fixed	10 640 (1) AO3	12 160 (1) AO3	13 680 (1) AO3	Machine maintenance overheads - fixed	38 750	38 750	38 750 (1) AO1	Other overheads – semi variable	<u>22 450</u> (1) AO2	<u>22 830</u> (1) AO2	<u>23 400</u> (1) AO2	<b>Total costs</b>	<u>652 140</u> (1) of AO1	<u>707 800</u> (1) of AO1	<u>790 530</u> (1) of AO1	<b>(24)</b>
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	<p>22 000 output requires 8 machines, (1) <b>AO3</b> so <math>£1\,520 \times 8 = £12\,160</math> o/f 25 000 output requires 9 machines, (1) <b>AO3</b> so <math>£1\,520 \times 9 = £13\,680</math> o/f Other overheads: <math>(21\,000 \times £0.19) = £3\,990</math> <math>£22\,640 - £3\,990 = £18\,650</math> (1) <b>AO3</b> fixed element</p>	
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Question Number	Answer	Mark
<b>5 (b)</b>	<p><b>A04 (6)</b></p> <p><u>Case for flexible budgets</u></p> <ul style="list-style-type: none"> <li>• Allows good decision making as “like is compared to like” e.g. costs at the same output levels.</li> <li>• Variances are more meaningful if the volume element is eliminated.</li> <li>• May save time and money by allowing “management by exception” i.e. take action only if there is a variance at the same level of output.</li> <li>• The targets are realistic if the budget is flexible and this may improve motivation of employees.</li> <li>• May allow company to see future possible profit or loss at various output levels.</li> </ul> <p><u>Case against flexible budgets</u></p> <ul style="list-style-type: none"> <li>• Drawing up a series of budgets at different output levels will take time which means money.</li> <li>• Figures are only estimates so some variances may be misleading or the action taken in response is inappropriate.</li> </ul> <p><u>Decision</u></p> <p>Should relate to points made above i.e. flexible budgets are a very useful tool. The decision should be supported by reference to key points of their argument.</p>	<b>(6)</b>
Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding that are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.

Level 2	3-4	<p>Elements of knowledge and understanding, which are applied to the scenario.</p> <p>Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid.</p> <p>An attempt at an evaluation is presented, using financial and perhaps non-financial information with a decision.</p>
Level 3	5-6	<p>Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective.</p> <p>A coherent and logical chain of reasoning, showing causes and effects is present.</p> <p>Evaluation is balanced and wide-ranging, using financial and perhaps non-financial information and an appropriate decision is made.</p>

- 6 The Statement of Cash Flows for Kontire Digital plc has been prepared according to International Accounting Standard 7 (IAS 7) and is shown below.

**Statement of Cash Flows - Kontire Digital plc for the year ended 30 September 2017**

	£ 000's	£ 000's
<b>Cash flows from operating activities</b>		
Profit from operations	1 260	
Add depreciation on non-current assets	324	
Add loss on sale of non-current asset	11	
<b>Operating cash flow before working capital changes</b>	<b>1 595</b>	
Decrease in inventories	79	
Increase in trade receivables	(38)	
Decrease in trade payables	(26)	
<b>Cash generated from operations</b>	<b>1 610</b>	
Less interest paid: Bank overdraft	(2)	
Bank loan	(22)	
Less tax paid	<u>(270)</u>	
<b>Net cash from operating activities</b>		<b>1 316</b>
<b>Cash flows from investing activities</b>		
Payments to purchase non-current assets	(103)	
Proceeds from sale of non-current assets	51	
Payments to purchase shares in other companies	(28)	
Dividends received from shares in other companies	<u>7</u>	
<b>Net cash used in investing activities</b>		<b>(73)</b>

<b>Cash flows from financing activities</b>		
Redemption of ordinary shares	(110)	
Dividends paid: Final 2016	(29)	
Interim 2017	(12)	
Preference	(8)	
<b>Net cash used in financing activities</b>		<b>(159)</b>
<b>Net increase in cash and cash equivalents</b>		<b>1 084</b>
Cash and cash equivalents at the beginning of the year		<b>119</b>
Cash and cash equivalents at the end of the year		<b>1 203</b>

**Required**

(a) Prepare answers to the following:

(i) Inventories decreased during the year.

State:

- **one** advantage of a decrease in inventories
- **one** disadvantage of a decrease in inventories

(2)

(ii) Customers owed £45 000 at the start of the year. Calculate the amount customers owed at the end of the year.

(2)

(iii) Suppliers were owed £33 000 at the end of the year. Calculate the amount suppliers were owed at the start of the year.

(2)

(iv) The 6% bank loan for £400 000 was taken out in 2014. Calculate the amount of interest accrued on the loan for the year ended 30 September 2017.

(3)

- (v) Calculate the profit or loss after interest payments for the year ended 30 September 2017. (2)
- (vi) The non-current asset which was sold during the year consisted of one item. State the book value of the plant when sold. (3)
- (vii) State **two** reasons why Kontire Digital plc would purchase shares in other companies. (2)
- (viii) The preference shares have a dividend rate of 4% per year, which was paid in full. Calculate the value of the preference shares. (2)
- (ix) At 1 October 2016, Kontire Digital plc had an overdraft of £27 000. Calculate the cash balance the company had at this date. (2)
- (x) At 30 September 2017, Kontire Digital plc had £609 000 in cash. Calculate the movement on the bank balance during the year. (4)

At the Annual General Meeting, a shareholder stated, "All the figures in the cash flows from financing activities section are negative. This is very worrying."

- (b) Evaluate the statement made by the shareholder. (6)

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**(Total for Question 6 = 30 marks)**

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

Question Number	Answer	Mark
6 (a) (i)	<p><b>AO1 (2)</b>  <b>AO1: Two marks, one for an advantage one for a disadvantage.</b></p> <p><u>Advantage</u>  Lower costs of storing / holding inventories e.g. rent, insurance, security (1) <b>AO1</b></p> <p><u>Disadvantage</u>  Less / decrease in range in inventories which means customers may be disappointed and buy from other suppliers (1) <b>AO1</b></p>	<b>(2)</b>

Question Number	Answer	Mark
6 (a) (ii)	<p><b>AO1 (1), AO2 (1)</b>  <b>AO1: One mark for correct calculation of amount owed by customers at year end.</b>  <b>AO2: One mark for correct application of figures to arrive at amount owed by customers at year end.</b></p> <p>(£45 000 + £38 000) (1) <b>AO2</b> = £83 000 (1) <b>AO1</b></p>	<b>(2)</b>

Question Number	Answer	Mark
6 (a) (iii)	<p><b>AO1 (1), AO2 (1)</b>  <b>AO1: One mark for correct calculation of amount owed to suppliers at year end.</b>  <b>AO2: One mark for correct application of figures to arrive at amount owed to suppliers at year end.</b></p> <p>(£33 000 + £26 000) (1) <b>AO2</b> = £59 000 (1) <b>AO1</b></p>	<b>(2)</b>

Question Number	Answer	Mark
6 (a) (iv)	<p><b>AO2 (1), AO3 (2)</b>  <b>AO1: One mark for correct identification of amount paid in the year.</b>  <b>AO2: Two marks for correct calculation of interest and accrued amount.</b></p> <p>£400 000 x 6% = £24 000 (1) <b>AO3</b>  Paid in year £22 000 (1) <b>AO2</b> so  £2 000 accrued (1) <b>AO3</b></p>	<b>(3)</b>



Question Number	Answer	Mark
6 (a) (v)	<p><b>AO3 (2)</b>  <b>AO3: Two marks for correct calculation of profit after interest payments.</b></p> <p>£1 260 000 – (£24 000 + £2 000)(1) <b>AO3</b>                      = £1 234 000 (1) <b>AO3</b></p>	(2)

Question Number	Answer	Mark
6 (a) (vi)	<p><b>AO1 (1), AO2 (1), AO3 (1)</b>  <b>AO1: One mark for correct identification of amount received from sale.</b>  <b>AO2: One mark for correct identification of LOSS from sale.</b>  <b>AO3: One mark for calculation of book value of plant when sold.</b></p> <p>£51 000 (1) <b>AO2</b> + £11 000 (1) <b>AO3</b>                      = £62 000 (1) <b>AO1</b></p>	(3)

Question Number	Answer	Mark
6 (a) (vii)	<p><b>AO2 (2)</b>  <b>AO2: Two marks, one for each reason.</b>                      Answers may include – maximum of 2 marks <b>AO2</b>                      (2)</p> <ul style="list-style-type: none"> <li>• Kontire Digital plc have surplus liquid funds (which they wish to utilise to earn a return).</li> <li>• Shares will pay future dividends</li> <li>• Share price may rise in the future</li> </ul> <p>Show company name</p>	(2)

Question Number	Answer	Mark
6 (a) (viii)	<p><b>AO3 (2)</b>  <b>AO3: Two marks for correct calculation of value of preference shares.</b></p> <p>4% of X = £8 000                      so <math>X = \frac{8\,000}{4} \times 100</math> (1) <b>AO3</b> = £200 000 (1) <b>AO3</b></p>	(2)

Question Number	Answer	Mark
6 (a) (ix)	<p><b>AO2 (2)</b>  <b>AO2: Two marks for correct calculation of cash balance at start of year.</b></p> <p>(£119 000 + £27 000) (1) <b>AO2</b>            = £146 000 (1) <b>AO2</b></p>	<b>(2)</b>

Question Number	Answer	Mark
6 (a) (x)	<p><b>AO3 (4)</b>  <b>AO3: Four marks for correct calculation of movement on bank balance.</b></p> <p>Year end bank balance            = (£1 203 000 - £609 000) (1) <b>AO2</b>            = £594 000 (1) <b>AO2</b></p> <p>Yearly movement            = (£594 000 + £27 000) (1) <b>AO2</b>            = £621 000 increase (1) <b>AO2</b></p>	<b>(4)</b>

Question Number	Answer	Mark
6 (b)	<p><b>AO4 (6)</b></p> <p>Possible answers:</p> <p><b><u>For the statement</u></b></p> <p><u>Disadvantages of outflow due to share redemption or paying dividends</u></p> <ul style="list-style-type: none"> <li>• Liquid funds leave the company, which has a negative effect on cash flow and liquidity.</li> <li>• Net worth (book value) of the company decreases.</li> <li>• Company has less liquid funds to invest in possible profitable areas.</li> </ul> <p><b><u>Against the statement</u></b></p> <p><u>Advantage of outflow due to share redemption</u></p> <ul style="list-style-type: none"> <li>• Company does not require the funds.</li> <li>• Redeeming shares would improve some ratios eg return on capital employed.</li> <li>• Shareholders are not happy or have a problem with the company, so buying them out will benefit company.</li> <li>• Share price will rise if less shares in circulation.</li> <li>• Less dividends to pay in future.</li> </ul> <p><u>Advantages of paying dividends</u></p> <ul style="list-style-type: none"> <li>• Shareholders kept happy and therefore quiet.</li> <li>• May support share price.</li> <li>• Sends out positive message and confidence in company may be maintained.</li> </ul> <p><u>Decision</u> Should relate to points made above i.e. negative cash flow from financing activities is not always worrying. The decision should be supported by reference to key points of their argument.</p>	(6)
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