

SECTION A

Answer BOTH questions in this section.

- 1** Tittan Foods plc is a large, multinational producer of a range of foods, including chocolate products.

Roseberry plc has been producing a chocolate bar, Cocoatopa, from its factory for many years.

On 1 October 2018 Tittan Foods plc agreed to purchase Roseberry plc.

The purchase price was agreed as follows:

For every five shares held in Roseberry plc, shareholders would receive:

- two shares in Tittan Foods plc, valued at the trading price of £1.95 per share
- a cash payment of £0.32 (32 pence)

The Statements of Financial Position of the two companies on 30 September 2018, before any revaluations were as follows:

	TITTAN FOODS plc		ROSEBERRY plc	
	£ 000	£ 000	£ 000	£ 000
Assets				
Non-current Assets (carrying value)				
Property, plant and equipment	525 000		74 280	
Intangible assets	<u>142 000</u>		<u>28 000</u>	
		667 000		102 280
Current Assets				
Inventories	41 900		11 788	
Trade and other receivables	21 600		2 354	
Cash and cash equivalents	<u>238 000</u>		<u>164</u>	
		<u>301 500</u>		<u>14 306</u>
Total Assets		<u>968 500</u>		<u>116 586</u>

Equity and Liabilities				
Equity				
Ordinary shares of £1 each	210 000		---	
Ordinary shares of £0.25 each	---		38 000	
Share premium	50 000		4 750	
General reserve	40 000		14 250	
Retained earnings	<u>314 597</u>		<u>9 137</u>	
Total Equity		614 597		66 137
Non-current Liabilities				
Mortgage	185 000		26 475	
Debenture	75 000		---	
Bank loan	---		<u>15 000</u>	
		260 000		41 475
Current Liabilities				
Trade and other payables	18 638		3 393	
Current tax payable	75 265		4 781	
Short-term provisions	---		<u>800</u>	
		<u>93 903</u>		<u>8 974</u>
Total Equity and Liabilities		<u>968 500</u>		<u>116 586</u>

Required

(a) Calculate the purchase price of Roseberry plc.

(5)

The directors at Tittan Foods plc proposed the following:

Tittan Foods plc to take-over all of the assets of Roseberry plc except cash and cash equivalents.

Tittan Foods plc to settle all the liabilities of Roseberry plc except:

- the current tax payable
- trade payables of £2 170 000
- the short-term provision of £800 000

The assets of Roseberry plc were revalued:

- property with a carrying value of £27 000 000 to a current market value of £35 000 000
- plant with a carrying value of £11 000 000 was reduced by 10%
- inventories were reduced by £750 000
- the chocolate brand, Cocomatop, was classed as an intangible, and the total intangible assets value increased to £62 000 000

The proposals of the directors of Tittan Foods plc were approved by the shareholders of Roseberry plc.

Required

(b) Calculate the value of the goodwill paid by Tittan Foods plc when purchasing Roseberry plc.

(11)

(c) Prepare the Acquisition Account in the books of Tittan Foods plc to show the purchase of Roseberry plc.

(11)

(d) Prepare the Statement of Financial Position of Tittan Foods plc at 1 October 2018 **after** the purchase of Roseberry plc.

(16)

Two weeks after the purchase of Roseberry plc, Tittan Foods plc announced that the:

- factory producing the Cocoatopa would be closed and production would move to a low cost factory abroad
 - size of the chocolate bars would be reduced although the price would remain the same, in order to increase profits.
- (e) Evaluate the purchase by Tittan Foods plc of Roseberry plc, from the point of view of a shareholder of Tittan Foods plc. Your evaluation should include financial and non-financial considerations.

(12)

(Total for Question 1 = 55 marks)

Question Number	Answer	Mark
1 (a)	AO1 (5) AO1: Five marks for correct calculation of purchase price of Roseberry plc.	(5)

Number of shares in Roseberry = $38\,000\,000 \times 4 = 152\,000\,000$ **(1) AO1**

Number of shares to be awarded in Tittan = $\frac{152\,000\,000}{5} = 30\,400\,000$ **(1 of) AO1**

Two shares trading at £1.95 per share

= $30\,400\,000 \times 2 \times 1.95 = £118\,560\,000$ **(1 of) AO1**

Plus 0.32 pence cash = $30\,400\,000 \times 0.3 = \underline{£9\,728\,000}$ **(1 of) AO1**

Purchase price = $£128\,288\,000$ **(1 of) AO1**

Question Number	Answer	Mark
1 (b)	AO1 (11) AO1: Eleven marks for correct calculation of value of goodwill.	(11)

Calculation of goodwill

<u>Value of assets purchased</u>	£		£	
Property, plant and equipment	74 280 000	both		
Plus revaluation	8 000 000	(1) AO1		
Less plant revaluation	(1 100 000)	(1) AO1		
Intangibles	28 000 000	both		
Plus Cocatopa brand	34 000 000	(1) AO1		
Inventories	11 788 000			
Less revaluation	(750 000)	all three		
Trade receivables	<u>2 354 000</u>	(1) AO1		
Total asset value			156 572 000	(1 of) AO1
<u>Value of liabilities purchased</u>				
Mortgage	26 475 000	both		
Bank loan	15 000 000	(1) AO1		
Trade and other payables	3 393 000	both		
Less adjustments	(2 170 000)	(1) AO1		
Total value of liabilities			(42 698 000)	(1 of) AO1
Purchase price			128 288 000	(1 of) AO1
Less value of net assets purchased			<u>113 874 000</u>	(1 of) AO1
= Goodwill			14 414 000	(1 of) AO1

Question Number	Answer	Mark
1 (c)	AO2 (8), AO3 (3) AO2: Eight marks for correct entries in Acquisition account. AO3: Three marks for correct calculation of share premium.	(11)

Acquisition Account							
£							
£							
1 Oct	Property, Plant + Equipment	81 180 000	(1 of) AO2	1 Oct	Mortgage	26 475 000	(1) both AO2
	Intangibles	62 000 000	(1) AO2		Bank loan	15 000 000	
	Inventories	11 038 000	(1 of) AO2		Trade Payables	1 223 000	(1) AO2
	Trade Receivables	2 354 000	both		Purchase price		(1 of) AO2
	Goodwill	14 414 000	(1 of) AO2		Cash	9 728 000	(1 of) AO2
					Shares of £1 each	60 800 000	AO2
					Share Premium	57 760 000	(3 of) AO3
		170 986 000				170 986 000	

Workings for share premium:

$$60\,800\,000 \text{ (1 of) AO3 shares at a premium of } \pounds 0.95 \text{ per share (1) AO3} \\ = \pounds 57\,760\,000 \text{ (1 of) AO3}$$

This Acquisition Account acts as a control account for the acquisition. It is acceptable to show entries going straight into i.e. Assets and Liabilities accounts, with the double entry in the Acquisition Account. This would be a mirror image of the above account.

Question Number	Answer	Mark
1 (d)	<p>AO2 (13), AO3 (3)</p> <p>AO2: Thirteen marks for correct calculation of each of the assets and the total assets, each of the liabilities and the total equity and liabilities, and each reserve.</p> <p>AO3: Three marks for correct calculation of value of cash and cash equivalents, ordinary shares, and share premium.</p>	(16)

Statement of Financial Position of Tittan Foods plc at 1 October 2018				
	£		£	
Assets				
<u>Non-current Assets</u>				
Property, plant and equipment	606 180 000	(1 of) AO2		
Intangible assets	204000000	(1) AO2		
Goodwill	14414000	(1 of) AO2		
			824594000	
<u>Current Assets</u>				
Inventories	52938000	(1 of) AO2		
Trade and other receivables	23954000	(1) AO2		
Cash and cash equivalents	228272000	(1) AO3		
			305164000	
<u>Total Assets</u>			1129758000	(1 of) AO2
<u>Equity and Liabilities</u>				
<u>Equity</u>				
Ordinary Shares of £1 each	270800000	(1) AO3		
Share premium	107760000	(1) AO3		
General reserve	40000000	(1) AO2		
Retained earnings	314597000	(1) AO2		
Total capital and reserves			733157000	

<u>Non-current liabilities</u>				
Mortgage	211475000	(1) AO2		
Debenture	75000000	both		
Bank loan	15000000	(1) AO2		
			301475000	
<u>Current Liabilities</u>				
Trade and other payables	19861000	(1) AO2		
Current tax payable	75265000	(1) AO2		
			95126000	
Total Equity and Liabilities			1129758000	(1 of) AO2

Question Number	Indicative Content	Mark
1 (e)	<p>AO1 (1), AO2 (1), AO3 (4), AO4 (6) Answers may include:</p> <p><u>For Purchase</u> Tittan may see an increase in their market share in the chocolate/confectionary market. Tittan may enjoy economies of scale eg bulk buying of materials, machinery etc. Tittan may enjoy benefits of vertical integration as in both companies are in the same line of business. Assets and liabilities taken over have been given agreed/market values by both sets of directors, so Tittan should not be overpaying for assets purchased. Roseberry appears to be in a healthy financial state. eg large positive figure for retained earnings. Liquidity position of Roseberry is good as they appear to have a healthy working capital ratio. Roseberry should not be a drain on the liquid resources of Tittan, especially as Tittan is not taking over tax bill and trade payables. Some shareholders may like the proactive decision-making of the board, which should increase profits and returns to shareholders.</p> <p><u>Against Purchase</u> Shareholders in Roseberry have been paid goodwill of nearly £14.5 million. More shareholders means a dilution of ownership and voting power for existing shareholders in Tittan. Some shareholders may not like the closure of the factory and the redundancy, especially after a long history of being in the same location. Some shareholders may not like the reduction of size in the products, and the bad publicity, which often comes with these decisions.</p> <p><u>Other points</u> We do not know the market price of Tittan shares after the purchase. The market will indicate whether the purchase, and the money paid, was a good idea.</p> <p><u>Decision</u> Overall, the take-over is potentially a good decision</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 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 non-financial information and makes informed recommendations and decisions.

2 Galle Homes Limited produces soft furnishings at its factory. You are the Cost Accountant and have been asked to look at the performance of the Curtains section in October Week 3.

- The company has a contract to supply 462 curtains a week, which must be met.
- Each member of staff has a target output of 66 curtains per week.
- The section employs 7 workers.
- The standard cost of producing one curtain is:
 - 40 minutes labour, with labour being paid at £7.20 per hour
 - 6 square metres of cotton material at 28 pence (£0.28) per square metre.
- Labour is scheduled to work 44 hours per week paid at £7.20 per hour.
- Any overtime worked is paid at the rate of £9.60 per hour.

The staff production sheets for the Curtains section for October Week 3 recorded the following details.

STAFF PRODUCTION SHEET		
NAME	HOURS	PRODUCTION – CURTAINS
Ashan De Silva	44	66
Amaya Corea	44	63
Lakmal Jayasuriya	44	68
Pradeep Jayakody	28	42
Ravi Liyange	49	74
Roshani Perera	50	76
Sanju Ranatunga	48	73

Pradeep Jayakody was absent for two days.

Required

- (a) Calculate, for the production of 462 curtains for October Week 3, the:
- (i) budgeted labour cost of production (3)
 - (ii) actual labour cost of production (4)
 - (iii) labour efficiency variance (4)
 - (iv) labour rate variance (4)
 - (v) total labour cost variance. (3)

Galle Homes Limited's inventory records for the start of October Week 3 recorded the following:

- opening balance of 1 150 metres of cotton material, valued at £0.27 (27 pence) per metre, in the inventory at the start of the week
- deliveries received:
 - October 16 – 1 500 metres at £0.28 (28 pence) per metre
 - October 18 – 1 500 metres at £0.29 (29 pence) per metre
- At the end of October Week 3 there were 1 020 metres of cotton material in inventory
- The company uses the FIFO (First In First Out) method of inventory valuation.

Required

- (b) Calculate, for the production of 462 curtains for October Week 3, the:
- (i) actual material cost of production (5)
 - (ii) budgeted material cost of production (2)
 - (iii) material usage variance (4)
 - (iv) material price variance (4)
 - (v) total material cost variance. (3)

- (c) Calculate, for the production of 462 curtains for October Week 3, the:
- (i) total budgeted cost (2)
 - (ii) total actual cost (2)
 - (iii) total variance. (3)
- (d) Evaluate the performance of the Curtains section for the third week of October. Your evaluation should include some recommendations for improvements in the performance of the Curtains section. (12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

Question Number	Answer	Mark
2 (a) (i)	<p>AO2(2), AO3 (1) AO2: Two marks for standard hourly pay and budgeted labour cost of production. AO3: One mark for correct calculation of budgeted labour time.</p> <p>Budgeted labour cost</p> $= \frac{(462 \times 40)}{60} (1) \text{ AO3} \times \text{£}7.20 (1) \text{ AO2}$ $= \text{£}2\,217.60 (1) \text{ AO2}$	(3)

Question Number	Answer	Mark
2 (a) (ii)	<p>AO1(3), AO3 (1) AO1: Three marks for correct calculation of normal rate pay and total actual cost of production. AO3: One mark for calculation of overtime paid.</p> <p>6 workers x 44 hours x £7.20 = £1 900.80 (1) AO1</p> <p>1 worker x 28 hours x £7.20 = £201.60 (1) AO1</p> <p>Overtime hours $(5 + 6 + 4) \times \text{£}9.60 = \underline{\text{£}144.00} (1) \text{ AO3}$</p> <p>Actual cost = £2 246.40 (1) AO1</p>	(4)

Question Number	Answer	Mark
2 (a) (iii)	<p>AO2(3), AO3 (1) AO2: Three marks for correct calculation of budgeted hours, budgeted rate and labour efficiency variance. AO3: One mark for correct calculation of total hours worked.</p> <p>Labour efficiency variance = (Actual hours – Budgeted hours) x Budgeted rate</p> $= (307 (1) \text{ AO3} - 308 (1) \text{ AO2}) \times \text{£}7.20 (1) \text{ AO2}$ $= \text{£}7.20 \text{ Fav} (1) \text{ AO2}$	(4)

Question Number	Answer	Mark
2 (a)(iv)	<p>AO2(3), AO3 (1) AO2: Three marks for correct calculation of actual hours, budgeted rate, and labour rate variance. AO3: One mark for correct calculation of actual rate.</p> <p>Labour rate variance = (Actual rate – budgeted rate) x Actual hours</p> <p>= $\frac{(\pounds 2246.40)}{307} (\text{1 of } \text{AO3} - \pounds 7.20 (\text{1})) \text{AO2} \times 307 (\text{1})$ AO2</p> <p>= $(\pounds 7.32 - \pounds 7.20) \times 307$</p> <p>= $\pounds 36.84 (\pounds 36.00) \text{ Adv } (\text{1}) \text{ AO2}$</p>	(4)

Question Number	Answer	Mark
2 (a)(v)	<p>AO1 (3) AO1: Three marks for correct calculation of total labour variance.</p> <p>Total labour variance = Actual labour cost - Budgeted labour cost</p> <p>= $(\pounds 2246.40 (\text{1 of } \text{AO1}) - \pounds 2\,217.60 (\text{1 of } \text{AO1}))$</p> <p>= $\pounds 28.80 \text{ Adv } (\text{1 of } \text{AO1})$</p>	(3)

Question Number	Answer	Mark
2 (b)(i)	<p>AO2 (4), AO3 (1) AO2: Four marks for calculating actual material cost of production. AO3: One mark for setting out actual material cost of production.</p> <p>Actual material cost of production = $(1\,150 \times \pounds 0.27) + (1500 \times \pounds 0.28) + (480 \times 0.29) (\text{1})$ AO3</p> <p>= $\pounds 310.50 (\text{1}) \text{ AO2} + \pounds 420.00 (\text{1}) \text{ AO2} + \pounds 139.20$ (1) AO2</p> <p>= $\pounds 869.70 (\text{1}) \text{ AO2}$</p>	(5)

Question Number	Answer	Mark
2 (b) (ii)	<p>AO2 (2) AO2: Two marks for correct calculation of budgeted material cost of production.</p> <p>Budgeted material cost of production</p> <p>= (£0.28 x 6 x 462) (1) AO2 = £776.16 (1) AO2</p>	(2)

Question Number	Answer	Mark
2 (b) (iii)	<p>AO2 (4) AO2: Four marks for correct calculation of material usage variance.</p> <p>Material usage variance</p> <p>= (Actual usage - Budgeted usage) x Budgeted price</p> <p>= ((1 150 + 1500 + 480) - 2772) x £0.28</p> <p>= (3 130 (1)AO2 - 2772 (1)AO2) x £0.28 (1)AO2</p> <p>= £100.24 Adv (1) AO2</p>	(4)

Question Number	Answer	Mark
2 (b) (iv)	<p>AO2 (3), AO3 (1) AO2: Three marks for budgeted price, actual usage and calculation of material price variance. AO3: One mark for correct calculation of actual price.</p> <p>Material price variance = (Actual Price - Budgeted price) x Actual usage</p> <p>= $\frac{£869.70 \text{ (1 of) AO3} - £0.28 \text{ (1) AO2}}{3130} \times 3130 \text{ (1) AO2}$</p> <p>= (0.278 - £0.28) x 3 130</p> <p>= £6.70 Favourable (1) AO2</p>	(4)

Question Number	Answer	Mark
2 (b) (v)	<p>AO1 (3) AO1: Three marks for correct calculation of total material cost variance.</p> <p>Total Material Cost variance = Actual material cost - Budgeted material cost</p> <p>= (£869.70 (1 of) AO1 - £776.16 (1 of) AO1)</p> <p>= £93.54 Adverse (1 of) AO1</p>	(3)

Question Number	Answer	Mark
2 (c) (i)	<p>AO1 (2) AO1: Two marks for correct calculation of total budgeted cost.</p> <p>Total budgeted cost = budgeted labour + budgeted material</p> <p>= (£2 217.60 + £776.16) (1 of) AO1</p> <p>= £2993.76 (1 of) AO1</p>	(2)

Question Number	Answer	Mark
2 (c) (ii)	<p>AO1 (2) AO1: Two marks for correct calculation of total actual cost.</p> <p>Total actual cost = actual labour + actual material</p> <p>= (£2246.40 + £869.70) (1 of) AO1</p> <p>= £3 116.10 (1 of) AO1</p>	(2)

Question Number	Answer	Mark
2 (c) (iii)	<p>AO1 (3) AO1: Three marks for correct calculation of total variance.</p> <p>Total variance = Actual total cost - Budgeted total cost</p> <p>= (£3 116.10(1of) AO1 - £2993.76(1of) AO1)</p> <p>= £122.34 Adverse (1of) AO1</p>	(3)

Question Number	Indicative Content	Mark
2 (d)	<p>AO1 (1), AO2 (1), AO3 (4), AO4 (6)</p> <p><u>Performed poorly</u></p> <p>Labour rate variance is adverse. This is due to having to pay overtime at a higher rate to meet production target, to cover an absence. Possible solutions may include paying overtime at budgeted rate, especially if the target has not been met. Alternatively, transferring workers who work elsewhere in the company, to the Curtains section, having previously trained them. Other solutions could include having a reserve pool of temporary labour the company can call upon to step in to make curtains. Or use an agency to supply temporary workers.</p> <p>Material usage variance is adverse. Solutions could include better training of staff, or buying better quality material to reduce wastage, or new machinery to reduce production problems.</p> <p><u>Performed well</u></p> <p>Labour efficiency variance is favourable. This maybe due to workers completing the job quickly during overtime.</p> <p>Material price variance is favourable. This was because there was still material in inventory that had been purchased at a price of 27 pence a metre, lower than the budgeted price of 28 pence per metre. However, new material has been bought at 29 pence per metre. This may result in the budgeted price being raised for the next week. Other solutions could be to find alternative suppliers, negotiate better prices, or pay quickly to ensure discounts.</p> <p>Section may be efficient, it is just that the budget set is unrealistic. Maybe they are not reviewed regularly in which case review and change the budget. However, if they are set for one week at a time, it appears they are reviewed regularly.</p> <p><u>Decision</u></p> <p>Curtains section has a total cost variance that is adverse. Most of this figure consists of the material usage variance, which indicates poor performance. The labour rate variance is relatively small and due to staff absence. The staff worked efficiently to cover this absence.</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.
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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 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 non-financial information and makes informed recommendations and decisions.

SECTION B

Answer THREE questions from this section.

- 3 Dolphin plc produces a wide range of books. The Statement of Financial Position of Dolphin plc at 30 June 2018 has been drawn up in accordance with International Accounting Standards (IAS) 1 and is shown below.

Statement of Financial Position at 30 June 2018	
ASSETS	£000
Non-current assets	
Intangibles	266
Property, plant and equipment carrying value	<u>14 000</u>
	14 266
Current assets	
Inventories	5 608
Trade receivables	1 846
Other receivables	104
Cash and cash equivalents	<u>249</u>
	7 807
Total Assets	<u><u>22 073</u></u>
Equity	
Share capital - Ordinary shares of £1	11 323
5% Irredeemable preference shares of £1	1 200
Share premium	2 500
Revaluation reserve	2 000
Retained earnings	<u>(578)</u>
Total equity	16 445

Non-current liabilities	
5.75% Debenture	2 500
6.5% Bank loan	<u>800</u>
	3 300
Current liabilities	
Trade payables	1 484
Other payables	51
Current tax payable	393
Provisions	<u>400</u>
	2 328
Total liabilities	5 628
Total Equity and Liabilities	<u><u>22 073</u></u>

Required

- (a) (i) State **two** examples of intangible assets, other than brand names. (1)

The cash balance is £377 000

- (ii) Calculate the bank balance. (2)

Interest on the bank loan is paid monthly. The interest for June 2018 has not been paid.

- (iii) Calculate the amount of interest owing on the bank loan. (2)

Debenture interest is paid in two instalments, every six months.

- (iv) Calculate the value of **one** instalment. (2)

The debenture is secured.

- (v) Explain the meaning of the term **secured**. (2)

The Retained Earnings Account had a debit balance of £743 000 at the start of the financial year. The profit or loss for the year was the only entry into the Retained Earnings Account.

- (vi) Calculate the profit or loss for the year ended 30 June 2018. (2)

- (vii) State under which line item on the Statement of Financial Position you would show each of the following:

- rent paid in advance for the warehouse
- unsold books in the warehouse.

(2)

- (viii) Explain what is meant by the term **irredeemable** when describing the Preference shares. (2)

- (ix) State **two** examples of provisions that could be included in the figure of £400 000 for Provisions under Current liabilities. (2)

At the start of the year, the company had property, plant and equipment that cost £15 000 000 with a carrying value of £14 500 000

During the year, the following transactions took place:

- 22 October 2017, sold a property that cost £3 500 000, with accumulated depreciation of £300 000, for £3 800 000 payment being received by cheque
- 20 December 2017, bought printing equipment for £1 600 000 on credit from Crown Printing Machinery Limited
- The Revaluation reserve was created on 3 January 2018.

Required

(b) Prepare the following accounts for the year ended 30 June 2018:

(i) Property, Plant and Equipment Cost Account (3)

(ii) Property, Plant and Equipment Provision for Depreciation Account. (4)

(c) Evaluate whether it is beneficial for a company to create provisions. (6)

(Total for Question 3 = 30 marks)

Question Number	Answer	Mark
3 (a) (i)	<p>AO1 (1) AO1: One mark for correct identification of two variables.</p> <p>Any two from the following (or other correct answers), one mark each Copyright, goodwill, patents, (1) AO1</p>	(1)

Question Number	Answer	Mark
3 (a) (ii)	<p>AO2 (2) AO2: Two marks for correct calculation of bank balance.</p> <p>Bank balance = £377 000 - £249 000 (1) AO2</p> <p style="padding-left: 40px;">= £128 000 overdraft (1) AO2</p>	(2)

Question Number	Answer	Mark
3 (a) (iii)	<p>AO2 (2) AO2: Two marks for correct calculation of interest owing on bank loan.</p> <p>Yearly interest = 6.5% x £800 000 = £52 000 (1) AO2</p> <p>Monthly interest due = $\frac{£52\,000}{12}$ = £4 333.33 (1) AO2</p>	(2)

Question Number	Answer	Mark
3 (a) (iv)	<p>AO2 (2) AO2: Two marks for correct calculation of amount of one instalment of debenture interest.</p> <p>Yearly interest = 5.75% x £2 500 000 = £143 750 (1) AO2</p> <p>6 month payment = $\frac{£143\,750}{2}$ = £71 875 (1) AO2</p>	(2)

Question Number	Answer	Mark
3 (a) (v)	<p>AO1 (2) AO1: Two marks for explanation of term "secured".</p> <p>If the company fail to meet interest payments or repay the debenture when due (1) AO1 The debenture holder may claim the asset(s) on which the debenture is secured. (1) AO1</p>	(2)

Question Number	Answer	Mark
3 (a) (vi)	<p>AO2 (2) AO2: Two marks for correct calculation of profit or loss for the year.</p> <p>£743 000 - £578 000 (1) AO2</p> <p>= £165 000 profit (1) AO2</p>	(2)

Question Number	Answer	Mark
3 (a)(vii)	<p>AO1 (2) AO1: Two marks for correct identification of section.</p> <p>Other receivables (1) AO1</p> <p>Inventory (1) AO1</p>	(2)

Question Number	Answer	Mark
3 (a)(viii)	<p>AO3 (2) AO3: Two marks for correct explanation of term "irredeemable".</p> <p>The shares cannot be bought back (redeemed)(1) AO3 by the company. (1) AO3</p>	(2)

Question Number	Answer	Mark
3 (a)(ix)	<p>AO3 (2) AO3: Two marks for correct identification of provisions.</p> <p>Any two from the following, one mark each</p> <ul style="list-style-type: none"> - Any damages or costs for court cases or legal claims against the company. -Any payments for future redundancy costs. -Any obligations for the pension fund - Any provisions for taxation. 2 x AO3 	(2)

Question Number	Answer	Mark
3 (b) (i)	AO2 (2), AO3 (1) AO2: Two marks for entries in and balances of, the PPE account. AO3: One mark for correct entry of revaluation.	(3)

Property, plant and equipment Account

Balance b/d	15 000 000		Bank (Sale /Disposal of property)	3 500 000	
Crown Printing Machinery Ltd	1 600 000	(1)AO2 both			
Revaluation Reserve	<u>2 000 000</u>	(1) AO3	Balance c/d	<u>15 100 000</u>	(1 of)AO2 both
	<u>18 600 000</u>			<u>18 600 000</u>	
Balance b/d	15 100 000				

Question Number	Answer	Mark
3 (b) (ii)	AO2 (2), AO3 (2) AO2: Two marks for balance at start of year and entry of disposal. AO3: Two marks for entry of depreciation for the year and year end balance.	(4)

Depreciation Account

Property sold/ Disposal	300 000	(1) AO2	Balance b/d	500 000	(1) AO2
Balance c/d	<u>1 100 000</u>		Depreciation for year/ SoCI	<u>900 000</u>	(1 of) AO3
	<u>1 400 000</u>			<u>1 400 000</u>	
			Balance b/d	1 100 000	(1 of) AO3

Question Number	Indicative Content	Mark
3 (c)	<p>AO4 (6)</p> <p><u>Case for creating a provision</u></p> <p>A provision is an amount set aside from profit to meet a specific, although estimated, liability. Examples include provision for depreciation, or bad debts, or damages payable after a court case. Provisions ensure the company follows the prudence concept. Profits are understated, providing for a liability.</p> <p>Provisions may ensure the company follows the matching concept. For example, make a provision against possible bad debts in this accounting period, before the bad debt is realised in the next accounting period.</p> <p>Provisions reduce profit, so may reduce the amount that may be distributed as dividends. This may stop, for example, directors paying large dividends to shareholders, draining the company of funds, before an expensive court case.</p> <p><u>Case against creating a provision</u></p> <p>Provisions reduce profit, so may reduce the amount that may be distributed as dividends. This may make shareholders unhappy, and they may sell their shares.</p> <p>Provisions take time and money and expertise to prepare.</p> <p>Provisions may only be an estimate and may not be accurate.</p> <p><u>Decision</u></p> <p>It is beneficial to create a provision.</p>	(6)
Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which 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.
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- 4 Zimba Timber Limited is to start business on 1 January 2019 buying timber from suppliers, which is then sold to customers.

The following budgeted information is available concerning purchases for the store:

- In the period January to April 2019 purchases are expected to be 2 600 units per month
- The average cost of purchase will be £14 per unit
- The breakdown of purchases will be:
 - 45% for cash
 - 35% on one month's credit
 - 15% on two months credit
 - 5% on three months credit.

You are the accountant for Zimba Timber Limited, and have to prepare the budgets in columnar format.

Required

- (a) Prepare, for **each** of the **four** months from January to April 2019, the:
- (i) purchases budget, in pounds (£) (2)
 - (ii) cash budget extract, showing the amount paid to suppliers (8)
 - (iii) trade payables budget showing the amount owed to suppliers at the end of each month. (10)
- Suppliers have stated that they will offer a 2% discount if Zimba Timber Limited pay for its **credit purchases** within the same month as the purchase.
- (b) Calculate, for the four months January to April 2019, the total amount of discount Zimba Timber Limited would receive if it accepted the offer of a 2% discount for payment within the same month as the credit purchase. (4)
- (c) Evaluate, from the viewpoint of Zimba Timber Limited, whether it should pay suppliers within the same month as purchase. (6)

(Total for Question 4 = 30 marks)

Question Number	Answer	Mark
4(a)(iii)	<p>AO1 (1), AO2 (6), AO3 (3) AO1: One mark for totals. AO2: Six marks for all entries for January, one month's credit for February to April entries, two months credit for March and April entries, and April entry for three months credit. AO3: Three marks for two months credit for February and three months credit for February and March.</p>	(10)

(a)(iii) Trade Payables								
	January		February		March		April	
One month credit	12 740	(1) AO2	12 740		12 740		12 740	(1) AO2
Two months credit	5 460	(1) AO2	10 920	(1) AO3	10 920		10 920	(1) AO2
Three months credit	1 820	(1) AO2	3 640	(1) AO3	5 460	(1) AO3	5 460	(1) AO2
	20 020		27 300		29 120		29 120	(1 of) AO1
								10 marks

Question Number	Answer	Mark
4(b)	<p>AO3 (4) AO3: Four marks for correct calculation of discount.</p> <p>Monthly purchases on credit = (36 400 - 16 380) (1 of) AO3 = £20 020 (1) AO3</p> <p>Discount = 20 020 x 2% = £400.40 (1) AO3</p> <p>Four months = £400.40 x 4 = £1 601.60 (1) AO3</p>	(4)

Question Number	Indicative Content		Mark
4 (c)	<p>AO4 (6)</p> <p><u>Case for paying within the same month</u> A total of £1 601.60 (o/f) would be saved / received as a discount. This would increase profit and maybe help cash flow, less would need to be paid out each month after April. Better relationship with suppliers.</p> <p><u>Case against paying in the same month</u> It would not help cash flow for the first four months. There are no details for sales available, but it would appear that a large fraction of sales may have to be made in the same month as purchase.</p> <p><u>Decision</u> It depends upon the cash flow situation. If cash flow allows, it is a good idea to pay for credit purchases in the same month.</p>		(6)
Level	Mark	Descriptor	
	0	A completely incorrect response.	
Level 1	1-2	Isolated elements of knowledge and understanding which 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.	

- 5 Jacinda started a business selling soft drinks from mobile freezers in sites popular with tourists. The town authorities have signed a contract that allowed Jacinda to sell drinks from four sites, for the seven summer months of the year, starting 1 March 2018. For the remaining five months, Jacinda does not trade.

The following information is available for the business for the year ended 28 February 2019:

- Each site will be rented for seven months of the year. Rent of site per month:

Downs Park	North Beach	Pavilion Park	South Beach
£100	£120	£80	£160

- Drinks are sold for £0.55 (55 pence) each
- Drink sellers receive £0.20 (20 pence) for each drink sold
- Insurance for the year is £1 250
- Drinks are purchased for £0.11 (11 pence) each from wholesalers
- The mobile freezers cost £2 700 each and are expected to last for nine years. Jacinda has one for each site and a spare in case of a breakdown
- A small storage warehouse is rented for £275 per quarter (three months). This warehouse is rented for a full year
- Electricity bill is £35 per month, for every month of the year
- As part of the contract, the town authorities will charge a local tax of £0.01 (1 pence) on every drink sold
- Loan interest and repayment is £285 per month, for every month of the year
- Sales for each site (drinks per day) are:

Downs Park	North Beach	Pavilion Park	South Beach
110	210	175	180

- Drinks are sold for 200 days of the year.

Required

- (a) Calculate, for the year ended 28 February 2019, the:
- (i) number of drinks that need to be sold to break-even (11)
 - (ii) forecast profit for the year. (5)

The following information is available for the second year of trading, ended 29 February 2020:

- Fixed costs will total £11 000 for the year
- Drinks will be purchased for £0.12 (12 pence) each
- The council will charge a tax of £0.02 (2 pence) for every drink sold
- Jacinda has promised the drink sellers a pay rise, for every drink sold, in the second year
- Target profit for the year will be £21 400
- The number of drinks sold will remain constant.

Required

- (b) Calculate, in order to achieve the target profit:
- (i) the required contribution per drink sold (5)
 - (ii) a suitable pay rate to pay sellers for each drink sold, and a selling price for each drink sold. (3)

The town authorities require all businesses that sign a contract with them to produce audited financial statements for their inspection.

- (c) Evaluate the decision of the town authorities requiring Jacinda's business to produce audited financial statements for inspection. (6)

(Total for Question 5 = 30 marks)

Question Number	Answer	Mark
5 (a) (i)	<p>AO1 (4), AO2 (7)</p> <p>AO1: Fourmarks for calculation of site rent, electricity, total fixed costs, and variable costs per unit.</p> <p>AO2: Seven marks for correct calculation of warehouse rent, depreciation, loan interest, contribution per unit, and break-even point</p>	(11)

Fixed Costs - per year

Rent (£460 x 7) = £3 220 **(1) AO1**
Insurance = £1 250
Warehouse (£275 x 4) = £1 100 **(1) both AO2**
Depreciation $\frac{£2700 \times 5}{9} = £1 500$ **(1) AO2**
Electricity (£35 x 12) = £ 420 **both**
Loan (£285 x 12) = £3 420 **(1) AO2**
Total FC £10 910 **(1 of) AO1**

Variable costs per unit

(0.20 + 0.11 + 0.01)
Total £0.32 per unit **(1) AO1**

Contribution per unit

(£0.55 - £0.32) **(1 of) AO2** = £0.23 **(1 of) AO1**

Break Even Point = $\frac{£10 910}{£0.23}$ **(1 of) AO2** = 47 435 drinks **(1 of) AO2**

Question Number	Answer	Mark
5 (a) (ii)	AO2 (5) AO2: Five marks for correct calculation of profit for 2019	(5)

Profit for 2018

$$\begin{aligned} \text{Sales} &= (110 + 210 + 175 + 180) \times 200 = 135\,000 \text{ units (1) AO2} \\ \text{Sales revenue} &= 135\,000 \times 0.55 = \text{£}74\,250 \text{ (1 of) AO2} \\ \text{Less VC} &= 135\,000 \times 0.32 \text{ o/f} = (\text{£}43\,200) \text{ (1 of) AO2} \\ \text{Less FC} &= (\text{£}10\,910) \text{ (1 of) AO2} \\ \text{Profit} &= \text{£}20\,140 \text{ (1 of) AO2} \end{aligned}$$

Question Number	Answer	Mark
5 (b) (i)	AO1 (1) AO3 (4) AO1: One mark for totalling target profit and fixed costs. AO3: Four marks for including target profit and fixed costs, and three marks for calculating the required contribution per unit	(5)

$$\begin{aligned} \text{Target profit} &= \text{£}21\,400 \\ + \text{Fixed costs} &= \frac{\text{£}11\,000}{\text{£}32\,400} \text{ (1) AO3} \\ &\text{£}32\,400 \text{ (1) AO1} \end{aligned}$$

$$135\,000 \text{ o/f} \times \text{Contribution per unit} = \text{£}32\,400 \text{ (1) AO3}$$

$$\text{Contribution per unit} = \frac{\text{£}32\,400}{135\,000} \text{ (1 of) AO3} = \text{£}0.24 \text{ (1 of) AO3}$$

Question Number	Answer	Mark
5 (b) (ii)	AO3 (3) AO3: Three marks for calculating a selling price 38 pence above labour cost (as long as labour cost is above 20 pence)	(3)

Selling price – Variable costs = Contribution

$$\text{SP} - (\text{Labour cost per drink} + 0.12 + 0.02) = \text{£}0.24 \text{ (1) AO3}$$

So selling price must be £0.38 higher than labour cost (1) AO3

For example Selling price £0.60 and labour cost £0.22 (1) AO3

(Accept any answer where selling price is £0.38 higher than labour cost, as long as labour cost is above 20 pence (£0.20))

Question Number	Indicative Content	Mark
5 (c)	<p>AO4 (6)</p> <p><u>Case for</u> The town authorities could see a true and fair view of the number of drinks sold by the business. This would allow them to charge an accurate tax on Jacinda's business. Jacinda is assured she is meeting all necessary requirements and disclosures, which may ensure future contracts for Jacinda. It will help Jacinda ensure a smooth running of the business helping her e.g. control costs, planning, decision making.</p> <p><u>Case against</u> The town authorities would have to pay a member of staff to study the audited accounts, which would cost time and money. Jacinda has to go to the time and expense of having her accounts audited. Loss of confidentiality by Jacinda.</p> <p><u>Decision</u> It would be worthwhile for the town authorities to study the audited financial statements of Jacinda.</p>	(6)
Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which 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.
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Question Number	Answer	Mark
6 (a)(i)	<p>AO1 (3) AO1: Three marks for correct calculation of total ordinary dividend paid.</p> <p>Total ordinary dividend paid = Dividend per share x number of shares</p> <p>= 6 pence (1) AO1 x 15 000 000 (1) AO1 = £900 000 (1) AO1</p>	(3)

Question Number	Answer	Mark
6 (a)(ii)	<p>AO3 (3) AO3: Three marks for correct calculation of share price.</p> <p>Share price = Earnings per share x Price/earnings ratio</p> <p>= 15 pence (1) AO3 x 8.4 times (1) AO3 = £1.26 (1) AO3</p>	(3)

Question Number	Answer	Mark
6 (a)(iii)	<p>AO2 (3) AO2: Three marks for correct calculation of dividend yield.</p> <p>Dividend yield = $\frac{\text{Dividend per share}}{\text{Market price of a share}}$</p> <p>= <math>\frac{6 \text{ pence}}{126 \text{ pence}} (1) \text{ AO2 } \times 100</math> = 4.76% (1 of) AO2</p>	(3)

- 6 Fu Wong has a sum of money, which he wishes to invest in shares. He has decided to invest in one of two companies, Chinoso plc or Paxorient plc. Fu Wong has carried out research on the internet and found the following information.

	Chinoso plc	Paxorient plc
Number of £0.50 (50 pence) ordinary shares issued	15 000 000	20 000 000
5% Bank loan repayable 2020	£5 000 000	-----
6% Debenture payable in 2022	-----	£2 500 000
Net profit before interest and tax for year	£2 800 000	£3 600 000
Tax payable	£300 000	£450 000
Earnings per ordinary share	£0.15 (15 pence)	To be calculated
Total ordinary dividend paid for the year	To be calculated	£1 000 000
Dividend cover	2.5 times	To be calculated
Market price of shares	To be calculated	£0.90 (90 pence)
Price earnings ratio	8.4 times	To be calculated
Dividend paid per share	£0.06 (6 pence)	To be calculated
Dividend yield	To be calculated	5.55%

Fu Wong knows you are an accountant and asks you for advice. He would like your assistance in calculating the missing information in the table.

Required

- (a) Calculate, for Chinoso plc, the:
- (i) total ordinary dividend paid for the year (3)
 - (ii) market price of shares (3)
 - (iii) dividend yield. (3)
- (b) Calculate, for Paxorient plc, the:
- (i) earnings per ordinary share (6)
 - (ii) dividend cover (3)
 - (iii) price earnings ratio (3)
 - (iv) dividend paid per share. (3)
- (c) Evaluate the relevant information available and recommend to Fu Wong which company he should invest in. (6)

(Total for Question 6 = 30 marks)

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

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.
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Question Number	Answer	Mark
6 (a)(i)	<p>AO1 (3) AO1: Three marks for correct calculation of total ordinary dividend paid.</p> <p>Total ordinary dividend paid = Dividend per share x number of shares</p> <p>= 6 pence (1) AO1 x 15 000 000 (1) AO1 = £900 000 (1) AO1</p>	(3)

Question Number	Answer	Mark
6 (a)(ii)	<p>AO3 (3) AO3: Three marks for correct calculation of share price.</p> <p>Share price = Earnings per share x Price/earnings ratio</p> <p>= 15 pence (1) AO3 x 8.4 times (1) AO3 = £1.26 (1) AO3</p>	(3)

Question Number	Answer	Mark
6 (a)(iii)	<p>AO2 (3) AO2: Three marks for correct calculation of dividend yield.</p> <p>Dividend yield = $\frac{\text{Dividend per share}}{\text{Market price of a share}}$</p> <p>= <math>\frac{6 \text{ pence}}{126 \text{ pence}} (1) \text{ AO2 } \times 100</math> = 4.76% (1 of) AO2</p>	(3)

Question Number	Answer	Mark
6 (b) (iii)	<p>AO2 (3) AO2: Three marks for correct calculation of the price/earnings ratio.</p> <p>Price/earnings ratio</p> <p>= $\frac{\text{Market price of share at year end}}{\text{Earnings per share}}$</p> <p>= $\frac{90\text{p (1) AO2}}{15\text{p (1 of) AO2}} = 6 \text{ times (1 of) AO2}$</p>	(3)

Question Number	Answer	Mark
6 (b) (iv)	<p>AO2 (3) AO2: Three marks for correct calculation of the dividend paid per share.</p> <p>Dividend paid per share</p> <p>= $\frac{\text{Total ordinary dividend}}{\text{Issued ordinary shares}}$</p> <p>= $\frac{\pounds 1\,000\,000 \text{ (1) AO2}}{20\,000\,000 \text{ (1) AO2}} = 5 \text{ pence per share (1) AO2}$</p>	(3)

Question Number	Indicative Content	Mark
6 (c)	<p>AO4 (6) Own figure rule applies for calculations from (a) and (b)</p> <p><u>For Investment in Paxorient plc</u> The dividend cover is higher by 0.5 times (3 times compared to 2.5 times) which means Paxorient have a safer policy with regard to dividends, when compared to net profit after interest and tax. Paxorient have a higher net profit before and after, interest and tax. The dividend yield for Paxorient plc is higher than Chinoso plc by 0.79% (5.55% compared to 4.76%).</p> <p><u>For Investment in Chinoso plc</u> The price/earnings ratio of Chinoso plc is higher by 2.4 times (8.4 times compared to 6 times). The dividend paid per share is higher in Chinoso by 1 pence (6 pence compared to 5 pence).</p> <p><u>Decision</u> With the information given, dividend yield might be the best figure to use for investment, making Paxorient the best investment.</p>	(6)
Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
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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.