Please check the examination details below before entering your candidate information

Candidate surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Monday 14 January 2019

Morning (Time: 3 hours) | Paper Reference **WAC12/01**

Accounting

International Advanced Level
Paper 2: Corporate and Management Accounting

You must have:
Source Booklet (enclosed)

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **both** questions in Section A and **three** questions from Section B.
- 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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Pearson

SECTION A

Answer BOTH questions in this section.

1 Handsome Ltd supplies hand-painted model souvenirs to retailers in London.
The models are produced using a plastic mould, and are then hand-painted.

The following information is available.

The direct costs **per unit** of the four products produced are:

Product	London Bus	Policeman	Telephone Box	Mail Box
Plastic mould	10 pence (£0.10)	8 pence (£0.08)	9 pence (£0.09)	6 pence (£0.06)
Labour time taken to paint	30 minutes	15 minutes	20 minutes	10 minutes

The plastic material is bought from a local supplier who holds a very large inventory of plastic.

Hand-painting labour is a direct cost and **each** worker is paid at a rate of £10.80 per hour.

The painting area has room for 10 hand-painters who each work for 40 hours per week.
It is not company policy to work overtime.

Total demand for each product, in units, for Week 6 is:

London Bus	Policeman	Telephone Box	Mail Box
240	500	360	600

The total demand above includes a contract with a major retailer, which **must** be fulfilled, to supply the following units each week:

London Bus	Policeman	Telephone Box	Mail Box
120	200	150	270

The selling price charged by Handsome Ltd for each product is:

London Bus	Policeman	Telephone Box	Mail Box
£10.00	£6.00	£7.00	£4.00

The fixed costs for Week 6 are £1 880

Required

(a) Calculate the number of direct labour hours:

(i) required to fulfil the contract with the major retailer

(3)

(ii) available for other output for Week 6

(2)

(iii) required to fulfil the total demand for Week 6.

(5)

(b) (i) Define the term **limiting factor**.

(2)

(ii) State **one** example, for Handsome Ltd, of

- a limiting factor
- a factor that is not limiting.

(2)

(c) Calculate the contribution per unit for **each** of the four products.

(8)

(d) Calculate the **order of production** of the four products required to maximise profit for Week 6.

(6)

(e) Calculate the possible **quantities of production** of the four products that would fulfil the contract and maximise profit for Week 6. You must show the hours that would be spent on painting each product.

(8)

(f) Calculate the profit for Week 6 from the quantities of production in (e), that would fulfil the contract and maximise profit.

(7)

The contract with the major retailer will be ending soon. The retailer wishes to agree a new contract that will have the same quantities of the four products as the present contract supplied each week. In addition, the retailer wishes 100 units of another product, a model Tower of London, to be supplied.

(g) Evaluate whether Handsome Ltd should agree a new contract with the major retailer. Your evaluation should include all relevant factors that should be considered by Handsome Ltd.

(12)

(Total for Question 1 = 55 marks)

Question Number	Answer	Mark
1 (a)(i)	**AO1 (3)** **AO1: Three marks for calculating labour hours required to fulfil contract.**	**(3)**

	London Bus	Policeman	Telephone Box	Mail Box	Total
Contract	120	200	150	270	
Hours required	60	50	50	45	205
		(1)AO1 both		**(1)AO1 both**	**(1of)AO1**

Question Number	Answer	Mark
1 (a)(ii)	**AO1 (2)** **AO1: Two marks for calculating labour hours available for other output for Week 6.** Hours available for other output = (10 x 40) – 205 **(1of)AO1** = 195 **(1of)AO1**	**(2)**

Question Number	Answer	Mark
1 (a)(iii)	**AO1 (5)** **AO1: Five marks for calculating labour hours required to fulfil total demand for Week 6.**	**(5)**

	London Bus	Policeman	Telephone Box	Mail Box	Total
Total demand	240	500	360	600	
Time taken to paint	30 minutes	15 minutes	20 minutes	10 minutes	
Hours required	120	125	120	100	465
	(1)AO1	**(1)AO1**	**(1)AO1**	**(1)AO1**	**(1of)AO1**

Question Number	Answer	Mark
1 (b)(i)	**AO1 (2)** **AO1: Two marks for explaining the term limiting factor.** A limiting factor is a factor of production **(1)AO1** which restricts the level of activity / quantity of output. **(1)AO1**	**(2)**

Question Number	Answer	Mark
1 (b)(ii)	**AO1 (2)** **AO1: Two marks for giving examples of a limiting factor and not a limiting factor** For Handsome Limited A limiting factor is the quantity of direct labour hand painters available.**(1)AO1** Materials are not a limiting factor.**(1)AO1**	**(2)**

Question Number	Answer	Mark
1 (c)	**AO2 (8)** **AO2: Eight marks for calculating contribution per unit for each product.**	**(8)**

Product	London Bus	Policeman	Telephone Box	Mail Box
Selling price	10.00	6.00 **(1)AO2**	7.00	4.00 **(1)AO2**
Less Direct costs				
Plastic mould	0.10	0.08	0.09	0.06
Labour cost to paint	5.40 **(1)AO2**	2.70 **(1)AO2**	3.60 **(1)AO2**	1.80 **(1)AO2**
Total costs	5.50	2.78	3.69	1.86
Contribution	4.50	3.22 **(1of)AO2 both**	3.31	2.14 **(1of)AO2 both**

Question Number	Answer	Mark
1 (d)	**AO3 (6)** **AO3: Six marks for calculating order of priority for production.**	**(6)**

Product	London Bus	Policeman	Telephone Box	Mail Box
Contribution	4.50	3.22	3.31	2.14
Time taken to paint	30 minutes	15 minutes	20 minutes	10 minutes
Contribution per labour hour	9.00 **(1of)AO3**	12.88 **(1of)AO3**	9.93 **(1of)AO3**	12.84 **(1of)AO3**
	4	1 **(1of)AO3 both**	3	2 **(1of)AO3 both**

Question Number	Answer	Mark
1 (e)	**AO2 (8)** **AO2: Eight marks for calculating production schedule**.	**(8)**

Order of Production	Product	Output Contract + Non-C	Hours Contract + Non-C	Cumulative hours
1	Policeman	200 + 300 = 500 **(1of)AO2**	50 + 75 = 125 **(1of)AO2**	125
2	Mail Box	270 + 330 = 600 **(1of)AO2**	45 + 55 = 100 **(1of)AO2**	225
3	Telephone Box	150 + 195= 345 **(1of)AO2**	50 + 65 = 115 **(1of)AO2**	340
4	London Bus	120 **(1of)AO2**	60 **(1of)AO2**	400

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>1 (f)</td><td>AO1 (2), AO2 (5)
AO1: Two marks for calculating total contribution and profit.
AO2: Five marks for calculating total contribution for each product and deducting fixed costs.

<table>
<tr><td>Product</td><td>Contribution per unit</td><td>Output</td><td>Total contribution</td><td></td></tr>
<tr><td>Policeman</td><td>3.22</td><td>500</td><td>1 610.00</td><td>(1of)AO2</td></tr>
<tr><td>Mail Box</td><td>2.14</td><td>600</td><td>1 284.00</td><td>(1of)AO2</td></tr>
<tr><td>Telephone Box</td><td>3.31</td><td>345</td><td>1 141.95</td><td>(1of)AO2</td></tr>
<tr><td>London Bus</td><td>4.50</td><td>120</td><td>540.00</td><td>(1of)AO2</td></tr>
<tr><td></td><td></td><td>Total</td><td>4 575.95</td><td>(1of)AO1</td></tr>
<tr><td></td><td>Less</td><td>Fixed Costs</td><td>1 880.00</td><td>(1)AO2</td></tr>
<tr><td></td><td></td><td>Profit</td><td>2 695.95</td><td>(1of)AO1</td></tr>
</table></td><td>(7)</td></tr>
</table>

Question Number	Indicative Content	Mark
1 (g)	**AO1 (1), AO2 (1), AO3 (4), AO4 (6)** Answers may include: <u>Case for new contract</u> The present contract is profitable, covering fixed costs and bringing in a weekly contribution on all four products. Weekly contributions of the present contract are: London Bus 120 x £4.50 = £540 Policeman 200 x £3.22 = £644 Telephone Box 150 x £3.31 = £496.50 Mail Box 270 x £2.14 = £577.80 Total contribution = £2 258.30 out of a total weekly contribution of £4 575.95. This is about 50% of the contribution. If 50% of the fixed costs were absorbed by this order, there would be a profit of about £1 294 If the model Tower of London is costed and priced correctly, this should bring in a further contribution. The contract could prove to be the basis for a bank loan which results in expansion of the business. <u>Case against the new contract</u> Handsome Ltd cannot meet the full weekly demand at present. Signing a contract with an additional model could mean even more potential customers are disappointed. There is the possibility that Handsome Ltd may become too dependent on one customer. This may lead to possible difficulties in the future if this customer has trading problems. <u>Other considerations</u> Handsome Ltd will need to reconsider the company policy not to employ overtime. Workers may have to work overtime to meet weekly demand. Even if overtime premiums are paid, the contract should still be profitable. Alternatively, they could employ more hand painters, but there may be an issue with space available. Perhaps the company may have to move to new premises, but this could be expensive. <u>Decision</u> Handsome Ltd should probably take on the contract including the extra model, and introduce overtime to meet all the demand.	**(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 Alsos Engineering Ltd had the following balances at the start of the financial year on 1 January 2018.

	£
Ordinary shares of £1	56 000
Share premium	14 000
Retained earnings	8 640
General reserve	5 730
Foreign exchange reserve	8 000
Long-term bank loan	50 000

The directors decided to issue additional ordinary shares in order to expand the business.

During the year ended 31 December 2018, the following took place:

- On 1 April, the company offered 12 000 ordinary shares at a price of £1.30 each on the following terms:
  - 15 pence (£0.15) on application
  - 40 pence (£0.40) on allotment (including the 30 pence (£0.30) premium)
  - 50 pence (£0.50) first call
  - 25 pence (£0.25) second and final call.
- On 15 May, 14 000 applications had been received. The directors rejected applications totalling 2 000 shares and allotted the shares to the successful applicants.
- On 22 May, monies were returned to the unsuccessful applicants.
- On 31 July, the balances due on allotment were fully received.
- On 10 September, the first call was made and the amounts were fully received.
- On 31 October, the second and final call was made and the amounts were fully received.

Required

(a) Prepare the following ledger accounts to record the transactions for the year ended 31 December 2018:

- Ordinary share capital
- Share premium
- Application and allotment
- First call
- Second and final call.

You should also show the following where relevant:

- dates
- opening balances at the start of 2018
- closure of any relevant accounts during the year
- closing balances at the end of 2018
- opening balances at the start of 2019.

(21)

(b) Explain the following terms:

(i) rights issue

(3)

(ii) bonus issue.

(3)

The following events also took place during the year.

- On 1 August, a transfer was made to Retained earnings from the General reserve. The directors decided they wanted only £1 000 to remain in the General reserve.
- On 11 November, a property in the books at a value of £220 000 was revalued to £300 000

Required

(c) Prepare journal entries to record the two transactions. Narratives are not required.

(6)

For the year ended 31 December 2018, net profit after tax was £23 530 and dividends of £11 500 were paid.

(d) Calculate the gearing ratio at 31 December 2018.

(10)

The directors of Alsos Engineering Ltd are also considering the possibility of raising further finance, by use of either a bank loan or additional share capital, to expand the business in 2019.

(e) Evaluate whether it is better to use a bank loan or ordinary shares as a method of raising finance for Alsos Engineering Ltd.

(12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

Question Number	Answer	Mark

2 (a)

AO1 (12), AO2 (9)

AO1: Twelve marks for any balances brought down, ruling off accounts with no balance, and debit entries in Application and Allotment account, First and Second Call accounts.

AO2: Nine marks for credit entries in all accounts.

(21)

Ordinary Share Capital Account

2018			Jan 1	Balance b/d	56 000 **(1)** **AO1**
			May 15	Applctn & Allotmnt	1 800 **(1)** **AO2**
			July 31	Applctn & Allotmnt	1 200 **(1)** **AO2**
			Sept 10	First Call	6 000 **(1)** **AO2**
Dec 31	Balance c/d	68 000	Oct 31	Second + Final Call	3 000 **(1)** **AO2**
		68 000			68 000
2019			Jan 1	Balance b/d	68 000 **(1)** **AO1 (o/f)**

Share Premium Account

2018			Jan 1	Balance b/d	14 000 **(1)** **AO1**
Dec 31	Balance c/d	17 600	July 31	Applctn & Allotmnt	3 600 **(1)** **AO2**
		17 600			17 600
2019			Jan 1	Balance b/d	17 600 **(1)** **AO1**

Application and Allotment Account

May 15	Ordinary Share Capital	1 800 **(1of)** **AO1**	May15	Bank	2 100 **(1)** **AO2**
May 22	Bank	300 **(1) AO1**	July 31	Bank	4 800 **(1)** **AO2**
July 31	Ordinary Share Capital	1 200 **(1of)AO1**			
	Share Premium	3 600 **(1of)** **AO1**			____
		6 900			6 900 **(1of)AO1**

First Call Account

Sept 10	Ordinary Share Capital	6 000 **(1of)** **AO1**	Sept 10	Bank	6 000 **(1of)** **AO2**
		6 000			6 000

Second and Final Call Account

Oct 31	Ordinary Share Capital	3 000 **(1of) AO1**	Oct 31	Bank	3 000 **(1of) AO2**
		3 000			3 000 **(1of)AO1both**

Question Number	Answer	Mark
2 (b)(i)	**AO3 (3) Award up to maximum of 3 marks for explanation of rights issue.** **AO3: Three marks for.** A rights issue of shares is when existing ordinary shareholders are given the right to buy an additional issue of shares from the company **(1) AO3** in proportion to their existing holdings **(1) AO3**and within a fixed time period.**(1) AO3** If they do not wish to take up the offer, they shareholders may sell the right to buy the shares. **(1) AO3**The company may use the rights issue to raise funds. **(1) AO3**	**(3)**

Question Number	Answer	Mark
2 (b)(ii)	**AO3 (3) Award up to maximum of 3 marks for explanation of bonus issue.** **AO3: Three marks for.** A bonus issue of shares is when a company issues free ordinary shares to existing ordinary shareholders. **(1) AO3**This will be in a fixed ratio, for example two new shares for every one share held. **(1) AO3** This may be done to make the company appear bigger, or instead of paying dividends. **(1) AO3** This also reduces the share price which may make buying a share more manageable. **(1) AO3**This also allows the company to lock in reserves by transferring retained earnings to share capital.**(1) AO3**	**(3)**

Question Number	Answer	Mark
2 (c)	**AO1 (4), AO2 (2)** **AO1: Four marks for stating accounts to be debited and credited.** **AO2: Two marks for correct figures.**	**(6)**

Aug 1	General reserve **(1)AO1**	4 730 **(1)AO2**	
	Retained earnings **(1)AO1**		4 730

Nov 11	Property, plant and equipment **(1)AO1**	80 000 **(1)AO2**	
	Revaluation reserve **(1)AO1**		80 000

Question Number	Answer	Mark
2 (d)	**AO2 (10)** **AO2: Seven marks for correct calculation of year end balances. Three marks for correct calculation of gearing ratio.**	**(10)**

	Start Year	Adjustment in year	End Year	
Ordinary Shares of £1	56 000	+ 12 000	68 00	**(1)** **AO2**
Share Premium	14 000	+ 3 600	17 600	**(1)** **AO2**
Retained earnings	8 640	+ 4 730**(1)AO2** + 23 530 – 11 500 **(1)AO2**	25 400	**(1)** **AO2**
General reserve	5 730	- 4730	1 000	**(1)** **AO2**
Foreign exchange reserve	8 000		8 000	
Revaluation reserve			80 000	**(1)** **AO2**
Long term bank loan			50 000	
Total			250 000	

Gearing = $\frac{50\,000\ \textbf{(1)AO2}}{(200\,000 + 50\,000)\ \textbf{(1of)AO2}}$ x 100 = 20% **(1of)AO2**

Question Number	Indicative Content	Mark
2 (e)	**AO1 (1), AO2 (1), AO3 (4), AO4 (6)** Answers may include: <u>Case for Ordinary shares</u> Shareholders do not have to be paid dividends, which is useful when short of funds. No "outside" parties have any influence on the running of the company eg a place on the board, which banks may request. No interest has to be paid, so the profits of the company will be higher. This will also help cash flow and liquidity. No assets are offered as security, so there will be no claims on assets by banks if a loan not repaid, or the company fails. Bank loans result in higher gearing, which increases risk to company. Issue of shares will reduce gearing. <u>Case for Bank Loans</u> Interest is allowable for tax, so the company may be able to retain more funds in the business. Possibly the tax saving may be greater than any dividends paid. Banks may bring expertise and experience to the company,and maybe to the Board. Banks may be flexible regarding repayments, length of loan etc which may be rescheduled. A bank loan may be quicker and cheaper to arrange. It may be difficult to persuade potential shareholders to take up more shares, given that a share issue has already occurred in the year. A further issue of shares may dilute ownership of existing shareholders. <u>Decision</u> Should relate to above points made. For example, ordinary shares are a better source of finance.	**(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.

Answer THREE questions from this section.

3 Two Masks plc is considering the possibility of taking over a theatre presently run by a local government. The local government wishes to promote arts in the town, but is unable to run the theatre at a profit. If Two Masks plc takes on the contract, it will have to refurbish the theatre before staging any productions.

The following information is available for the five years of the contract.

The cost of the contract to Two Masks plc will be £240 000, which is for the restoration and refurbishment of the theatre.

The length of the contract will be five years.

The cost of the restoration and refurbishment is to be depreciated over the five years of the contract.

The theatre expects to stage 72 performances in each year.

There will be three price levels for tickets:

- Stalls £15 per ticket
- Balcony £20 per ticket
- Upper Circle £12 per ticket.

The stalls have 300 seats.

The balcony has 100 seats.

The upper circle has 150 seats.

The stalls are expected to sell 80% of the tickets available.

The balcony is expected to sell 55% of the tickets available.

The upper circle is expected to sell 30% of the tickets available

It is expected that 30% of customers will buy a theatre programme for £2

It is expected that 75% of customers will spend an average of £4 per person on refreshments.

The cost of staging one performance is £1 750

There are 12 staff, **each** on an average salary of £16 000 per year.

Other overheads, including the restoration and refurbishment depreciation, are £7 600 per month.

Revenues and costs are assumed to be the same for each year of the contract.

The company will use a cost of capital of 8% in its calculations.

The discount factors for a cost of capital of 8% are given below.

Year	Discount Factor
1	0.926
2	0.857
3	0.794
4	0.735
5	0.681

(a) Calculate the net present value of the theatre contract for Two Masks plc.

(18)

The company uses the internal rate of return as a method of project evaluation.

The net present value of the contract using a cost of capital of 12% is £135 670

(b) Calculate the internal rate of return of the theatre contract for Two Masks plc.

(6)

Two Masks plc will only invest in projects that give a return of 8% or above.

(c) Evaluate whether Two Masks plc should undertake the contract to run the theatre.

(6)

(Total for Question 3 = 30 marks)

3(a)							
AO1 (5), AO2 (12),	**AO3 (1)**						
AO1: Five marks for totals of customers, revenue, costs, annual net cash flow and discounted cash flow.							
AO2: Twelve marks for customers for seating areas, revenue sources, itemised costs, depreciation, overheads and discounted cash flows.							
AO3: One mark for deducting monthly depreciation.							
Workings		Occupancy			Ticket		
Customers	Seats	Rate	Occupancy		Price	Total	
Stalls	300	80%	240		£15	£3 600	
Balcony	100	55%	55		£20	£1 100	**(1) AO2 both**
Upper Circle	150	30%	45		£12	£540	**(1) AO2**
Total			340			£5 240	**(1of) AO1**
Revenues per year		Rate	Price		Performances		
Tickets	£5 240				72	£377 280	**(1of) AO2**
Programmes	340	30%	£2		72	£14 688	**(1of) AO2**
Refreshments	340	75%	£4		72	£73 440	**(1of) AO2**
Total Revenue						£465 408	**(1of) AO1**
Costs per year		Months	Performances	Staff			
Production	£1 750		72			£126 000	**(1) AO2**
Wages	£16 000			12		£192 000	**(1) AO2**
Overheads	£3 600	12				£43 200	**(1) AO2**
Total Costs						£361 200	**(1of) AO1**
Workings per year			Annual		Monthly		
Restoration	Years		Depreciation		Depreciation		
£240 000	5		£48 000		£4 000	**(1) AO2**	
Monthly overheads	Total	Less Deprctn					

	£7 600	-£4 000	**(1of)AO3**		£3 600	**(1of) AO2**	
NPV					Discount	Discounted	
Cash Flows	Inflows	Outflows	Net Cash Flow		Factor 8%	Cash Flow	
Year 0			-240000		1	(£240 000)	
Year 1	£465 408	£361 200	£104 208	**(1of)AO1**	0.926	£96 497	
Year 2	£465 408	£361 200	£104 208		0.857	£89 306	**(1of) AO2 - all 3**
Year 3	£465 408	£361 200	£104 208		0.794	£82 741	
Year 4	£465 408	£361 200	£104 208		0.735	£76 593	
Year 5	£465 408	£361 200	£104 208		0.681	£70 966	**(1of) AO2 - all 3**
			£281 040			£176 103	**(1of) AO1**
							18 marks

Question Number	Answer	Mark
3 (b)	**AO3 (6)** **AO3: Six marks for calculating the internal rate of return.**	**(6)**

Internal rate of Return
= Lower rate + (% difference between rates) x (NPV using lower % rate)
(Difference between NPVs)

= 8% **(1) AO3** + ([12 – 8]**(1) AO3** x (176 103) **(1of) AO3**
(176 103 **(1of) AO3** - 135 670)**(1) AO3**

= 8% + (4 x 4.355)

= 25.42% **(1of) AO3**

Number	Indicative Content	Mark
3 (c)	**AO4 (6)** Question Answers may include: <u>Case For Investment</u> The internal rate of return is 25.42% (**o / f**), which is greater than the 8% that is the benchmark figure for investment by the company. The net present value of the project is positive, at £176 103 (**o / f**) The project would look good in the Corporate Social Responsibility report – they have kept the theatre in the town alive and refurbished the theatre. <u>Case Against Investment</u> The local government were unable to make a profit from the theatre, why should Two Masks plc be any different? <u>Other points</u> The figures are only estimates - they could be better or worse for the company. Are there any other projects that may be invested in? Do these give a better (or worse) return? Does this investment fit the objectives and strategy of the company? <u>Decision</u> The project should go ahead.	**(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.

4 Saidpur Fashions plc produces a range of clothing at its factory. The clothing is then delivered to Saidpur Fashions plc's shops for sale to customers.

At 31 December 2018, the following balances were in the books.

	Debit £	**Credit £**
5.75% Bank Loan, repayable 2022		400 000
Cash and cash equivalents	16 783	
Direct materials	421 108	
Discount allowed	8 274	
Discount received on materials		20 766
Factory buildings (at cost)	1 250 000	
Factory machinery (carry over value)	158 000	
Fuel	87 584	
Hire of delivery vans	3 190	
Interest on bank current account	2 843	
Interest received		3 241
Inventory of finished goods at 1 January 2018	127 952	
Irrecoverable debts written off	6 151	
Maintenance	28 539	
Marketing events	71 382	
Motor lorries (carry over value)	196 000	
Office computers	78 000	
Ordinary shares of £1		1 400 000
Power	82 460	
Provision for irrecoverable debts		4 800
8% Redeemable Preference shares of £1		600 000
Rent on shop premises	24 565	
Retained earnings		1 257 993
Revenue		2 277 920
Shop buildings (at cost)	2 385 000	
Trade payables		35 560
Trade receivables	132 000	
Vehicle running costs	44 098	
Wages	876 351	
	6 000 280	6 000 280

Adjustments and additional information at 31 December 2018

- Inventory of finished goods £131 875
- Hire of delivery vans, £6 848, owing.
- Rent on shop premises includes £1 764 prepaid.
- Maintenance is divided between the factory, distribution and the office in the ratio 6:2:1
- Power is divided between the factory, distribution and the office in the ratio 4:1:2
- Fuel is divided between the factory and distribution in the ratio 1: 7
- Shop staff receive a commission of 1.25% as a year-end bonus on all sales made. This has yet to be entered in the books.
- Wages include

	£
Delivery staff	143 521
Factory cleaners	35 879
Office staff	101 065
Production staff	378 496
Shop staff	217 390

- Assuming a nil residual value in each case and using the straight line method:
  - the factory buildings are to be depreciated over a 50-year life
  - the shop buildings are to be depreciated over a 45-year life
  - the office computers are to be depreciated over a 4-year life.
- The following are to be depreciated using the reducing balance method:
  - motor lorries at 35%
  - factory machinery at 30%.
- A corporation tax provision for £27 000 is to be made.

You are a member of the Accounts Department. The Senior Accountant has asked you to carry out the following tasks.

(a) Prepare a detailed schedule for each of the following, ready for inclusion in the year-end financial statements, using the appropriate information.

(i) Cost of sales section

(9)

(ii) Distribution costs section

(11)

(b) Prepare the Statement of Profit or Loss and Comprehensive Income for the year ending 31 December 2018 for Saidpur Fashions plc, up to and including the Gross Profit. The statement should be set out in accordance with International Accounting Standard (IAS) 1.

(4)

(c) Evaluate the importance of the Directors' Report in the Annual Report.

(6)

(Total for Question 4 = 30 marks)

Question Number	Answer	Mark
4(a)(i)	**AO1 (2), AO2 (5), AO3 (2)** **AO1: Two marks for wages items and total.** **AO2: Five marks for all other items in cost of sales except depreciation.** **AO3: Two marks for depreciation items.**	**(9)**

Cost of Sales			
Direct Materials	421 108		
Less Discount Received	(20 766)	**(1) both**	**AO2**
Factory Depreciation	25 000	**(1)**	**AO3**
Machinery Depreciation	47 400	**(1)**	**AO3**
Factory Fuel	10 948	**(1)**	**AO2**
Factory Power	47 120	**(1)**	**AO2**
Maintenance	19 026	**(1)**	**AO2**
Production staff	378 496		
Factory cleaners	35 879	**(1) both**	**AO1**
Opening Inventory Finished Goods	127 952		
Less Closing Inventory Finished Goods	(131 875)	**(1) both**	**AO2**
	960 288	**(1of)**	**AO1**

Question Number	Answer	Mark
4(a)(ii)	**AO1 (2), AO2 (7), AO3 (2)** **AO1 : Two marks for running costs and marketing items and total.** **AO2 : Seven marks for all other items in distribution costs except depreciation.** **AO3 : Two marks for depreciation items.**	**(11)**

Distribution Costs			
Commission on sales	28 474	**(1)**	**AO2**
Fuel	76 636	**(1)**	**AO2**
Hire of delivery vans	10 038	**(1)**	**AO2**
Maintenance	6 342	**(1)**	**AO2**
Motor lorries depreciation	68 600	**(1)**	**AO3**
Power	11 780	**(1)**	**AO2**
Rent on Shop premises	22 801	**(1)**	**AO2**
Shop premises depreciation	53 000	**(1)**	**AO3**
Vehicles running costs	44 098		
Marketing events	71 382	**(1) both AO1**	
Shop staff wages	217 390	**(1) both**	
Delivery staff wages	143 521	**AO2**	
	754 062	**(1of)**	**AO1**

Question Number	Answer	Mark
4(b)	**AO1 (1), AO3 (3)** **AO1 : One mark for heading.** **AO3 : Three marks for revenue, cost of sales and gross profit.**	**(4)**

Statement of Profit or Loss and Comprehensive Income for year ending 31st December 2018
(1) AO1

Revenue	2 277 920	**(1) AO3**
Cost of sales	(960 288)	**(1of) AO3**
Gross profit	1 317 632	**(1of) AO3**

Question Number	Indicative Content	Mark
4 (c)	**AO4 (6)** <u>Case For Directors' Report</u> Report gives information to e.g. shareholders which they could use to make a decision e.g. invest more funds in the company. Shareholders / readers may be assured the company is acting in an ethical manner Other stakeholders e.g. pressure group may use information in the Report to bring about change in company policy e.g. treatment of disabled Disclosures may be required under Stock Exchange regulations, which may be appropriate in the Directors' Report e.g. legislation pending Information is given to shareholders which allows them to see in some detail how the company is performing ▪ E.g. principal activities, review of position of business ▪ Post balance sheet events, future developments ▪ Names of directors, interests of directors ▪ Employee involvement, disabled employees policy ▪ Political and charitable donations ▪ Creditor payment policy, creditor payment days <u>Case Against Directors' Report</u> Report costs personnel time to prepare and money to print etc Directors may use Report to "window dress" accounts, give an unrealistic positive view of the company, as it is in their interest to do so. <u>Decision</u> Should relate to above points. E.g. Directors' Report is useful.	**(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 Loxton Pumps Ltd produces water pumps for vehicles. The company is owned by the Loxton family and has been trading for nearly 80 years.

The following information is available:

	November 2018	**December 2018**	**January 2019**
Units produced	48 000	39 000	50 000 (planned)
Total production costs	£785 830	£661 900	

Fixed costs per month and variable costs per unit stay the same for each month.

All production is sold.

The selling price of each water pump is £16.80

Required

(a) Calculate the:

(i) variable cost per unit

(3)

(ii) fixed costs per month.

(3)

(b) Calculate the profit or loss for the month of December 2018.

(4)

(c) Calculate, for the month of January 2019, the:

(i) break-even point in sales units

(4)

(ii) margin of safety in sales revenue.

(4)

(d) Prepare a break-even chart for January 2019 using the graph. You should label the following:

- fixed costs
- total costs
- sales revenue
- break-even point
- margin of safety, measured in sales revenue
- profit or loss for the month.

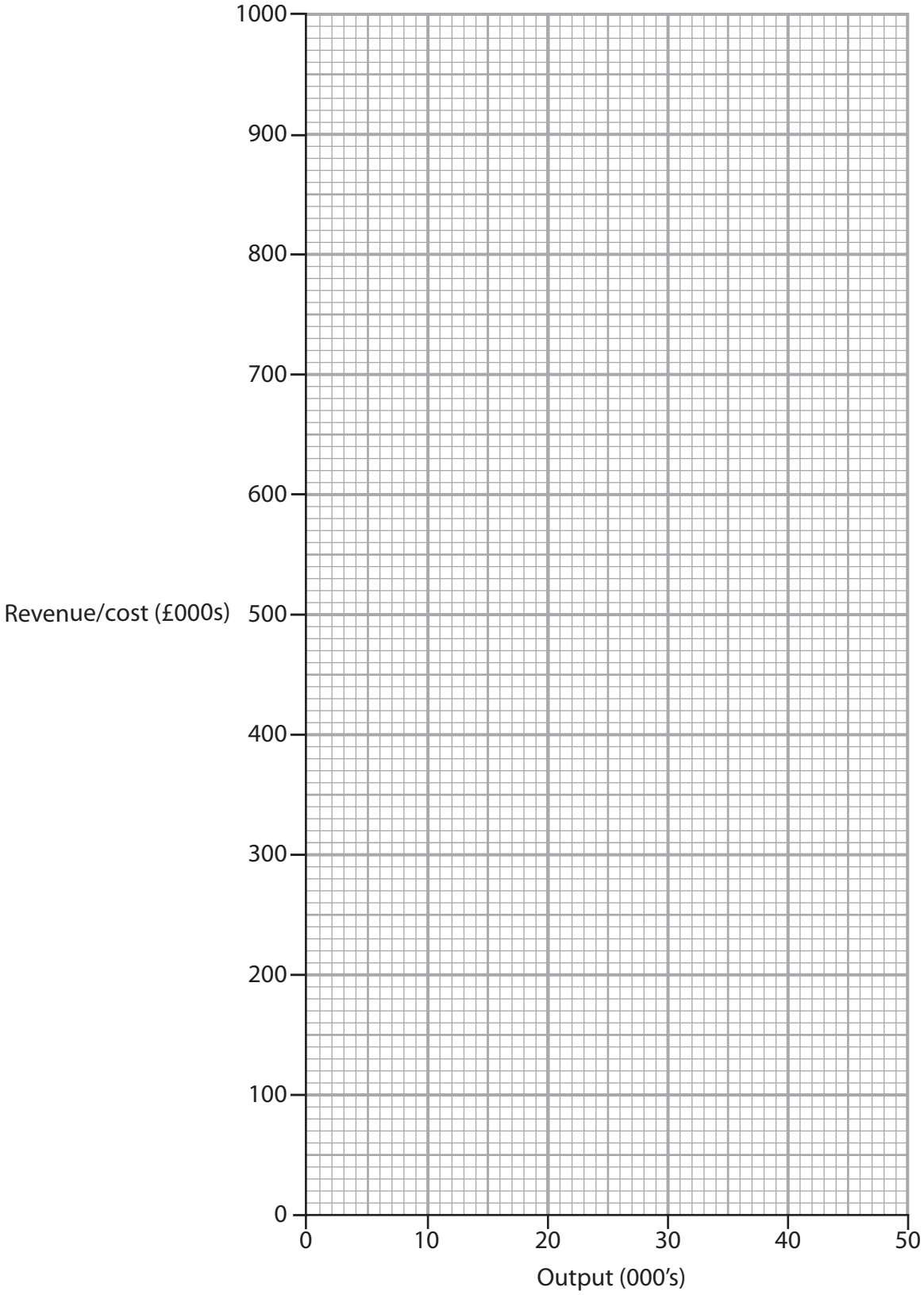
(6)

At a board meeting in January, Robert Loxton stated "I am worried about the December figures. Should the company continue trading in the future?"

(e) Evaluate the statement made by Robert Loxton and recommend if Loxton Pumps Ltd should continue trading in the future.

(6)

(Total for Question 5 = 30 marks)



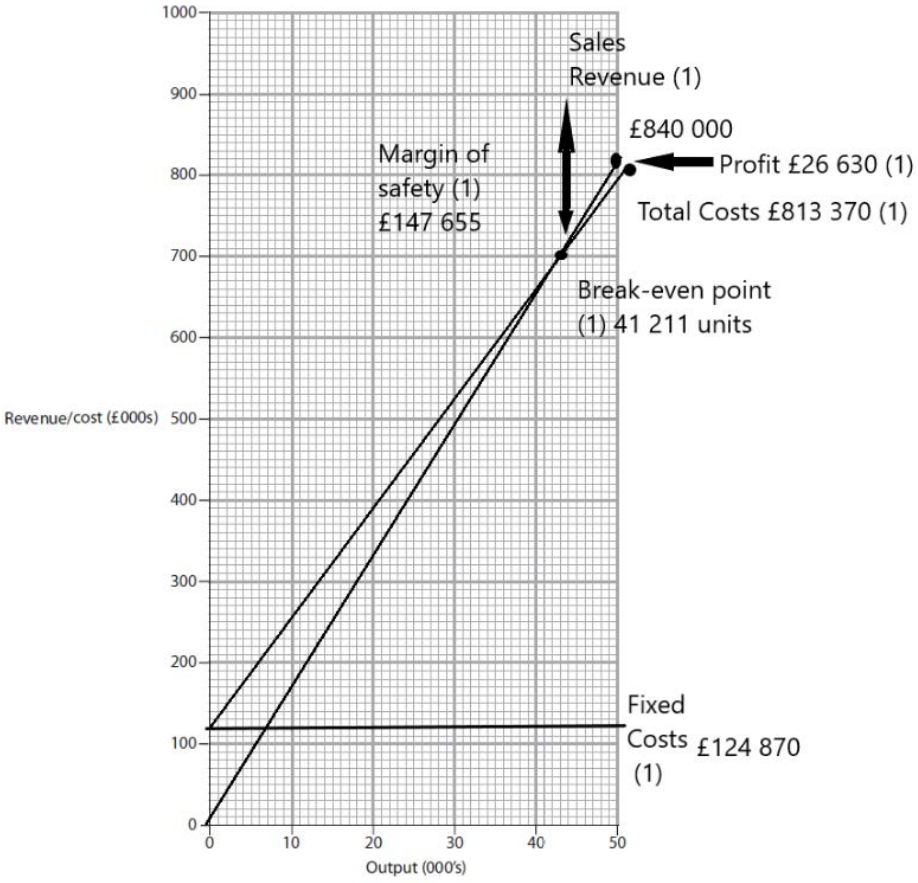
Question Number	Answer	Mark
5(a)(i)	**AO3 (3)** **AO3: Three marks for calculating the variable costs per unit.** November December Total Production cost £785 830 £661 900 Units produced 48 000 39 000 Difference <u>£123 930</u> **(1) AO3** 9 000 **(1) AO3** Variable cost Per unit £13.77 **(1of) AO3**	**(3)**

Question Number	Answer	Mark
5(a)(ii)	**AO1 (2), AO2 (1)** **AO1: Two marks for calculation of variable cost and fixed costs figure for the subtraction.** **AO2: One mark for correct subtraction to give answer.** Variable cost £48 000 x £13.77= £660 960 for November **(1of) AO2** Fixed cost £785 830 - £660 960 **(1of) AO1** for November = £124 870 **(1of) AO1**	**(3)**

Question Number	Answer	Mark
5(b)	**AO2 (4)** **AO2: Four marks for correct calculation of profit or loss for the month.** <u>Profit for December</u> Sales Revenue £655 200 **(1) AO2** Less Variable costs (£537 030) **(1of) AO2** Fixed costs (£124 870) **(1of) AO2** Loss for month (£6 700) **(1of) AO**	**(4)**

Question Number	Answer	Mark
5(c)(i)	**AO3 (4)** **AO3: Four marks for correct calculation of break-even point in sales units.** Contribution per unit £16.80 - £13.77 = £3.03 **(1of) AO3** Break even <u>£124 870</u> **(1of) AO3** = 41 212 units Point £ 3.03 **(1of) AO3** **(1of) A03**	**(4)**

Question Number	Answer	Mark
5(c)(ii)	**AO1 (3), AO2 (1)** **AO1: Three marks for correct calculation of margin of safety in units and use of selling price.** **AO2: One mark for correct calculation of margin of safety measured in sales revenue.** Margin of safety (50 000 -41 212) **(1of) AO1** **=** 8 788 units **(1of) AO1** (8 788 x £16.80) **(1of) AO1** **=** £147 638.40 **(1of) AO2**	**(4)**

Question Number	Answer	Mark
5(d)	**AO2 (6) One mark each for correctly drawing on the graph the following:** **fixed costs** **total costs** **sales revenue** **break-even point** **margin of safety in sales revenue** **profit or loss for the month**  	**(6)**

Question Number	Indicative Content	Mark
5 (e)	**AO4 (6). Own figure rule applies throughout.** Answers may include: <u>Case For Continuing Trading</u> The company has achieved break-even point and made a profit in November. The planned production for January should yield a profit if all the units are sold. It may be that the company produces to order, which guarantees sales. Production may have been low in December because the company was shut for a holiday period for a week. <u>Case Against Continuing Trading</u> The company made a loss in December. If this a regular occurrence, then the company may have no future. <u>Other points</u> The figures for January are only estimates - they could be better or worse for the company. What is the future order book like for the company. Does the company have past profits to keep the company solvent in periods of poor sales? <u>Decision</u> The company should/should not continue trading.	**(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.

6 The directors of Mombassa Music plc have drawn up a Statement of Cash Flows in accordance with International Accounting Standard (IAS) 7, as shown below.

Statement of Cash Flows for Mombassa Music plc for the year ended 31 December 2018

Cash Flows from Operating Activities	**£000**	
Profit after tax	2 570	
Taxation charge for year on profit	384	
Add Depreciation of non-current assets	246	
Add Loss on sale of intangible asset	31	
Less Profit on sale of property, plant and equipment	(145)	
Operating cash flow before working capital changes	**3 086**	
Increase in inventories	(52)	
Decrease in trade receivables	43	
Increase in trade payables	17	
Cash generated from operations	**3 094**	
Add Interest received	12	
Less Interest paid	(38)	
Less Tax paid	(352)	
Net Cash from Operating Activities		**2 716**
Cash Flows from Investing Activities		
Proceeds from sale of intangible non-current asset	280	
Payments to acquire tangible non-current assets	(695)	
Proceeds from sale of tangible non-current asset	220	
Dividends received	32	
Net Cash Used in Investing Activities		**(163)**
Cash Flows from Financing Activities		
Issue of ordinary shares	96	
Repayment of debenture	(400)	
Dividends paid	(36)	
Net Cash Used in Financing Activities		**(340)**
Net increase in cash and cash equivalents		**2 213**
Cash and cash equivalents at the beginning of the year		(2 486)
Cash and cash equivalents at the end of the year		(273)

Required

(a) A copyright was sold in March 2018.

(i) Calculate the book value of the copyright when sold.

(2)

There was only one item of property, plant and equipment sold during the year. The property sold had been depreciated by £20 000

(ii) Calculate the cost price of the property.

(3)

(iii) State:

- **one** advantage of an increase in trade payables
- **one** disadvantage of an increase in trade payables.

(2)

At 31 December 2018, the share capital was 336 000 ordinary shares of £1 each.

The £1 shares issued in October 2018 were not eligible for the 2018 interim dividend.

Details of the ordinary share dividends are:

Final dividend for 2017 of £21 600 – paid February 2018

Interim dividend for 2018 – paid September 2018

Final proposed dividend for 2018 is £24 000

(iv) Calculate the interim dividend **per share** paid in September 2018.

(4)

The interest paid was both on the bank account and the 8% debenture. The debenture was repaid on 31 May and one payment, for 6 months' interest, was made in the year.

(v) Calculate the interest paid on the bank account during the year.

(3)

At 31 December 2017, Mombassa Music plc had £239 000 cash.

(vi) Calculate the bank balance at 31 December 2017.

(2)

At 31 December 2018, Mombassa Music plc had £257 000 cash.

(vii) Calculate the movement on the bank balance in the year ended 31 December 2018.

(4)

(b) Explain **two** differences between a Statement of Cash Flows and a Cash Budget.

(4)

(c) Evaluate the performance relating to liquidity in 2018 and the liquidity position at the year-end of Mombassa Music plc.

(6)

(Total for Question 6 = 30 marks)

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

Question Number	Answer	Mark
6 (a)(i)	**AO1 (1), AO2 (1)** **AO1: One mark for correct addition to calculate the book value of the copyright.** **AO2: One mark for setting out correctly the addition to find the book value of the copyright.** (£280 000 + £31 000) **(1) AO2** = £311 000 **(1) AO1**	**(2)**

Question Number	Answer	Mark
6 (a)(ii)	**AO1 (2), AO2 (1)** **AO1: Two marks for correctly adding back the depreciation to arrive at the the answer.** **AO2: One mark for correctly subtracting the profit on the sale of the property.** (£220 000 - £145 000) = £75 000 **(1) AO2** £75 000 + £20 000 **(1of) AO1** = £95 000 **(1of) AO1**	**(3)**

Question Number	Answer	Mark
6 (a)(iii)	**AO1 (2)** **AO1: One mark for each correct identification of an advantage and a disadvantage of an increase in trade payables.** <u>Advantage</u> Less cash paid out **(1) AO1** <u>Disadvantage</u> Credit rating may reduce /less favourable credit terms **(1) AO1** Liabilities would be higher. **(1) AO1**	**(2)**

Question Number	Answer	Mark
6 (a)(iv)	**AO2 (4)** **AO2: Four marks for correct calculation of interim dividend paid.** Number of shares eligible = 336 000 – 96 000 = 240 000 **(1) AO2** Interim dividend = (£36 000 - £21 600) = £14 400 **(1) AO2** Dividend per share = £14 400 **(1of) AO2** 240 000 = £0.06 (6 pence) **(1of) AO2**	**(4)**

Question Number	Answer	Mark
6 (a)(v)	**AO2 (3)** **AO2: Three marks for correct calculation of interest paid on the bank account during the year.** Interest paid on debenture = (£400 000 x 8%) /2 **(1) AO2** = £16 000 **(1) AO2** Interest on bank account = (£38 000 - £ 16 000) = £22 000 **(1of) AO2**	**(3)**

Question Number	Answer	Mark
6 (a)(vi)	**AO2 (2)** **AO2 : Two marks for correct calculation of bank balance at start of the year.** = (£2 486 000 O/D) - £239 000 **(1) AO2** = £2 725 000 O/D **(1) AO2**	**(2)**

Question Number	Answer	Mark
6 (a)(vii)	**AO2 (4)** **AO2: Four marks for correct calculation of movement on bank balance during the year.** Year end bank balance = (£273 000) O/D - £257 000 **(1) AO2** = £530 000 O/D **(1) AO2** Yearly movement = (£2 725 000 **(of)**) O/D - £530 000 O/D **(1of) AO2** = £2 195 000 increase **(1of) AO2**	**(4)**

Question Number	Answer	Mark
6 (b)	**AO3 (4)** **AO3: Four marks for explaining each difference between a statement of cash flows and a cash budget.** Two differences – answers could include A statement of cash flows is for the past 12 months. **(1) AO3** A cash budget is for a future period. **(1) AO3** A statement of cash flows includes mostly exact figures. **(1) AO3** A cash budget involves figures that are mostly estimates. **(1) AO3** A statement of cash flows is prepared mainly for external users. **(1) AO3** A cash budget is mainly for internal use. **(1) AO3** A statement of cash flow is usually for a period of one year. A cash budget may be for a period of months. A statement of cash flows is a legal requirement for a company. A cash budget is not a legal requirement/but maybe required by a bank. Maximum of two differences. Award mark for first statement, then award for second statement only if a difference.	**(4)**

Question Number	Indicative Content	Mark
6 (c)	**AO4 (6)** Possible answers: <u>Liquidity performance/position good</u> Cash inflow from operating activities of £2 716 000 Cash and cash equivalents improved from negative £2 486 000 at year start to negative £273 000 at year end. An improvement of £2 213 000. Debenture was repaid, which should reduce future interest payments. <u>Liquidity performance/position poor</u> Cash and cash equivalents are negative £273 000 at year end. Cash flows from investing activities and financing activities are negative. <u>Decision</u> The performance of the company concerning liquidity over the year has been good, as the liquidity position has improved. However, the position itself is not good, and cash and cash equivalents are negative £273 000	**(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.