INTERNATIONAL ADVANCED LEVEL

Accounting

SAMPLE ASSESSMENT MATERIALS

Pearson Edexcel International Advanced Subsidiary in Accounting (XAC01)

Pearson Edexcel International Advanced Level in Accounting (YAC01)

For first teaching in September 2013
First examination January 2014

ALWAYS LEARNING

PEARSON

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Write your name here

Surname	Other names

Pearson Edexcel
International
Advanced Level

Centre Number ☐☐☐☐☐

Candidate Number ☐☐☐☐

Accounting (Modular Syllabus)

International Advanced Subsidiary
Unit 1: The Accounting System and Costing

Sample Assessment Material
Time: 3 hours

Paper Reference
WAC01

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 **five** questions, choosing **two** from Section A and **three** from Section B.
- All calculations must be shown.
- Answer the questions in the spaces provided – *there may be more space than you need.*

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.*
- In your responses, you should take particular care with punctuation and grammar, as well as the clarity of your expression.
- Calculators may be used.

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

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

SECTION A

Answer TWO questions from this section.

If you answer question 1, put a cross in this box ☒ .

Source material for question 1 is on pages 2 and 3 of the source booklet.

1 (a) Calculate Avar's:

(i) capital at 1 May 2012

(3)

(ii) revenue (sales) for the year ended 30 April 2013

(5)

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(iii) purchases for the year ended 30 April 2013.

(3)

(b) Prepare the Wages account for the year ended 30 April 2013.

(6)

(c) Prepare the:

(i) Statement of Comprehensive Income for the year ended 30 April 2013

(15)

(ii) Statement of Financial Position at 30 April 2013.

(12)

(d) Evaluate whether a sole trader such as Avar should maintain a full set of double entry accounts.

(8)

(Total for Question 1 = 52 marks)

If you answer question 2, put a cross in this box ☒ .

Source material for question 2 is on pages 4 and 5 of the source booklet.

2 (a) Prepare the Manufacturing Account for the year ended 30 April 2013, clearly showing the profit or loss on manufacture.

(14)

(b) Calculate, for the year ended 30 April 2013, the:

(i) Prime cost of producing **one pack** of vegetable burgers

(3)

(ii) Production cost of producing **one pack** of vegetable burgers

(3)

(c) State **one** reason why Giant Burgers may wish to transfer production to finished goods at an agreed transfer price.

(2)

(d) Prepare the Statement of Comprehensive Income for the year ended 30 April 2013.

(18)

(e) Explain why the depreciation recorded in the Statement of Comprehensive Income is an example of both the **going concern** and the **consistency** accounting concepts.

(4)

Tulip Supermarkets has offered to double its order to 152 000 packs next year if Giant Burgers increases the trade discount on the total order to 35%.

(f) Evaluate this offer from Tulip Supermarkets.

(8)

(Total for Question 2 = 52 marks)

If you answer question 3, put a cross in this box ☒ .

Source material for question 3 is on pages 6 and 7 of the source booklet.

3 (a) Prepare the Journal entries to correct items (1) to (6) above. Narratives are **not** required.

(14)

(b) Calculate the revised surplus/deficit for the year ended 30 April 2013.

(6)

(c) Prepare the Statement of Financial Position at 30 April 2013.

(15)

The Committee of Arena Sports Club has decided to offer a 10 year membership at the rate of £700 per member in the year ending 30 April 2014. The current annual membership subscription is £100 per member.

It is estimated that the offer will be accepted by 30 members, who have not yet paid their annual subscriptions for the year ending 30 April 2014.

(d) Calculate the net effect that this proposal would have upon the:

(i) subscriptions recorded in the Income and Expenditure Account for the year ending 30 April 2014

(ii) bank balance recorded in the Statement of Financial Position at 30 April 2014.

(4)

(e) Prepare the 10 year Membership Subscription Account as it will appear for the year ending 30 April 2014.

(5)

(f) Evaluate the Committee of Arena Sports Club's decision to offer a 10 year membership for £700.

(8)

(Total for Question 3 = 52 marks)

TOTAL FOR SECTION A = 104 MARKS

SECTION B

Answer THREE questions from this section.

If you answer question 4, put a cross in this box ☒ .

Source material for question 4 is on pages 8 and 9 of the source booklet.

4 (a) Explain how a loan made by a partner, over and above the agreed capital, will be treated in the financial statements.

(4)

(b) Prepare, for the year ended 31 March 2013, the:

(i) appropriation section of the Statement of Comprehensive Income

(15)

(ii) Capital Account of Chung

(3)

(iii) Current Account of Chung.

(6)

(c) Evaluate the need for a partnership agreement.

(4)

(Total for Question 4 = 32 marks)

If you answer question 5, put a cross in this box ☒ .

Source material for question 5 is on pages 10 and 11 of the source booklet.

5 (a) Distinguish between **inventory rotation** and **inventory valuation**.

(4)

(b) Calculate the value of the closing inventory at 31 March 2013.

(6)

(c) Prepare the Statement of Comprehensive Income for the three months ended 31 March 2013.

(10)

Home Oil has been considering changing the method of inventory valuation to Last In First Out (LIFO) perpetual inventory.

(d) (i) Calculate the value of the inventory at 31 March 2013 if the Last in First Out (LIFO) perpetual inventory method had been used.

(6)

(ii) State the effect on the gross profit if Home Oil had used the Last In First Out (LIFO) method.

(2)

(e) Evaluate the potential effect of the change to Last In First Out (LIFO) perpetual inventory.

(4)

(Total for Question 5 = 32 marks)

If you answer question 6, put a cross in this box ☒ .

Source material for question 6 is on pages 12 and 13 of the source booklet.

6 (a) Prepare for Shopalot, for the year ended 30 April 2013, the:

(i) Statement of Comprehensive Income

(12)

(ii) summarised Bank Account.

(8)

(b) Prepare the Statement of Financial Position extract, showing the Non-current Assets and Current Assets sections only.

(4)

(c) Calculate the return on capital employed for Shopalot.

(4)

(d) Evaluate the financial position of Shopalot.

(4)

(Total for Question 6 = 32 marks)

If you answer question 7, put a cross in this box ☒ .

Source material for question 7 is on pages 14 and 15 of the source booklet.

7 (a) Calculate the:

(i) Current ratio

(3)

(ii) Liquid (acid test) ratio.

(3)

(b) Comment upon the adequacy of the ratios in (a) above.

(2)

(c) Complete the following chart in the answer booklet, showing the effect of each of these actions upon the:

(i) Current Assets
(ii) Current Liabilities

(12)

	Current Assets		Current Liabilities	
	plus/minus/no effect	Value (£)	plus/minus/no effect	Value (£)
Action 1				
Action 2				
Action 3				

(d) Prepare the Statement of Financial Position extract at 31 March 2013 of Adnam, showing the (i) Current Assets and (ii) Current Liabilities if all the Actions 1 to 3 were implemented.

(8)

(e) Evaluate the financial position of Adnam after implementing Actions 1 to 3.

(4)

(Total for Question 7 = 32 marks)

TOTAL FOR SECTION B = 96 MARKS
TOTAL FOR PAPER = 200 MARKS

Pearson Edexcel
International Advanced Level

Accounting (Modular Syllabus)

International Advanced Subsidiary
Unit 1: The Accounting System and Costing

Sample Assessment Material
Source Booklet

Paper Reference
WAC01

Do not return the Source Booklet with the question paper.

Turn over ▶

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SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

1 Avar is in business wholesaling high quality clothing. She does not maintain a full set of accounts but does maintain a bank account together with other memorandum records. The following information is available for the year ended 30 April 2013:

1. Bank account

	£		£
Cash sales banked	13 100	Balance b/d	6 000
Cheques from customers	65 300	Payments to suppliers	46 200
Sale of fixtures and fittings	600	Loan repayment	2 000
		Fixtures and fittings	8 200
		Wages	24 000
		Rent and rates	6 600
Balance c/d	17 300	Sundry expenses	3 300
	96 300		96 300
		Balance b/d	17 300

2. Avar paid the following from cash sales before banking:

	£
Wages	4 800
Cleaning of premises	6 000
New computer	1 800
Drawings	5 000

3. Contained within the wages recorded in the bank account were £2 500 of Avar's drawings.

4. Other balances:

	At 1 May 2012	At 30 April 2013
	£	£
Inventory	17 750	20 350
5% Bank loan	10 000	8 000
Trade receivables	23 400	29 600
Trade payables	19 000	21 800
Wages prepaid	850	-
Wages accrued	-	1 450
Computer equipment (at valuation)	5 000	5 100
Fixtures and fittings (at valuation)	11 000	14 000

5. The 5% bank loan was taken out on 1 November 2011. Repayment is by five equal annual amounts on 1 November of each year. No interest has been paid on the outstanding loan for the year ended 30 April 2013.

6. The Bank Statement received from the bank showed an entry of £620 for bank overdraft charges. No entries for these charges had been made in Avar's bank account.

7. During the year a debtor who had bought goods in September 2012 was unable to pay her debt. Avar received a cheque for £800 in February 2013, being a payment of £0.25 for every £1 of debt. The balance was immediately written off as irrecoverable.

8. A 5% provision for doubtful debts is to be created on trade receivables at 30 April 2013.

Required:

(a) Calculate Avar's:

(i) capital at 1 May 2012

(3)

(ii) revenue (sales) for the year ended 30 April 2013

(5)

(iii) purchases for the year ended 30 April 2013.

(3)

(b) Prepare the Wages account for the year ended 30 April 2013.

(6)

(c) Prepare the:

(i) Statement of Comprehensive Income for the year ended 30 April 2013

(15)

(ii) Statement of Financial Position at 30 April 2013.

(12)

(d) Evaluate whether a sole trader such as Avar should maintain a full set of double entry accounts.

(8)

(Total 52 marks)

Answer space for question 1 is on pages 2 to 8 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 2

2 Giant Burgers is in business manufacturing and selling packs of vegetable burgers. The following balances were available for the year ended 30 April 2013:

			£
Purchases of raw materials			62 000
Production wages			280 000
Salaries –	Production management		53 000
	Administration staff		84 500
Machinery and equipment repairs			28 650
Packaging			27 000
Marketing			52 900
Rent and rates			22 000
Electricity and gas			15 500
Sundry expenses –	Production		18 750
	Administration		26 000
Non-current assets (at cost):			
	Machinery and equipment		125 000
	Fixtures and fittings		80 000
Provisions for depreciation:			
	Machinery and equipment		75 000
	Fixtures and fittings		14 000
Inventory at 1 May 2012:			
	Raw materials		4 500
	Work in progress		6 000
	Finished goods	12 000 packs of	24 000

Additional information at 30 April 2013:

1. Inventory:

Raw materials		£7 500
Work in progress		£4 000
Finished goods	18 000 packs at transfer value	

2. On 1 January 2013 packaging was purchased for £12 000. Half of this packaging remained on hand at 30 April 2013.

3. Electricity and gas of £500 is accrued. Marketing of £1 800 is prepaid.

4. Rent and rates, electricity and gas are to be apportioned 70% to production and 30% to administration.

5. Depreciation is charged as follows:

   Machinery and equipment 30% per annum reducing balance method
   Fixtures and fittings 15% per annum straight line method.

6. During the year 288 000 packs of vegetable burgers were produced and transferred to finished goods at an agreed transfer value of £2 per pack.

7. Giant Burgers markets vegetable burgers for £3 per pack. Sales were made to three types of customer and were as follows:

Farmers' markets	66 000 packs at £3 per pack
Sales on internet	140 000 packs at £3 per pack less 10% trade discount
Tulip Supermarkets	76 000 packs at £3 per pack less 25% trade discount

Required:

(a) Prepare the Manufacturing Account for the year ended 30 April 2013, clearly showing the profit or loss on manufacture.

(14)

(b) Calculate, for the year ended 30 April 2013, the:

(i) Prime cost of producing **one pack** of vegetable burgers

(3)

(ii) Production cost of producing **one pack** of vegetable burgers.

(3)

(c) State **one** reason why Giant Burgers may wish to transfer production to finished goods at an agreed transfer price.

(2)

(d) Prepare the Statement of Comprehensive Income for the year ended 30 April 2013.

(18)

(e) Explain why the depreciation recorded in the Statement of Comprehensive Income is an example of both the **going concern** and the **consistency** accounting concepts.

(4)

Tulip Supermarkets has offered to double its order to 152 000 packs next year if Giant Burgers increases the trade discount on the total order to 35%.

(f) Evaluate this offer from Tulip Supermarkets.

(8)

(Total 52 marks)

Answer space for question 2 is on pages 9 to 15 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 3

3 The following balances remained in the books of Arena Sports Club after completion of the Income and Expenditure Account for the year ended 30 April 2013:

	£
Accumulated fund	25 400
Surplus of income over expenditure	900
Clubhouse (at cost)	30 000
Provision for depreciation of clubhouse	4 200
Equipment (at cost)	4 500
Provision for depreciation of equipment	1 100
Subscriptions in arrears	220
Subscriptions in advance	1 400
Trade payables	8 700
Inventory of refreshments	1 700
Bank	5 100 Dr
Other payables – sundry expenses	600
Suspense account	780 Dr

After completion of the Income and Expenditure Account the following were discovered:

1. A payment of £790 to a creditor, Eastern Drinks, had been correctly recorded in the Bank Account, but had been recorded as £610 in the Eastern Drinks Account.
2. An entry for cash sales of refreshments, £1 850, had been correctly entered in the Revenue (Sales) Account, but recorded as £1 250 in the Bank Account.
3. A credit purchase of equipment from ESB Sports, £1 500, had been omitted from the books. Depreciation of £300 would be chargeable at 30 April 2013 on this equipment.
4. A cheque for £100 for a subscription paid in advance had been dishonoured by the Bank.
5. An invoice from Mali Supplies for sundry expenses, £3 090, was received on 5 May 2013. The sundry expenses related to the year ended 30 April 2013.
6. A stock sheet of refreshments, £630, had been omitted from the inventory count (stock take) on 30 April 2013.

Required:

(a) Prepare the Journal entries to correct items (1) to (6) above. Narratives are **not** required.

(14)

(b) Calculate the revised surplus/deficit for the year ended 30 April 2013.

(6)

(c) Prepare the Statement of Financial Position at 30 April 2013.

(15)

The Committee of Arena Sports Club has decided to offer a 10 year membership at the rate of £700 per member in the year ending 30 April 2014. The current annual membership subscription is £100 per member.

It is estimated that the offer will be accepted by 30 members, who have not yet paid their annual subscriptions for the year ending 30 April 2014.

(d) Calculate the net effect that this proposal would have upon the:

- (i) subscriptions recorded in the Income and Expenditure Account for the year ending 30 April 2014
- (ii) bank balance recorded in the Statement of Financial Position at 30 April 2014.

(4)

(e) Prepare the 10 year Membership Subscription Account as it will appear for the year ending 30 April 2014.

(5)

(f) Evaluate the Committee of Arena Sports Club's decision to offer a 10 year membership for £700.

(8)

(Total 52 marks)

Answer space for question 3 is on pages 16 to 20 of the question paper.

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 4

4 Ashraf, Bashar and Chung are in partnership. The partnership agreement states:

- Interest is charged on drawings at the rate of 4% per annum
- Interest is paid on capital at the rate of 6% per annum
- Chung is entitled to a salary of £16 000 per annum
- The residue of profits or losses is shared in the ratio 4:2:3.

The following information is available for the year ended 31 March 2013:

1. Balances 1 April 2012:

	Capital accounts	Current accounts
	£	£
Ashraf	25 000	1 420 Cr
Bashar	15 000	860 Cr
Chung	50 000	200 Dr

2. Drawings (excluding salary paid) for the year:

	£
Ashraf	9 000
Bashar	3 500
Chung	4 000

3. Halfway through the year, on 30 September 2012, Chung decided to reduce his involvement in the partnership. The partners agreed that:
    - Chung would reduce his capital to £30 000, withdrawing £8 000 by cheque. The other £12 000 would remain in the partnership as a loan receiving 5% interest per annum
    - Chung would no longer receive a salary
    - The new ratio for sharing profits and losses would be 2:2:1
    - All partners would continue to be charged interest on drawings at the rate of 4% per annum and receive interest on capital at 6% per annum.

4. The profit for the year was £30 140, after charging interest on the loan from Chung. The profit was generated evenly throughout the year.

Required:

(a) Explain how a loan made by a partner, over and above the agreed capital, will be treated in the financial statements.

(4)

(b) Prepare, for the year ended 31 March 2013, the:

(i) appropriation section of the Statement of Comprehensive Income

(15)

(ii) Capital Account of Chung

(3)

(iii) Current Account of Chung.

(6)

(c) Evaluate the need for a partnership agreement.

(4)

(Total 32 marks)

Answer space for question 4 is on pages 21 to 24 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 5

5 Home Oil buys and sells heating oil. The following purchases and sales of oil took place in the three months ended 31 March 2013:

1 January	Balance b/d	8 000 litres @ £0.80 per litre
January	Purchases	15 000 litres @ £1.00 per litre
	Sales	12 000 litres
February	Purchases	15 000 litres @ £1.25 per litre
	Sales	16 000 litres
March	Purchases	12 000 litres @ £1.50 per litre
	Sales	8 000 litres

Additional information for the three months ended 31 March 2013:

1. Home Oil marked up the cost of the heating oil to cover distribution costs and administration costs. Home Oil sold to customers at the following rates:

January	£1.50 per litre
February	£1.75 per litre
March	£2.00 per litre

2. Home Oil uses the First In First Out (FIFO) perpetual inventory method of inventory valuation

3. Distribution costs were £4 750. Administration costs were £8 300.

Required:

(a) Distinguish between **inventory rotation** and **inventory valuation**.

(4)

(b) Calculate the value of the closing inventory at 31 March 2013.

(6)

(c) Prepare the Statement of Comprehensive Income for the three months ended 31 March 2013.

(10)

Home Oil has been considering changing the method of inventory valuation to Last In First Out (LIFO) perpetual inventory.

(d) (i) Calculate the value of the inventory at 31 March 2013 if the Last in First Out (LIFO) perpetual inventory method had been used.

(6)

(ii) State the effect on the gross profit if Home Oil had used the Last In First Out (LIFO) method.

(2)

(e) Evaluate the potential effect of the change to Last In First Out (LIFO) perpetual inventory.

(4)

(Total 32 marks)

Answer space for question 5 is on pages 25 to 28 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 6

6 Shopalot purchased a building which it converted into a shopping centre with ten separate shops of equal floor area. The building also has walkways and seating areas between the shops.

On 30 April 2013 Shopalot completed its first year of trading. The following information is available:

1. | | |
   |---|---|
   | Purchase price of the building | £500 000 |
   | Conversion of the building | £200 000 |
   | Purchase of computer network | £150 000 |

2. On 1 May 2012, Shopalot invested £400 000 cash and obtained a 10 year 8% Bank loan of £550 000. Interest is charged on the loan on 30 April each year.

3. Nine of the ten shops were rented out throughout the year. The tenth shop was unoccupied throughout the year.

4. Shopalot received the following income:

   - Rental of £4 000 per quarter (three months) per shop
   - A service charge of £1 500 per quarter (three months) per occupied shop for security and cleaning
   - 2% of the revenue (sales) of each shop

5. The total revenue (sales) of the nine occupied shops for the year was £1 350 000.

6. Depreciation was charged as follows:

   - Building – 2% per annum straight line method
   - Conversion of building – equal instalments over a 10 year period
   - Computer network – 30% reducing balance method

7. Other expenses paid:

	£
Security	30 000
Cleaning	21 000
Administration	24 500
Electricity	9 700
Government rates	17 500

8. On 30 April 2013 the following were owing to Shopalot:

   - Rent by two shops for the last quarter (three months) of the year
   - Service charge by two shops for the last quarter (three months) of the year

9. On 30 April 2013 the following was owed by Shopalot:

   - Government rates £9 000.

Required:

(a) Prepare for Shopalot, for the year ended 30 April 2013, the:

(i) Statement of Comprehensive Income

(12)

(ii) summarised Bank Account.

(8)

(b) Prepare the Statement of Financial Position extract, showing the Non-current Assets and Current Assets sections only.

(4)

(c) Calculate the return on capital employed for Shopalot.

(4)

(d) Evaluate the financial position of Shopalot.

(4)

(Total 32 marks)

Answer space for question 6 is on pages 29 to 32 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 7

7 Adnam buys and sells goods on credit. The following balances were available at 31 March 2013:

	£
Capital	35 000
Inventory	37 000
Trade payables	35 000
Trade receivables	13 000
Non-current assets	25 000
Bank overdraft	5 000

Adnam used a mark-up of 50% for the year ended 31 March 2013.

Required:

(a) Calculate the:

(i) Current ratio

(3)

(ii) Liquid (acid test) ratio.

(3)

(b) Comment upon the adequacy of the ratios in (a) above.

(2)

Creditors are threatening to withhold supplies of inventory unless Adnam reduces his debt to them. He proposes the following actions:

Action 1 Hold a sale of inventory by reducing his mark-up to 25%. He estimates that revenue (sales) will be £20 000, half of which will be on credit and half paid by cheque.

Action 2 Offer trade receivables at 31 March 2013 a cash discount of 10%. He estimates that trade receivables of £5 000 will accept the offer.

Action 3 Pay trade payables valued at £12 000, less 5% cash discount.

Required:

(c) Complete the following chart in the answer booklet, showing the effect of each of these actions upon the:

(i) Current Assets
(ii) Current Liabilities

(12)

	Current Assets		Current Liabilities	
	plus/minus/no effect	Value (£)	plus/minus/no effect	Value (£)
Action 1				
Action 2				
Action 3				

(d) Prepare the Statement of Financial Position extract at 31 March 2013 of Adnam, showing the (i) Current Assets and (ii) Current Liabilities if all the Actions 1 to 3 were implemented.

(8)

(e) Evaluate the financial position of Adnam after implementing all the Actions 1 to 3.

(4)

(Total 32 marks)

Answer space for question 7 is on pages 33 to 36 of the question paper.

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Mark Scheme (SAM)

Pearson Edexcel International Advanced Subsidiary in Accounting

Unit 1: The Accounting System and Costing

General marking guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed-out work should be marked UNLESS the candidate has replaced it with an alternative response.

Section A

Question Number	Answer				Mark
1(a)(i)	Capital – 1 May 2012	Assets	£		**(3)**
		Inventory	17 750		
		Trade receivables	23 400		
		Wages prepaid	850		
		Computer equipment	5 000		
		Fixtures and fittings		11 000	
			58 000 ✓		
		Liabilities			
		Bank	6 000		
		5% bank loan		10 000	
		Trade payables	19 000		
			(35 000) ✓		
		Capital	23 000	✓of	

Question Number	Answer			Mark
1(a)(ii)	Revenue (sales)		£	**(5)**
		Cash sales banked	13 100 ✓	
		Cheques from debtors	65 300 ✓	
		Bad debt	2 400 ✓	
		Wages	4 800 ✓all 4 items	
		Cleaning of premises	6 000	
		New computer	1 800	
		Drawings	5 000	
			98 400	
		Trade receivables 30 April 2013	29 600	
			128 000	
		Trade receivables 1 May 2012	(23 400) ✓	
		Revenue sales	104 600	

Question Number	Answer			Mark
1(a)(iii)	Purchases		£	**(3)**
		Payments to suppliers	46 200 ✓	
		Trade payables 30 April	21 800	
			68 000	
		Trade payables 1 May	(19 000) ✓	
		Purchases	49 000	

Question Number	Answer				Mark
1(b)		Wages account			(6)
		£		£	
	Balance b/d	850 ✓	Drawings	2 500 ✓	
	Bank	24 000 ✓	Income statement	28 600 ✓of	
	Cash	4 800 ✓			
	Balance c/d	1 450			
		31 100		31 100	
			Balance b/d	1 450 ✓of	

Question Number	Answer	Mark
1(c)(i)	Avar - Statement of Comprehensive Income for the year ended 30 April 2013	**(15)**

	£	£	
Sales revenue		104 600	✓of
Less			
Opening inventory	17 750		
Purchases	49 000 of		
	66 750		
Closing inventory	20 350		
Cost of sales		46 400	✓of+w
Gross profit		58 200	
Less expenses:			
Wages	28 600		✓of
Rent and rates	6 600		✓
Sundry expenses	3 300		✓
Cleaning of premises	6 000		✓
Loan interest	450		✓✓(✓of)
Bank charges	620		✓
Bad debt	2 400		✓
Provision for doubtful debts	1 480		✓
Depreciation – computers	1 700		✓✓
Fixtures	4 600		✓✓
		55 750	
Profit for the year		2 450	

Question Number	Answer				Mark
1(c)(ii)	Statement of Financial Position at 30 April 2013				(12)
			£	£	
	Non-current assets				
	Computer equipment (valuation)			5 100 ✓ Both	
	Fixtures and fittings (valuation)			14 000	
				19 100	
	Current assets				
	Inventory		20 350	✓	
	Trade receivables	29 600			
	Less PDD	1 480		✓ Both	
			28 120		
				48 470	
				67 570	
	Equity and capital				
	Opening capital	23 000			
	Profit for the year		2 450		
			25 450		
	Drawings (5 000 + 2 500)	7 500		✓	
				17 950 ✓of	
	Non-current liabilities				
	5% bank loan			6 000 ✓ (8 000 ✓)	
	Current liabilities				
	5% bank loan		2 000	✓	
	Trade payables	21 800	✓		
	Other payables (450 ✓ + 1 450 ✓)		1 900		
	Bank overdraft (17 300 ✓+ 620 ✓)		17 920		
				43 620	
				67 570	

Question Number	**Answer**	**Mark**
1(d)	Valid points may include: Points for • Time saved • Cost saving of professional accountant • Less time consuming • Can provide total of trade receivables/trade payables • Check liquidity • Can compare performance • Can calculate profit • Errors can be identified • Less cost of professional accountant/of paperwork • More accurate Points against • Unable to accurately keep track of trade payables and trade receivables • Lack of information to prepare financial statements • Lack of information for decision making NOT • Gain more profit • Difficult to prepare • Fewer errors ✓✓ per valid point x Maximum two points in favour and two points against.	**(8)**

Total for Question 1 = 52 Marks

Question Number	Answer				Mark
2(a)	Giant Burgers Manufacturing Account for the year ended 30 April 2013				(14)
		£	£		
	Opening inventory	4 500			
	Purchases of raw materials	62 000			
		66 500			
	Closing inventory	7 500			
	Cost of raw materials consumed	59 000		✓	
	Production wages	280 000		✓	
	Packaging (27 000 - 6 000)	21 000		✓	
	PRIME COST		360 000	✓w+f	
	Plus				
	Production overheads:				
	Production management salaries	53 000		✓	
	Machine repairs	28 650		✓	
	Rent and rates (22 000 x 70%)	15 400		✓	
	Electricity and gas (15 500 + 500 x 70%)	11 200		✓	
	Sundry expenses	18 750		✓	
	Depreciation – machinery and equipment	15 000		✓	
			142 000		
			502 000		
	Work in progress:				
	at 1 May 2012	6 000			
	at 30 April 2013	(4 000)		✓	
	PRODUCTION COST (288 000 packs)		504 000	✓w+of	
	Profit on production		72 000	✓of	
	TRANSFER TO FINISHED GOODS (288 000 packs)		576 000	✓w+f	

Question Number	**Answer**	**Mark**
2(b)(i)	<u>Prime cost</u> <u>£360 000</u> ✓of = £1.25 per pack ✓of Packs produced 288 000 ✓	**(3)**

Question Number	**Answer**	**Mark**
2(b)(ii)	<u>Production cost</u> <u>£504 000</u> ✓of = £1.75 per pack ✓of Packs produced 288 000 ✓	**(3)**

Question Number	**Answer**	**Mark**
2(c)	Reasons: • <u>Measure efficiency</u> of production and selling activities. • A <u>notional profit</u> can be generated in the production department • Can <u>compare cost of manufacture</u> with purchasing the product ✓✓ x one point	**(2)**

Question Number	Answer	Mark
2(d)	Statement of Comprehensive Income for the year ended 30 April 2013	(18)

	Packs	£	£	
Sales revenue:				
Farmers' markets	66 000	198 000		✓✓
Sales online	140 000	378 000		✓✓
Tulip Supermarkets	76 000	171 000		✓✓
	282 000		747 000	
Less				
Opening inventory of finished goods	12 000	24 000		✓
Transfer from production	288 000	576 000		✓
	300 000	600 000		
Closing inventory of finished goods	18 000	(36 000)		✓
Cost of sales	282 000		564 000	✓w+of
Gross profit			183 000	
Less				
Administrative salaries		84 500		✓
Marketing (52 900 - 1 800)		51 100		✓
Rent and rates (22 000 x 30%)		6 600		✓
Electricity and gas (15 500 + 500 x 30%)		4 800		✓
Depreciation – fixtures and fittings		12 000		✓
Sundry expenses		26 000		✓
			(185 000)	
Loss			(2 000)	
Add profit from production			72 000	✓of
Profit for the year ✓			70 000	

Question Number	Answer	Mark
2(e)	Going concern – assumes, unless the contrary is known, that the business will have a life of unlimited duration. ✓✓ Consistency – that a consistent method of depreciating the non-current asset should be used throughout its life. ✓✓	**(4)**

Question Number	Answer	Mark
2(f)	Valid points may include: Points for • Increased market share/sales • Fixed costs can be shared over a larger number of units of production/sales • Economies of sale • Expansion with a known and reliable customer • Gives a positive contribution on extra output Points against • Profit on extra packs sold to Tulip Supermarkets would be very low • Profit on existing packs sold to Tulip supermarkets would be lowered • Very small profit margin per pack of burgers sold to Tulip Supermarkets • Probably higher fixed costs • Other customers may request same discounts NOT • Increased wastage • Lower quality ✓✓ per valid point x Maximum two points in favour and two points against.	**(8)**

Total for Question 2 = 52 Marks

Question Number	**Answer**				**Mark**
3(a)	Journal				**(14)**
		Dr	Cr		
		£	£		
	Eastern Drinks	180		✓	
	Suspense		180	✓	
	Bank	600		✓	
	Suspense		600	✓	
	Equipment	1 500		✓	
	ESB Sports		1 500	✓	
	Income and expenditure	300		✓	
	Provision for depreciation – equipment/ Depreciation		300	✓	
	Subscriptions	100		✓	
	Bank		100	✓	
	Income and expenditure/sundry expenses	3 090		✓	
	Mali Supplies		3 090	✓	
	Inventory/Refreshments	630		✓	
	Income and expenditure account/ Trading account		630	✓	

Question Number	Answer					Mark
3(b)	Corrected surplus/(deficit)					(6)
		£	£	£		
		Increase	Decrease			
	Original surplus			900	✓	
	Depreciation		300		✓	
	Sundry expenses		3 090		✓	
	Inventory	630			✓	
		630	(3 390)			
	Corrected deficit			(1 860)	✓✓ (✓of)	

Question Number	Answer				Mark
3(c)	Arena Sports Club				(15)
	Statement of Financial Position at 30 April 2013				
		Cost	Aggregate Depreciation	Carry Over	
	Non-current assets	£	£	£	
	Clubhouse	30 000	4 200	25 800 ✓	
	Equipment	6 000	1 400	4 600 ✓	
		36 000	5 600	30 400	
	Current assets				
	Inventory (1 700 ✓+ 630 ✓)		2 330		
	Subs in arrears		220	✓	
	Bank (5100 + 600 ✓ – 100 ✓)		5 600		
				8 150	
				38 550	
			£	£	
	Accumulated fund		25 400		
	Less deficit		(1 860)		
				23 540 ✓of	
	Current liabilities				
	Trade payables (8 700✓ - 180✓ + 1 500✓ + 3 090✓)				
			13 110		
	Other payables		600	✓	
	Subs in advance (1 400 ✓ – 100 ✓)		1 300		
				15 010	
				38 550	

Question Number	Answer	Mark
3(d)(i) **3(d)(ii)**	(i) The subscriptions total will be (30 x £30) less. ✓ Income/ surplus will be £900 lower ✓ (ii) Bank will increase by (30 x £700 ✓ – 30 x £100✓) £18 000 greater	**(4)**

Question Number	Answer	Mark
3(e)	10-year subscriptions account £ £ Income and expenditure ✓ 2 100✓ Bank (30 x £700) 21 000 ✓ Balance c/d <u>18 900</u>✓ —— <u>21 000</u> <u>21 000</u> Balance b/d 18 900 ✓of	**(5)**

Question Number	Answer	Mark
3(f)	Valid points may include: Points for • Cash flow up front • Ties members to the club for a long period • Reduce bad debts • Attract more members Points against • Lower overall subscriptions over the years affecting surplus • Services must be provided for ten years whatever the level of future costs ✓✓ per valid point x Maximum two points in favour and two points against.	**(8)**

Total for Question 3 = 52 Marks

Total for Section A = 104 Marks

Section B

Question Number	Answer	Mark
4(a)	The partner's loan is paid at 5% interest unless otherwise agreed. The interest is charged to the main body of the income statement. In the financial position statement it will appear as a creditor due in less than or over one year. ✓✓ x 2 points	**(4)**

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>4(b)(i)</td><td>
Appropriation Account
<table>
<tr><td></td><td></td><td>£</td><td>£</td><td></td></tr>
<tr><td>Profit for the year</td><td></td><td></td><td>30 140</td><td>✓</td></tr>
<tr><td>Plus interest on drawings:</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>Ashraf</td><td>360</td><td></td><td>✓</td></tr>
<tr><td></td><td>Bashar</td><td>140</td><td></td><td>✓</td></tr>
<tr><td></td><td>Chung</td><td>160</td><td></td><td>✓</td></tr>
<tr><td></td><td></td><td></td><td>660</td><td></td></tr>
<tr><td></td><td></td><td></td><td>30 800</td><td></td></tr>
<tr><td>Less interest on capital:</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>Ashraf</td><td>1 500</td><td></td><td>✓✓</td></tr>
<tr><td></td><td>Bashar</td><td>900</td><td></td><td>✓✓</td></tr>
<tr><td></td><td>Chung (1 500 + 900)</td><td>2 400</td><td></td><td>✓✓</td></tr>
<tr><td></td><td></td><td></td><td>4 800</td><td></td></tr>
<tr><td>Salary:</td><td>Chung</td><td></td><td>8 000</td><td>✓</td></tr>
<tr><td>Share of residue:</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>Ashraf (4 000 + 3 600)</td><td>7 600</td><td></td><td>✓of</td></tr>
<tr><td></td><td>Bashar (2 000 + 3 600)</td><td>5 600</td><td></td><td>✓of</td></tr>
<tr><td></td><td>Chung (3 000 + 1 800)</td><td>4 800</td><td></td><td>✓of</td></tr>
<tr><td></td><td></td><td></td><td>18 000</td><td></td></tr>
<tr><td></td><td></td><td></td><td>30 800</td><td></td></tr>
</table>
</td><td>(15)</td></tr>
</table>

Question Number	Answer	Mark
4(b)(ii)	Capital Account of Chung	(3)

	£		£
Bank	8 000 ✓	Balance b/d	50 000
Loan	12 000 ✓		
Balance c/d	30 000		
	50 000		50 000
		Balance b/d	30 000 ✓of

Question Number	Answer	Mark
4(b)(iii)	Current Account of Chung	(6)

	£		£
Balance b/d	200	Interest on capital	2 400 ✓ of
Int on drawings	160	Salary	8 000
Drawings	4 000 ✓	Loan interest	300 ✓
Salary paid	8 000 ✓	Share of profit	4 800 ✓of
Balance c/d	3 140		
	15 500		15 500
		Balance b/d	3 140 ✓of

Question Number	Answer	Mark
4(c)	Valid points may include: Points for • Clarity on the distribution of profit • Avoids disputes at a later date Points against • Formality of creating the agreement • Cost of preparation NOT • Cover for absence/holidays • Wide expertise available • Time consuming ✓✓ per valid point x Maximum one point in favour and one point against.	(4)

Total for Question 4 = 32 Marks

Question Number	Answer	Mark
5(a)	Inventory rotation refers to the physical movement of inventory through the stores. The oldest stock will normally be sold first to avoid deterioration. ✓✓ Inventory valuation refers to the theoretical value of the inventory that is sold or issued to production. √√ This may be influenced by the need to charge the customer the most recent prices paid.	**(4)**

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>5(b)</td><td>
FIFO
<table>
<tr><th></th><th>Receipts</th><th>Sales</th><th>Balance</th><th></th></tr>
<tr><td>Balance</td><td></td><td></td><td>8 000 @ £0.80</td><td></td></tr>
<tr><td>January</td><td>15 000 @ £1</td><td>12 000</td><td>11 000 @ £1</td><td>✓✓</td></tr>
<tr><td>February</td><td>15 000 @ £1.25</td><td>16 000</td><td>10 000 @ £1.25</td><td>✓✓</td></tr>
<tr><td>March</td><td>12 000 @ £1.50</td><td>8 000</td><td>2 000 @ £1.25</td><td>✓✓</td></tr>
<tr><td></td><td></td><td></td><td>12 000 @ £1.50</td><td></td></tr>
<tr><td></td><td></td><td></td><td>£20 500</td><td></td></tr>
</table>
</td><td>(6)</td></tr>
</table>

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>5(c)</td><td>
Home Oil
Statement of Comprehensive income for the three months ended 31 March 2013
<table>
<tr><th></th><th>£</th><th></th><th>£</th><th></th></tr>
<tr><td>Revenue</td><td></td><td></td><td>62 000</td><td>✓</td></tr>
<tr><td>Less</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Opening inventory</td><td>6 400</td><td></td><td></td><td>✓✓</td></tr>
<tr><td>Purchases</td><td>51 750</td><td></td><td></td><td>✓✓</td></tr>
<tr><td></td><td>58 150</td><td></td><td></td><td></td></tr>
<tr><td>Closing inventory</td><td>20 500</td><td></td><td></td><td>✓of</td></tr>
<tr><td>Cost of sales</td><td></td><td></td><td>37 650</td><td></td></tr>
<tr><td>Gross profit</td><td></td><td></td><td>24 350</td><td></td></tr>
<tr><td>Distribution costs</td><td></td><td>4 750</td><td></td><td>✓</td></tr>
<tr><td>Administrative costs</td><td></td><td>8 300</td><td></td><td>✓</td></tr>
<tr><td></td><td></td><td></td><td>13 050</td><td></td></tr>
<tr><td>Profit for the three months</td><td></td><td></td><td>11 300</td><td>✓✓(√of)</td></tr>
</table>
</td><td>(10)</td></tr>
</table>

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>5(d)(i)</td><td>LIFO
<table>
<tr><th></th><th>Receipts</th><th>Issues</th><th>Balance</th><th></th></tr>
<tr><td>Balance</td><td></td><td></td><td>8 000 @ £0.80</td><td></td></tr>
<tr><td>January</td><td>15 000 @ £1</td><td>12 000</td><td>8 000 @ £0.80
3 000 @ £1</td><td>✓✓</td></tr>
<tr><td>February</td><td>15 000 @ £1.25</td><td>16 000</td><td>8 000 @ £0.80
2 000 @ £1</td><td>✓✓</td></tr>
<tr><td>March</td><td>12 000 @ £1.50</td><td>8 000</td><td>8 000 @ £0.80
2 000 @ £1
4 000 @ £1.50
£14 400</td><td>✓✓</td></tr>
</table>
</td><td>(6)</td></tr>
</table>

Question Number	Answer	Mark
5(d)(ii)	The closing inventory will be £14 400 compared to the present £20 500. Therefore profit will be lower ✓✓ by £6 100.	**(2)**

Question Number	Answer	Mark
5(e)	Valid points may include: Points for • Profit will be more prudently lower • Issues to customers more accurately reflect replacement value Points against • Not approved by the tax authorities • Inventory does not reflect market replacement value • Does not reflect rotation ✓✓ per valid point x Maxmum one point in favour and one point against.	**(4)**

Total for Question 5 = 32 Marks

Question Number	Answer	Mark
6(a)(i)	Shopalot Statement of Comprehensive Income for the year ended 30 April 2013	(12)

		£	£	
Revenue – rent (£4 000 x 4 x 9)		144 000		✓
service charge (£1 500 x 4 x 9)		54 000		✓
2% in income		27 000		✓
			225 000	
Less				
Security		30 000		✓
Cleaning		21 000		✓
Administration		24 500		✓
Electricity		9 700		✓
Government rates		26 500		✓
Depreciation –	building	10 000		✓
	conversion	20 000		✓
	computers	45 000		✓
Loan interest		44 000		✓
			230 700	
Loss for the year			(5 700)	

Question Number	Answer	Mark
6(a)(ii)	Bank Account	(8)

	£			£	
Investment	400 000		Non-current assets purchased	850 000	✓
Loan	550 000	✓	Security	30 000	✓
Rent (144 000-8 000)	136 000	✓	Cleaning	21 000	✓
Service charge			Administration	24 500	
(54 000 – 3 000)	51 000	✓	Electricity and power	9 700	
Income 2%	27 000		Government rates	17 500	✓
			Bank interest	44 000	✓
			Balance c/d	167 300	
	1 164 000			1 164 000	
Balance b/d	167 300				

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>6(b)</td><td>Shopalot
Statement of Financial Position extract at 30 April 2013
<table>
<tr><td>Non-current assets</td><td>Cost</td><td>Aggregate depreciation</td><td>Carry over</td></tr>
<tr><td></td><td>£</td><td>£</td><td>£</td></tr>
<tr><td>Buildings</td><td>700 000</td><td>30 000</td><td>670 000 ✓</td></tr>
<tr><td>Computer network</td><td>150 000</td><td>45 000</td><td>105 000 ✓</td></tr>
<tr><td></td><td>850 000</td><td>75 000</td><td>775 000</td></tr>
<tr><td>Current assets</td><td></td><td></td><td></td></tr>
<tr><td>Trade receivables (4 000 x 2 + 1 500 x 2)</td><td></td><td></td><td>11 000 ✓</td></tr>
<tr><td>Bank</td><td></td><td></td><td>167 300 ✓of</td></tr>
<tr><td></td><td></td><td></td><td>178 300</td></tr>
</table></td><td>(4)</td></tr>
</table>

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>6(c)</td><td>ROCE
Profit for the year before interest = (5 700) of + 44 000of✓=
4%✓✓ of
Capital + non-current liabilities 400 000 + 550 000✓</td><td>(4)</td></tr>
</table>

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>6(d)</td><td>Valid points may include:

Points for
• A very strong cash position (of)
• Further income and profit if tenth shop can be rented

Points against
• Loss for the year (of)
• Building not fully occupied

NOT
• Total assets higher

✓✓ per valid point x Maximum one point in favour and one point against.</td><td>(4)</td></tr>
</table>

Total for Question 6 = 32 Marks

Question Number	Answer	Mark
7(a)(i)	Current ratio 50 000 ✓= 1.25:1✓ 40 000 ✓	**(3)**

Question Number	Answer	Mark
7(a)(ii)	Liquid acid test ratio 13 000 ✓ = 0.325:1 ✓ 40 000 ✓	**(3)**

Question Number	Answer	Mark
7(b)	Both ratios are low ✓ There appears to be excess inventory ✓	**(2)**

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>7(c)</td><td>
<table>
<tr><th></th><th colspan="2">Current Assets</th><th colspan="2">Current Liabilities</th></tr>
<tr><th></th><th>Plus, minus ,no effect</th><th>Value (£)</th><th>Plus, minus, no effect</th><th>Value (£)</th></tr>
<tr><td>Action 1</td><td>Minus✓</td><td>1 000 ✓</td><td>Minus ✓</td><td>£5 000 ✓</td></tr>
<tr><td>Action 2</td><td>Minus✓</td><td>5 000 ✓</td><td>Minus ✓</td><td>£4 500 ✓</td></tr>
<tr><td>Action 3</td><td>No effect ✓</td><td>£0 ✓</td><td>Minus ✓</td><td>£600 ✓</td></tr>
</table>
</td><td>(12)</td></tr>
</table>

Question Number	Answer	Mark
7(d)	Adnam Statement Financial Position at 30 March 2013 £ Current assets Inventory (37 000 ✓ – 16 000 ✓) 21 000 Trade receivables (13 000 + 10 000 ✓- 5 000✓) 18 000 Current liabilities Trade payables (35 000 – 12 000) 23 000 ✓ Bank overdraft (-5 000 + 10 000 ✓+ 4 500 ✓– 11 400✓) 1 900	**(8)**

Write your name here

Surname	Other names

Pearson Edexcel
International
Advanced Level

Centre Number ☐☐☐☐☐

Candidate Number ☐☐☐☐

Accounting (Modular Syllabus)

International Advanced Level
Unit 2: Corporate and Management Accounting

Sample Assessment Material
Time: 3 hours

Paper Reference
WAC02

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 **five** questions, choosing **two** from Section A and **three** from Section B.
- All calculations must be shown.
- Answer the questions in the spaces provided – *there may be more space than you need.*

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.*
- In your responses, you should take particular care with punctuation and grammar, as well as the clarity of your expression.
- Calculators may be used.
- The source material for use with questions 1 to 7 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 ▶

S45353A

S 4 5 3 5 3 A 0 1 3 6

PEARSON

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

SECTION A

Answer TWO questions from this section.

If you answer question 1, put a cross in this box ☐ .

Source material for question 1 is on pages 2 and 3 of the source booklet.

1 (a) Using **only** the appropriate balances and adjustments, prepare the Statement of Comprehensive Income for Hong Kong Cameras plc for the year ended 31 March 2013, using International Accounting Standard (IAS) 1.

You must show all workings **clearly labelled** in arriving at your figures to be entered in the Statement of Comprehensive Income.

(40)

(b) Evaluate the usefulness of the Auditors' Report to the users of the published accounts of Hong Kong Cameras plc.

(12)

(Total for Question 1 = 52 marks)

If you answer question 2, put a cross in this box ☒ .

Source material for question 2 is on pages 4 and 5 of the source booklet.

2 (a) Prepare for management, in columnar format, a Statement of Comprehensive Income for the year ended 31 March 2013, showing:

(i) marginal costing inventory valuation
(ii) absorption costing inventory valuation

(20)

In March 2013, a possible customer is interested in buying the product, but is only prepared to offer £15 per unit.

(b) Advise the management of Chandpur Sounds Limited whether this offer should be accepted.

(8)

(c) (i) Advise the management of Chandpur Sounds Limited which Option they should accept, if output is expected to be 84 000 units for the year starting 1 April 2013.

(7)

(ii) Which Option would be the best option for Chandpur Sounds Limited, if output were greater or less than 84 000 units for the year starting 1 April 2013?

(5)

(d) Evaluate whether Chandpur Sounds Limited should use marginal costing or absorption costing to value inventory.

(12)

(Total for Question 2 = 52 marks)

If you answer question 3, put a cross in this box ☒ .

Source material for question 3 is on pages 6 and 7 of the source booklet.

3 (a) Prepare the Statement of Cash Flows for the year ended 31 March 2013 for Larnaca Distributors plc in accordance with International Accounting Standard (IAS) 7 Statement of Cash Flows.

(40)

(b) Evaluate the current liquidity position of Larnaca Distributors plc.

(12)

(Total for Question 3 = 52 marks)

TOTAL FOR SECTION A = 104 MARKS

SECTION B

Answer THREE questions from this section.

If you answer question 4, put a cross in this box ☒ .

Source material for question 4 is on pages 8 and 9 of the source booklet.

4 (a) How many trays of fruit a month must Sunny Kipwat sell, in order to break even?

(12)

(b) How much profit will Sunny Kipwat make in one month?

(4)

Sunny Kipwat stated "I would like to make a profit of £2 000 a month. If all other costs and my selling price remain the same, how much must I pay my workers per tray of fruit, in order to make a profit of £2 000 a month?"

(c) Calculate how much Sunny Kipwat would need to pay his workers per tray of fruit, to make a profit of £2 000 per month.

(8)

(d) Evaluate whether it would be advisable to pay direct labour a lower rate per tray, for Sunny Kipwat to achieve a profit of £2 000 per month.

(8)

(Total for Question 4 = 32 marks)

If you answer question 5, put a cross in this box ☒ .

Source material for question 5 is on pages 10 and 11 of the source booklet.

5 (a) Calculate the following ratios, stating the formula used in each case:

(i) Dividend per share

(4)

(ii) Dividend yield

(4)

(iii) Dividend cover

(4)

(iv) Earnings per share

(4)

(v) Price/Earnings ratio

(4)

Jahingar, the uncle of Imran, is also interested in investing in shares and has given Imran the following advice.

"Do not buy the shares in Bengal Life plc at a market price of £2.00. You should buy the shares in Oceanic Assurance at £2.25. They have a higher share price, so they must be a better share."

Required:

(b) Advise Imran as to the value of this statement.

(4)

Jahingar also states “There is only one ratio that is important and worth knowing about, and that is the dividend per share”.

(c) Evaluate this statement on behalf of Imran.

(8)

(Total for Question 5 = 32 marks)

If you answer question 6, put a cross in this box ☒ .

Source material for question 6 is on pages 12 and 13 of the source booklet.

6 (a) Prepare, for the first three months of trading for Venture Vending Limited, the following budgets:

(For each of the three months, the budgets should show total figures for EACH month, NOT weekly figures.)

(i) A sales budget in units of vending machines sold.

(3)

(ii) A production budget in units of vending machines produced.

(3)

(iii) An inventory budget in units of vending machines. The budget is to show the number of units going to inventory each month, and the total number of units in inventory at the end of each month.

(6)

(iv) A purchases budget in units.

(3)

(v) A purchases budget in pounds (£s)

(3)

(vi) A trade payables budget in pounds (£s) showing the trade payables figure at the end of each month.

(3)

(vii) A trade receivables budget in pounds (£s) showing the trade receivables figure at the end of each month.

(3)

At the end of Month 1, actual sales of vending machines have only been half (50%) of budgeted sales.

(b) Evaluate whether Venture Vending Limited should draw up a new set of budgets to replace the existing budgets for Months 2 and 3.

(8)

(Total for Question 6 = 32 marks)

If you answer question 7, put a cross in this box ☒ .

Source material for question 7 is on pages 14 and 15 of the source booklet.

7 (a) Calculate for the month of April 2013, total expenditure on:

(i) direct material
(ii) direct labour.

(6)

(b) Calculate for the month of April 2013 the:

(i) material usage variance
(ii) material price variance
(iii) total material cost variance.

(10)

(c) Suggest **one** reason for each of the following variances and explain the actions Vandeloos Fencing Limited could take on the:

(i) material usage variance
(ii) material price variance.

(8)

Vandeloos Fencing Limited applied management by exception to the figures for April 2013. The cost accountant decided to ignore the labour variance, but to investigate the material variance.

(d) Evaluate the decision of the cost accountant to ignore the labour variance, but to investigate the material variance.

(8)

(Total for Question 7 = 32 marks)

TOTAL FOR SECTION B = 96 MARKS
TOTAL FOR PAPER = 200 MARKS

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Pearson Edexcel
International Advanced Level

Accounting (Modular Syllabus)

International Advanced Level
Unit 2: Corporate and Management Accounting

Sample Assessment Material
Source booklet for use with Questions 1 to 7

Paper Reference
WAC02

Do not return the insert with the question paper.

Turn over ▶

S45353A

PEARSON

SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

1 Hong Kong Cameras plc produces cameras at its factory. The cameras are then delivered to Hong Kong Cameras plc shops, where they are sold to customers.

At 31 March 2013, the following balances were in the books:

	Debit £	Credit £
Bad debts written off	1 850	
Bank	38 762	
Commission on sales	52 750	
Corporation tax provision		90 000
7% Debentures 2018		500 000
Direct materials	320 855	
Directors' salaries	290 000	
Discount allowed	45 997	
Discount received on materials		7 150
Factory buildings (at cost)	3 840 000	
Factory machinery (at cost)	365 000	
Factory power	48 950	
Fuel for lorries	35 460	
Interest on bank balance		2 836
Inventory of finished goods at 1 April 2012	134 800	
Maintenance of machinery	44 780	
Motor lorries (at cost)	172 000	
Office stationery	3 865	
Ordinary shares of £1 each		1 500 000
Promotions and advertising	65 000	
Rent on shop premises	298 000	
Retained earnings		369 629
Revenue (sales)		4 183 693
Running costs of motor lorries	36 880	
Trade payables		21 100
Trade receivables	17 459	
Wages	862 000	
	6 674 408	6 674 408

Adjustments and additional information at 31 March 2013:

- Inventory of finished goods £138 400
- Inventory of office stationery £571
- Interest on bank balance has £242 outstanding
- Directors' salaries include:

Finance director	£95 000
Production director	£95 000
Sales director	£100 000

- Factory power includes £4 000 paid in advance
- Wages include

Accountancy staff	£71 800
Production staff	£339 100
Office staff	£141 200
Shop staff	£197 500
Transport staff	£112 400

- 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
  – factory machinery is to be depreciated over an eight year life
  – motor lorries are to be depreciated over a four year life.

Required:

(a) Using **only** the appropriate balances and adjustments, prepare the Statement of Comprehensive Income for Hong Kong Cameras plc for the year ended 31 March 2013, using International Accounting Standard (IAS) 1.

You must show all workings **clearly labelled** in arriving at your figures to be entered in the Statement of Comprehensive Income.

(40)

(b) Evaluate the usefulness of the Auditors' Report to the users of the published accounts of Hong Kong Cameras plc.

(12)

(Total 52 marks)

Answer space for question 1 is on pages 2 to 7 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 2

2 Chandpur Sounds Limited produces speakers for home music systems. It has been normal practice by senior management to ask the accountant to value inventory using both the marginal costing method and the absorption costing method.

The following information is available for the year ended 31 March 2013:

Opening inventory	2 100 units
Opening inventory value:	Marginal costing £25 200 Absorption costing £33 600
Production	84 000 units per year
Semi-Variable costs	£202 800 fixed element per year plus £0.70 per unit of production
Fixed overheads	£12 500 per month
Direct materials	£6.90 per unit
Direct labour	40 minutes work per unit at a wage rate of £6.90 per hour
Selling price	£25 per unit
Closing inventory	2 450 units

Required:

(a) Prepare for management, in columnar format, a Statement of Comprehensive Income for the year ended 31 March 2013, showing:

(i) marginal costing inventory valuation
(ii) absorption costing inventory valuation

(20)

In March 2013, a possible customer is interested in buying the product, but is only prepared to offer £15 per unit.

Required:

(b) Advise the management of Chandpur Sounds Limited whether this offer should be accepted.

(8)

The semi-variable costs above are charged by a power company. The power company has informed Chandpur Sounds Limited that, from 1 April 2013, the charges for power will change. They have offered Chandpur Sounds Limited the choice of three options.

The three options are:

Option 1 A fixed rate of £23 000 per month
Option 2 An increase in the fixed element of £202 800 per year by 5%, with the variable charge to remain at £0.70 per unit of production.
Option 3 A monthly charge of £16 200, plus a variable charge of £0.90 per unit of production.

Required:

(c) (i) Advise the management of Chandpur Sounds Limited which Option they should accept, if output is expected to be 84 000 units for the year starting 1 April 2013.

(7)

(ii) Which Option would be the best option for Chandpur Sounds Limited, if output were greater or less than 84 000 units for the year starting 1 April 2013?

(5)

(d) Evaluate whether Chandpur Sounds Limited should use marginal costing or absorption costing to value inventory.

(12)

(Total 52 marks)

Answer space for question 2 is on pages 8 to 13 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 3

3 The Statements of Financial Position of Larnaca Distributors plc at 31 March 2012 and 31 March 2013 were as follows:

	31 March 2012	**31 March 2013**
ASSETS	£	£
Non-current assets		
Non-current assets at cost	800 000	720 000
Provision for depreciation	(400 000)	(388 000)
	400 000	332 000
Current assets		
Inventories	323 000	346 000
Trade and Other receivables	197 000	212 000
Cash and cash equivalents	77 000	71 000
	597 000	629 000
Total Assets	997 000	961 000
EQUITY AND LIABILITIES		
Equity		
Share capital – £1 Ordinary shares	500 000	550 000
Retained earnings	180 000	139 000
Total capital and reserves	680 000	689 000
Non-current liabilities		
8% Debenture 2013	80 000	--------
Current liabilities		
Trade and Other payables	219 000	270 000
Tax payable	18 000	2 000
	237 000	272 000
Total Equity and Liabilities	997 000	961 000

Additional information:

1. Motor vans bought for £140 000 were sold for £36 000 on 1 April 2012. The carry over (net book) value of these motor vans was £42 000.
2. Computers were bought for £60 000 on 1 April 2012 and are expected to last for three years, with no residual value.
3. At 15 May 2012 a final dividend of 5 pence per share was paid to shareholders.
4. An issue of 50 000 £1 Ordinary shares at par was made on 1 October 2012. All shares were purchased and have been fully paid.
5. At 30 March 2013, an interim dividend of 4 pence per share was paid to all Ordinary shareholders.
6. The £80 000 8% Debenture was repaid on 31 March 2013.
7. Operating profit before tax for the year ended 31 March 2013 was £8 000

Required:

(a) Prepare the Statement of Cash Flows for the year ended 31 March 2013 for Larnaca Distributors plc in accordance with International Accounting Standard (IAS) 7 Statements of Cash Flows.

(40)

(b) Evaluate the current liquidity position of Larnaca Distributors plc.

(12)

(Total 52 marks)

Answer space for question 3 is on pages 14 to 18 of the question paper.

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 4

4 You are in practice as an accountant and have a meeting with a client, Sunny Kipwat, who owns a fruit-growing business.

The accounts of Sunny Kipwat show:

1. Rent of land is £1 560 per quarter (3 months)
2. Direct labour is £1.05 per tray of fruit
3. Water bill is £250 a month plus £0.06 per tray of fruit
4. Insurance for the year is £1 080
5. A motor van was purchased at a cost of £13 160. The motor van has a life of 8 years and a residual value of £200. Depreciation is to be charged on a straight-line basis.
6. Delivery costs per tray are £0.27
7. Loan interest and repayment is £270 per month
8. Selling price of a tray of fruit is £4.15
9. Sales are 283 trays per week. All production is sold.

Assume there are four weeks in a month.

Required:

(a) How many trays of fruit a month must Sunny Kipwat sell, in order to break even?

(12)

(b) How much profit will Sunny Kipwat make in one month?

(4)

Sunny Kipwat stated "I would like to make a profit of £2 000 a month. If all other costs and my selling price remain the same, how much must I pay my workers per tray of fruit, in order to make a profit of £2 000 a month?"

Required:

(c) Calculate how much Sunny Kipwat would need to pay his workers per tray of fruit, to make a profit of £2 000 per month.

(8)

(d) Evaluate whether it would be advisable to pay direct labour a lower rate per tray, for Sunny Kipwat to achieve a profit of £2 000 per month.

(8)

(Total 32 marks)

Answer space for question 4 is on pages 19 to 22 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 5

5 Imran Mohammad studies reports and company accounts on the internet, to decide whether to invest in shares in a company. He is considering investing in Bengal Life plc, a life assurance company. Imran has managed to find the following information from the reports and company accounts:

Authorised share capital:
  £80 000 000 in Ordinary shares of £2.50 each
  £20 000 000 in 4% Redeemable Preference shares of £1each
Issued share capital:
  £60 000 000 in Ordinary shares of £2.50 each
  £20 000 000 in 4% Redeemable Preference shares of £1each

Profit for the year after tax £3 104 000
Total ordinary dividend paid £960 000
Redeemable Preference share dividend was paid in full.
Market price of Ordinary shares £2.00

Imran would like further information to decide whether to invest in this company.

Required:

(a) Calculate the following ratios, stating the formula used in each case:

(i) Dividend per share

(4)

(ii) Dividend yield

(4)

(iii) Dividend cover

(4)

(iv) Earnings per share

(4)

(v) Price/Earnings ratio

(4)

Jahingar, the uncle of Imran, is also interested in investing in shares and has given Imran the following advice.

"Do not buy the shares in Bengal Life plc at a market price of £2.00. You should buy the shares in Oceanic Assurance at £2.25. They have a higher share price, so they must be a better share."

Required:

(b) Advise Imran as to the value of this statement.

(4)

Jahingar also states "There is only one ratio that is important and worth knowing about, and that is the dividend per share".

(c) Evaluate this statement on behalf of Imran.

(8)

(Total 32 marks)

Answer space for question 5 is on pages 23 to 26 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 6

6 Venture Vending Limited is to start a business producing vending machines. The following information is available:

- Sales are budgeted to be 5 vending machines a week, starting Week 3 in Month 1. In Month 2, sales are budgeted to be 8 machines a week. In Month 3, sales are expected to rise to 12 machines a week. Sales are expected to stay at this level in future months. Each vending machine sells for £2 450.
- Production will start in Week 2 in Month 1. For Month 1, production will be 7 vending machines per week. In Month 2, production will be 10 machines a week. In Month 3, the number of vending machines produced each week will be equal to sales in the following week. Any vending machines produced but not sold each week will be put into inventory in the warehouse.
- Materials for production will be delivered from Week 1 in Month 1. Each week, the materials delivered are the materials needed for production in the following week. Each vending machine requires £675 of materials.
- Materials are budgeted to be paid for 2 weeks after delivery. For example, materials delivered in Week 1 in Month 1, will be paid for in Week 3 Month 1.
- Customers are budgeted to pay 3 weeks after a sale. For example, a vending machine sold in Week 3 Month 1, will be paid for in Week 2 Month 2.
- Assume 4 weeks in each month.

Required:

(a) Prepare, for the first three months of trading for Venture Vending Limited, the following budgets:

For each of the three months, the budgets should show total figures for EACH month, NOT weekly figures.

(i) A sales budget in units of vending machines sold.

(3)

(ii) A production budget in units of vending machines produced.

(3)

(iii) An inventory budget in units of vending machines. The budget is to show the number of units going to inventory each month, and the total number of units in inventory at the end of each month.

(6)

(iv) A purchases budget in units.

(3)

(v) A purchases budget in pounds (£s).

(3)

(vi) A trade payables budget in pounds (£s) showing the trade payables figure at the end of each month.

(3)

(vii) A trade receivables budget in pounds (£s) showing the trade receivables figure at the end of each month.

(3)

At the end of Month 1, actual sales of vending machines have only been half (50%) of budgeted sales.

Required:

(b) Evaluate whether Venture Vending Limited should draw up a new set of budgets to replace the existing budgets for Months 2 and 3.

(8)

(Total 32 marks)

Answer space for question 6 is on pages 27 to 29 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 7

7 Vandeloos Fencing Limited produces wooden fence panels. Vandeloos Fencing Limited uses a standard costing system and management by exception.

The budget and some actual figures for production for April 2013 were:

	Budget	**Actual**
Production (units)	1 265	1 265
Direct Materials	£4 554	?
Direct Labour	£8 870	?

- Each fence panel was budgeted to use 8 square metres of material in production but the actual usage was 8.14 square metres
- The budgeted price of material was £0.45 per square metre, but the actual price paid was £0.51 per square metre
- 11 workers were employed and each worker produced the budgeted figure of 115 fence panels per month
- To produce the output, each worker was budgeted to work 42 hours per week for each of the 4 weeks in the month. Actual hours worked were 43.5 hours for each of the 4 weeks
- The budgeted labour wage rate was £4.80 per hour, and this was achieved.

Required:

(a) Calculate for the month of April 2013, total expenditure on:

(i) direct material
(ii) direct labour.

(6)

(b) Calculate for the month of April 2013 the:

(i) material usage variance
(ii) material price variance
(iii) total material cost variance.

(10)

(c) Suggest **one** reason for each of the following variances and explain the actions Vandeloos Fencing Limited could take on the:

(i) material usage variance
(ii) material price variance.

(8)

Vandeloos Fencing Limited applied management by exception to the figures for April 2013. The cost accountant decided to ignore the labour variance, but to investigate the material variance.

(d) Evaluate the decision of the cost accountant to ignore the labour variance, but to investigate the material variance.

(8)

(Total 32 marks)

Answer space for question 7 is on pages 30 to 33 of the question paper.

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Mark Scheme (SAM)

Pearson Edexcel International Advanced Level in Accounting

Unit 2: Corporate and Management Accounting

General marking guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed-out work should be marked UNLESS the candidate has replaced it with an alternative response.

Section A

Question Number	Answer	Mark
1(a)	**Q1a Mark Scheme** **Statement of comprehensive income for Hong Kong Cameras plc for Y/e 31 March 2013** ✓ Revenue 4 183 693 ✓ Cost of sales (956 360) ✓ o/f Gross profit 3 227 333 ✓ o/f Other income 3 078 ✓ o/f Distribution costs (940 990) ✓ o/f Administrative expenses (359 141) ✓ o/f Financial cost (35 000) ✓ o/f Profit on ordinary activities before tax 1 895 280 ✓ o/f Corporation tax (90 000) ✓ Profit on ordinary activities after tax 1 805 280 ✓ o/f✓C 12 x ✓ **W5 Financial Cost** Interest on debenture 35 000 ✓✓ **2 x** ✓ **TOTAL 40 marks** Note: Discount allowed accepted as a distribution cost **W1 Cost of Sales** Direct materials 320 855 ✓ Less discount received -7 150 ✓ Factory depreciation 76 800 ✓ Machinery depreciation 45 625 ✓ Factory power 44 950 ✓ **10 x** ✓ Machinery maintenance 44 780 ✓ Production staff 339 100 ✓ Production director 9 5000 ✓ Inventory adjustment -3 600 ✓✓ Finished goods 956 360 **W2 Distribution Costs** Commission on sales 52 750 ✓ Sales director 100 000 ✓ Fuel 35 460 ✓ Motor lorries depreciation 43 000 ✓ Promotions and advertising 65 000 ✓ Rent on shop premises 298 000 ✓ **9 x** ✓ Running cost of lorries 368 80 ✓ Shop staff wages 197 500 ✓ Transport staff wages 112 400 ✓ 940 990 **W3 Administrative Expenses** Bad debts written off 1 850 ✓ Finance director 95 000 ✓ Discount allowed 45 997 ✓ Office stationery 3 294 ✓ Accountancy staff wages 71 800 ✓ **6 x** ✓ Office staff wages 14 1200 ✓ 359 141 **W4 Other Income** Interest on bank balance 3 078 ✓ 1 x ✓	**(40)**

Question Number	**Answer**	**Mark**
1(b)	**FOR importance** Auditors are independent ✓ scrutineers of the accounts ✓ who report that the accounts have been prepared 'correctly' ✓ in accordance with International Accounting Standards ✓ or rather, give a True and Fair view ✓ or do not ✓. Auditors are reporting on how directors have used the funds ✓ invested by shareholders. ✓. The auditors, duty is to the shareholders. ✓ Auditors may give tax authorities ✓ more confidence that the tax computation is correct. ✓ Professional supervisory bodies ✓ exist to give guidelines to auditors ✓, e.g. Audit and Assurances Council. ✓ Auditors should be professionally qualified ✓ e.g. Chartered Accountants. ✓ Report is required by the Companies Act/legislation ✓ If Auditors are unhappy with the accounts ✓ the Auditors' Report will be qualified ✓. The report may help users make a decision ✓, e.g. buy or sell shares in the company ✓ **AGAINST importance** Auditors may not be very independent, ✓ going along with the wishes of clients, ✓ i.e. conflict of interest ✓ in order to keep their custom/earn fee✓ which may include non-audit work. ✓ Auditors could be misled ✓ by the directors ✓ and provide an inaccurate report. ✓ Auditors do not guarantee ✓ that material fraud has not occurred. ✓ Maximum of 8 marks for argument on one side. **CONCLUSION** – 2 marks Should relate to points made above. For example, Auditors' Report is important and of value. ✓✓	**(12)**

Total for Question 1 = 52 Marks

Question Number	Answer	Mark
2(a)		**(20)**

(a) Statement of comprehensive income						
	Opening stock	Production	Closing		Price	Revenue
Calculation of sales	2 100	+ 84 000 ✓	-2450✓=	83650	x25✓	2091250✓
	Marginal	Absorption				
Revenue	2 091 250	2 091 250				
Less						
Direct materials	579 600	579 600	✓ both			
Direct labour	386 400	✓ 386 400	✓			
Semi-variable costs	261 600	✓ 261 600	✓			
Fixed overheads	150 000	150 000	✓ both			
	1 377 600	1 377 600				
Opening inventory	25 200	✓ 33 600	✓			
Closing inventory	29 890	40 180				
Profit	718 340	✓ o/f 720 230	✓ o/f			
Calculation of closing inventory						
Marginal	(6.90+4.60 +0.70) ✓	x 2450 =	29890	✓		
Absorption	$\underline{1377600}$ ✓ o/f	= £16.40	x2450✓=	40180	✓ o/f	
	84000 ✓					

Question Number	Answer	Mark
2(b)	Answers could include: Marginal costing says the order should be accepted ✓ on the grounds that £15 is greater ✓ than the marginal cost ✓ of £12.20 o/f ✓, i.e. a positive contribution ✓ of £2.80 o/f ✓ (maximum of 4 ticks). New customer may result in more orders in the future, ✓ perhaps at a higher price. ✓ However in the long term, ✓ selling at £15 would result in a net loss/not all costs are covered ✓ (loss of £1.40 ✓o/f) absorption costing says do not accept offer ✓.. Existing customers would be unhappy ✓ to hear of this low price on offer/will ask for lower prices. ✓	**(8)**

Question Number	Answer	Mark
2(c)(i)	Option (i) – £23 000 x 12 = £276 000 ✓ Option (ii) – £202 800 x 1.05 = £212 940 ✓ + (£0.70 x 84 000) = £212 940 + £58 800 ✓ = £271 740 ✓ Option (iii) – £16 200 x 12 = £194 400 + (£0.90 x 84 000) = £194 400 + £75 600 ✓ = £270 000 ✓ Option (iii) is the best, ✓ if output remains at 84 000 units per year.	**(7)**

Question Number	Answer	Mark
2(c)(ii)	Development of answers could include: If output increases, other options may be the best. ✓ For example, if output rises by 6667, ✓ option (iii) is more expensive than option (i) ✓. If output rises by 6086 units, ✓ option (ii) is more expensive than option (i)✓. If output is less than 84 000, option (iii) remains the best. ✓✓	**(5)**

Question Number	**Answer**	**Mark**
2(d)	Answers could include: Maximum of 8 marks for argument of one side. Case for marginal costing Could be said to help decision making ✓ in the short term ✓ when deciding whether to accept an offer price ✓ or make or buy ✓ or discontinue a product/profit centre ✓ or a limiting factor problem ✓. Sees costs allocated to a time period, √ so it may be argued that profit for that time period is more accurate. ✓ External accounts ✓ are drawn up on the basis of a time period. ✓ Follows prudence concept ✓ as closing stock and profit figures are lower. Case for Absorption Costing Sees costs allocated to products. ✓ Could be useful for management ✓ when fixing prices ✓ or reviewing if a product/project has been profitable ✓ in the long term ✓. Recommended ✓ by SSAP 9. ✓ Gives a realistic figure for profit ✓. Follows matching concept ✓ as revenues for the product are matched against costs. ✓ Other points If figures in the future are similar, choice of stock valuation will not have very much effect on the profit. ✓✓ Conclusion Maximum 2 marks available. Should use absorption costing as per accounting standards.	**(12)**

Total for Question 2 = 52 Marks

Question Number	**Answer**	**Mark**
3(a)		**(40)**

Statement of Cash Flow for Larnaca plc for y/e 31 March 2013√			1
Cash flows from operating activities✓			
Profit from operations (8000✓ + 6400✓)	14400	✓✓	
Add depreciation (66000✓✓✓✓ + 20000✓✓)	86000	✓✓✓✓✓✓	
Add loss on sale of fixed asset	6000	✓	
Operating cash flow before working capital changes✓	106400	✓	
Increase in inventories	-23000	✓	
Increase in trade receivables	-15000	✓	19
Increase in trade payables	51000	✓	
Cash generated from operations	119400	✓ o/f	
Less interest paid: debenture	-6400	✓	
Less tax paid	-18000	✓	
Net cash from operating activities	95000	✓ o/f	
Cash flow from investing activities✓			
Payments to acquire tangible fixed assets	-60000	✓	
Proceeds from sale of tangible fixed assets	36000	✓	5
Net cash used in investing activities✓	-24000	✓ o/f	
Cash flow from financing activities✓			
Issue of ordinary shares	50000	✓	
Repayment of debenture	-80000	✓	
Dividends paid : Final 2012	-25000	✓✓	9
Interim 2013	-22000	✓✓	
Net cash used in financing activities✓	-77000	✓ o/f	
Net decrease in cash and cash equivalents✓	-6000	✓o/f✓ C	3
Cash and cash equivalents at the beginning of the year	77000	✓	
Cash and cash equivalents at the end of the year	71000	✓	3
Net decrease in cash and cash equivalents	-6000	✓	
	TOTAL	✓ x 40	**40 Marks**

Question Number	Answer	Mark
3(b)	**Answers could include:** **Liquidity position good** Firm has healthy level of cash and cash equivalents.✓ Current ratio now stands at 2.31: 1 ✓✓ which is good.✓ Acid ratio now stands at 1.04 :1 ✓✓ which is ideal.✓ Liquidity has been improved by issue of ordinary shares.✓ Working capital is £629 000 - £272 000 = £357 000 ✓ which is healthy/ means current liabilities can be paid.✓ **Liquidity position worsening/problems** Net cash outflow of £6 000.✓ Inventories are a large figure and rising ✓ is there a problem with unsold inventories/ is it perishable?✓ Trade receivables rose by 15 000 ✓ credit control/chasing up debtors needs to be carried out immediately as figure is very high.✓ Big increase in Trade Payables to very large sum ✓ Is firm paying on time and obtaining cash discounts etc. ✓ Cash and Cash Equivalents of £71 000 are unable to pay ✓ current liabilities of £272 000 ✓ Dividend policy needs to be reviewed. ✓ Ordinary shareholders have been paid an interim dividend for 2013 of £22 000 on a profit before tax of £8000 ✓ which is very high.✓ Debenture has been redeemed which uses liquid funds ✓ but helps future liquidity as no more interest has to be paid.✓ Maximum 8 marks for arguing one side. Conclusion on current liquidity position maximum 2 marks i.e. liquidity position is good.✓✓	**(12)**

Total for Question 3 = 52 Marks

Total for Section A = 104 Marks

Section B

Question Number	Answer	Mark
4(a)	Fixed costs Rent £520 per month Water £250 per month ✓ both Depreciation £135 per month ✓✓ Insurance £90 per month Loan £270 per month ✓ both Total FC £1 265 per month ✓ Variable costs per unit (1.05 + 0.06 + 0.27) ✓ Total £ 1.38 per unit ✓ Contribution per unit (£4.15 - £1.38) ✓ = £2.77 ✓ Breakeven point = $\frac{\text{£1 265 o/f} \checkmark}{\text{£2.77 o/f} \checkmark}$ = 456.67/457 trays o/f ✓	(12)

Question Number	Answer	Mark
4(b)	Profit for month Contribution (2.77 x 1132) = £3 135.64 o/f ✓ Less FC = £1 265 ✓ o/f Profit = £1 870.64 ✓o/f ✓C	(4)

Question Number	Answer	Mark
4(c)	Contribution for month = (£2 000 + £1 265 o/f) ✓ = £3 265 ✓ o/f If 1132 trays produced, contribution for one tray = $\frac{\text{£3 265}}{1132}$ o/f ✓ = £2.88✓o/f So variable costs for one tray must be (£4.15 - £2.88 o/f) ✓ = £1.27 ✓ o/f So labour costs must be = £1.27 o/f - (£0.06 + 0.27) ✓ = £0.94 ✓ o/f	(8)

Question Number	Answer	Mark
4(d)	**Case for lower labour rate.** Business has profit target ✓ and has to take action to achieve these targets.✓ May not be possible to decrease other costs, ✓ especially if fixed, e.g. loan repayment, rent etc.✓ May not be possible to increase selling price to increase profit, ✓ as will result in reduced sales.✓ **Case against lower labour rate**. Workers will be demotivated ✓and workforce morale will be low. ✓ It may not be possible for workers to pick extra fruit, ✓ to maintain overall wage level. ✓ Could try to reduce other costs instead ✓ e.g. shop around for lower insurance. ✓ Maximum of 4 ticks for arguing one side Conclusion – Two marks ✓✓ It is a good/bad idea to lower labour rate.	**(8)**

Total for Question 4 = 32 Marks

Question Number	Answer	Mark
5(a)(i)	Dividend paid per share = Total ordinary dividend ✓ Issued ordinary shares = £960 000 ✓ = 4 pence per share ✓ 24 000 000 ✓	**(4)**

Question Number	Answer	Mark
5(a)(ii)	Dividend yield = Dividend per share x 100 ✓ Market price of share = 4 p o/f ✓ x 100 = 2 % o/f ✓ 200p ✓	**(4)**

Question Number	Answer	Mark
5(a)(iii)	Dividend cover = Net profit after interest and tax and preference dividend ✓ Total ordinary dividend = £2 304 000 ✓ = 2.4 times ✓ £960 000 ✓	**(4)**

Question Number	Answer	Mark
5(a)(iv)	Earnings per ordinary share = Net profit after interest and tax and preference dividend ✓ Issued ordinary shares = £2 304 000 ✓ = 9.6 pence per share ✓ 24 000 000 ✓	**(4)**

Question Number	Answer	Mark
5(a)(v)	Price/earnings ratio = Market price of share ✓ Earnings per share = 200 p ✓ = 20.83 times o/f ✓ 9.6p o/f ✓	**(4)**

Question Number	Answer	Mark
5(b)	Answers could include: A higher share price does not mean a 'better' share. ✓ The nominal or face value of the share needs to be considered. ✓ Also the total number of shares in the company. ✓ Also important is the movement in the value of the share ✓ – is it moving up or down? ✓ Very important is the demand and/or future/confidence of the market in the share ✓ – if Imran buys now, will he make a profit or a loss on the share? ✓ Many factors both inside the company ✓ and outside the company can affect the price of a share. ✓	**(4)**

Question Number	Answer	Mark
5(c)	Answers could include: For the statement Investors are usually interested only in the return on their investment, ✓ which is shown in the dividend per share, which is used to calculate how much the investor receives. ✓ Investors are more concerned with what they actually receive, ✓ than how easily the company can afford to pay the dividend, ✓ as shown by the dividend cover. ✓ Against the statement Investors also have a capital gain when the share price rises, ✓ which is partly shown in the price/earnings ratio.✓ Dividend yield shows the return for every pound invested, ✓ which is more important than dividend per share.✓ Earnings per share is an important ratio, as it shows how much profit is being generated for each share invested. ✓ These profits are then used to pay dividends. ✓ Other ratios concerning profitability and liquidity etc are important, ✓ as they show how well the firm is doing.✓ Maximum of 4 marks for arguing one side. Conclusion 2 marks Dividend per share is not the only important ratio worth knowing about. ✓✓	**(8)**

Total for Question 5 = 32 Marks

Question Number	Answer	Mark
6(a)(i)	Sales budget – units	**(3)**

MONTH 1	MONTH 2	MONTH 3
10 ✓	32 ✓	48 ✓

Question Number	Answer	Mark
6(a)(ii)	Production budget – units	**(3)**

MONTH 1	MONTH 2	MONTH 3
21 ✓	40 ✓	48 ✓

Question Number	Answer	Mark
6(a)(iii)	Inventory budget – units	**(6)**

	MONTH 1	MONTH 2	MONTH 3
To inventory each month	11 ✓	8✓	0 ✓
Total in inventory	11 ✓	19 ✓	19 ✓

Question Number	Answer	Mark
6(a)(iv)	Purchases budget – units	**(3)**

MONTH 1	MONTH 2	MONTH 3
31 ✓	42 ✓	48 ✓

Question Number	Answer	Mark
6(a)(v)	Purchases budget (£)	**(3)**

MONTH 1	MONTH 2	MONTH 3
£20 925✓	£28 350 ✓	£32 400✓

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>6(a)(vi)</td><td>Creditors budget (£)
<table><tr><td>MONTH 1</td><td>MONTH 2</td><td>MONTH 3</td></tr><tr><td>£11 475 ✓</td><td>£14 850✓</td><td>£16 200 ✓</td></tr></table></td><td>(3)</td></tr>
</table>

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>6(a)(vii)</td><td>Debtors budget
<table><tr><td>MONTH 1</td><td>MONTH 2</td><td>MONTH 3</td></tr><tr><td>£24 500✓</td><td>£58 800 ✓</td><td>£88 200 ✓</td></tr></table></td><td>(3)</td></tr>
</table>

Question Number	Answer	Mark
6(b)	**For decision to draw up new budgets** Existing budgets are not likely to be accurate ✓ so there is little point in sticking with them. ✓ Good budgeting should be flexible ✓ so changes should be made to this ongoing process✓with regular reviews taking place.✓ A new business should not draw up a three month budget, ✓ as it is likely to be unsure of the predicted figures, ✓ not having any past figures to rely on.✓ A new budget would help planning /changes ✓ e.g. reduce the purchases for each month.✓ New budgets may have targets staff can reach ✓ which will increase motivation.✓ **Against Decision to draw up new budgets** Will take time ✓ and money to draw up new budgets. ✓ Variance analysis could be carried out ✓ and actions taken to meet original budgeted figures. ✓ The new budget will be estimates only anyway, so may not be accurate.✓ The only budget directly affected by a lower sales level is trade receivables ✓ so there may be a need just to draw up trade receivables. ✓ This is a new business, and sales may pick up ✓ to meet month 2 and 3 figures in the original budget, making it accurate. ✓ Maximum of 4 marks for arguing one side only. Evaluation 2 marks available for overall conclusion, should relate to points made above.	**(8)**

Total for Question 6 = 32 Marks

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>7(a)</td><td>
<table>
<tr><td>Actual direct Materials</td><td>1265 x 8.14 ✓ x 0.51 ✓</td><td>=</td><td>£5 251.52 ✓</td></tr>
<tr><td></td><td>1st tick any two</td><td></td><td></td></tr>
<tr><td>Actual direct Labour</td><td>11 x 43.5✓ x 4 x £4.80✓</td><td>=</td><td>£9 187.20 ✓</td></tr>
<tr><td></td><td>1st tick any two</td><td></td><td></td></tr>
</table>
</td><td>(6)</td></tr>
</table>

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>7(b)</td><td>
<table>
<tr><td>Material usage variance</td><td></td><td></td><td></td></tr>
<tr><td></td><td>(8.14 – 8.00) ✓ x</td><td>(0.45 ✓ x 1265 √)</td><td>= £79.70 Adv✓</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>Material price variance</td><td></td><td></td><td></td></tr>
<tr><td></td><td>(0.51 – 0.45) ✓ x</td><td>(8.14 ✓ x 1265 ✓)</td><td>= £617.83 Adv ✓</td></tr>
<tr><td></td><td></td><td></td><td>or add downwards</td></tr>
<tr><td>Total material cost variance</td><td>£5 251.52</td><td>- £4 554 ✓</td><td>= £697.52 Adv ✓o/f</td></tr>
</table>
</td><td>(10)</td></tr>
</table>

<table>
<tr><th>Question Number</th><th>Answer</th><th>Mark</th></tr>
<tr><td>7(c)</td><td>One mark for reason given, up to 3 marks maximum for actions taken.

Material usage variance
Could be caused by poor quality materials, resulting in a lot of wastage. ✓ Action to solve the problem could be to change supplier ✓ or insist on a certain level of quality. ✓ Perhaps insert penalty clauses ✓ into supplier's contracts for quality. ✓ Or wastage caused by poor quality labour. ✓ So train labour better, ✓ or hire better quality labour, ✓ or raise wage rates to attract better quality labour✓ or improve quality control.✓

Material price variance
Could be caused by suppliers charging a high price. ✓
Action could be purchasing department must negotiate a lower price. ✓
Or change to supplier with lower price✓ or buy lower quality materials ✓
Or achieve discount by bulk buying ✓ or prompt payment. ✓</td><td>(8)</td></tr>
</table>

Question Number	Answer	Mark
7(d)	For the decision Material variance is larger/labour variance is smaller.✓ Labour variance is £317.20 adverse, ✓ which is £380.32 less than the adverse material variance ✓ of £697. Maybe the policy is to investigate variances over a particular limit ✓, e.g. £500. ✓ The labour variance is only 3.56%, ✓ whereas the materials variance is 15.3%√ which is much bigger. ✓ Management by exception tries to make the management time cost effective, ✓ so no time is wasted investigating small variances. ✓ Against the decision It is possible that all costs, including labour, could be reduced ✓ so the adverse variance should be investigated. ✓ If you ignore an adverse variance below a certain limit, ✓ the cost could 'creep up' each year without any action being taken. ✓ It is possible that any reduction in costs after investigation is cost effective✓, i.e. could be greater than management time spent investigating. ✓ Maximum of 4 marks for argument of one side. Conclusion Should relate to above points, e.g. decision was correct/incorrect.✓✓	**(8)**

Total for Question 7 = 32 Marks

Total for Section B = 96 Marks

Total for Paper = 200 Marks

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Registered Office: Edinburgh Gate, Harlow, Essex CM20 2JE
VAT Reg No GB 278 537121

ISBN 978-1-4469-0968-3