



Pearson

# International Advanced Level Accounting

Unit 2 WAC12

Corporate and Management Accounting

**Question 2**

Exemplar scripts with examiner commentaries

## **Introduction**

This set of exemplar responses with examiner commentaries for Unit 2, Corporate and Management Accounting, has been produced to support teachers delivering and students studying the International Advanced Level Accounting specification.

This pack includes examiner commentaries and exemplar scripts.

The scripts selected exemplify performances for this component of the examination.

This document should be used alongside other IAL Accounting teaching and learning materials available on the website [here](#).

Link to May/June 2017 WAC12 Mark scheme is [here](#) on the IAL Accounting web page.

## Exemplar scripts Script 3

Source material for Question 2 is on pages 6 and 7 of the source booklet.

- 2 (a) Prepare the Sales Budget showing the number of cars sold for the three-month period October to December 2017. The budget must show the forecast number of cars sold for Asia, Europe, America and Australia for **each** month, and a total forecast sales figure for **each** month using the columns provided below.

(5)

Sales Budget (number of cars)	October	November	December
Asia	12000	12000	12000
Europe	2000	2200	2420
America	6000	5100	4335
Australia	4000	1200	1440
<b>Total Sales</b>	<b>24000</b>	<b>20500</b>	<b>20195</b>

Workings

$$2000 + 10\% = 2200$$

$$2200 + 10\% = 2420$$

$$4000 \times 30\% = 1200$$

$$1200 + 10\% = 1320$$

The Zencar is delivered to its export markets using sea transport. The delivery time for America and Australia is one month. The delivery time for Europe is two months. Production for Asia is delivered in the same month as sales.

Soyara plc wishes to increase the inventory of Zencars by 500 cars per month, starting in October 2017.

(b) Prepare, using the columns provided, the:

- (i) Production Budget for Zencars for the five-month period August to December 2017. The budget must show the forecast production for Asia, Europe, America and Australia for **each** month, and a total production figure for **each** month.

(7)

Production Budget (number of cars)	August	September	October	November	December
Asia 0	12000	12000	12000	12000	12000
Europe 2	2000	2200	2420	2662	2929
America 1		6000	5100	4335	3685
Australia 1		4000	1200	1440	1728
Inventory			500	1000	1500
<b>Total Production</b>	<b>14000</b>	<b>24200</b>	<b>21220</b>	<b>21437</b>	<b>21842</b>

Workings

~~6000~~

$$x - \frac{15}{100}x = 6000$$

$$100x - 15x = 600000$$

$$85x = 600000$$

$$x =$$

- (ii) Inventory Budget for Zencars for the three-month period October to December 2017. The budget should show the number of cars going into inventory **each** month, and the total number of cars in inventory **each** month.

(3)

Inventory Budget (number of cars)	October	November	December
opening balance	<del>500</del> -	500	<del>1500</del> <sup>1000</sup> <del>1500</del> <sup>1000</sup>
addition	500	<del>1000</del> <sup>500</sup> <del>1000</del>	<del>500</del> <sup>1500</sup>
<del>closing</del>			
<del>total</del> closing balance	500	<del>1500</del> <sup>1500</sup> <del>1000</del>	<del>2000</del> <sup>3000</sup> <del>1500</del>

Workings

It is expected that 5% of all cars on the production line will need to be "reworked" to correct small errors. On average, this should take two workers one hour per car to rework. Workers are paid £9.50 per hour.

- (c) Prepare, using the columns provided, a budget to show the cost of "reworking" cars for **each** of the five months August to December 2017.

(5)

Reworking Budget (£)	August	September	October	November	December
Total production	14000	24200	21220	21437	21842
cars that need work	700	1210	1061	1072	1093
cost of labour (2 x 1 x 9.50)	19	18	19	19	19
Total	13300	22990	20159	20368	20767

Workings

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90% of the parts for the cars are purchased and delivered for production in the same month. Purchases for the remaining 10% of parts are purchased one month in advance.

Each car will require parts to the value of £2 150.

(d) Prepare, using the columns provided, a Purchases Budget for **each** of the five months July to November 2017.

(10)

Purchases Budget (£)	July	August	September	October	November
cars produced	12000 <del>14000</del>	14000 <del>24200</del>	24200 <del>21220</del>	21220 <del>21437</del>	21437 <del>21842</del>
x 90%	10800 <del>12600</del>	12600 <del>21780</del>	21780 <del>19098</del>	19098 <del>19294</del>	19294 <del>19658</del>
x 10% of next month	1400 <del>2420</del>	2420 <del>2122</del>	2122 <del>2143</del>	2143 <del>2174</del>	2184 <del>2163</del>
Parts needed	12200 <del>15020</del>	15020 <del>23902</del>	23902 <del>21241</del>	21241 <del>21478</del>	21478 <del>21821</del>
part cost	2150 <del>2150</del>	2150	2150	2150	2150
<del>Total cost</del>	<del>32243000</del>	<del>51389300</del>	<del>45668150</del>	<del>46177700</del>	<del>46415150</del>
Total cost	26230000	33743000	51389300	45668150	46177700

Workings

- (e) Prepare, using the columns provided, an extract from the Cash Received Budget to show the amount of cash received from customers for **each** of the three months, October to December 2017, from sales of Zencar in Australia. The budget must show the amount received **each** month from **each** of the options, and a total for **each** month.

(13)

Cash Received Budget (£)	October	November	December
<del>Cars sold produced cars</del>	4000	1200	1440
option 1 cars	1600	480	576
car m paid	9900	9900	9900
Revenue from opt 1	15840000	4752000	5702400
option 2 cars revenue	140000	42000	56400
option 3 revenue	990000	387000	446400
Total revenue	16970000	5181000	6205200

Workings

Oct

Nov

Dec

$$\begin{array}{l} \text{option 2 cars revenue} = 100 \times 1400 \\ = 140000 \end{array} \quad \begin{array}{l} 1200 \times 35\% \\ = 420 \\ 420 \times 100 \\ = 42000 \end{array} \quad \begin{array}{l} 504 \times 100 \\ = 50400 \end{array}$$

$$\begin{array}{l} \text{option 3 revenue} = 1000 \times (9900 \times 10\%) \\ = 990000 \end{array} \quad \begin{array}{l} 300 \times (9900 \times 10\%) \\ = 297000 \\ + (300 \times 300) \\ = 387000 \end{array} \quad \begin{array}{l} 360 \times (9900 \times 10\%) \\ = 356400 \\ + (300 \times 300) \\ = 446400 \end{array}$$



(f) Evaluate, from the point of view of Soyara plc, each of the three payment options, and recommend the most appropriate option.

(12)

Option 1 is ~~the most appropriate~~ <sup>good as</sup> as cash inflow is seriously improved for the company.

The company can quickly gain the money they need for the production investment <sup>initial</sup> cost.

Cash payments are preferred by <sup>some</sup> consumers.

But: Several consumers prefer long term payments which are ~~option 2 is good~~ deemed a better option.

Option 2 is good as ~~for~~ so many consumers like to pay later after they buy the car. Only 100 is needed by the consumer.

However, only 100 is gained from each car which costs much more to make. And payment is made 18 months later which can really put the firm's cash system to nightmare.

## **Examiner commentary**

### **Question: 2**

The answer to (a) was totally correct and scored 5 marks out of 5.

The answer to (b)(i) was very good, and scored 5 marks out of 6 available. The only incorrect line was Asia, which should have started in October, when sales began, as stated at the top of the question.

No marks were achieved on (b)(ii) as the number of cars going into inventory, and the number of cars in inventory were incorrect. It was stated "Soyara wishes to increase the inventory of Zencars by 500 per month", but this was misinterpreted as increasing the number of cars going into inventory increasing by 500 per month. Students should always read the question carefully!

The reworking budget in (c) used the own figure production figures from (b)(i). All figures were correct and a full 5 out of 5 was attained.

The answer to (d) also used the own figure production figures from (b)(i). Nearly all calculations were correct, and the own figure rule allowed 8 out of 10 to be attained.

Answer (e) did not involve any own figures applying, as the student had calculated Australia's sales correctly in (a).

In a section that was not laid out very neatly, the following were awarded:

- 3 marks out of 3 were obtained for the Option 1 row.
- 1 mark out of 1 was obtained for Option 2
- 3 marks out of 3 were scored for correct addition of each column
- in the workings, £297 000 for November Option 3 deposits, and £356 400 for December can be seen, scoring 2 further marks.

This gave a total of 9 marks out of 13. This student benefited from showing workings, to gain the two extra marks. The examiner would have liked workings to be shown "clearly".

The evaluation in (f) was a weak, level 1 answer and only scored 3 marks out of 12.

Some comments were made about the effect on the company cash flow for option 1 and option 2. Other comments were from the consumer's viewpoint, although the question stated the company viewpoint. Option 3 and the evaluation/conclusion were totally omitted. It is important that all options are considered and a decision is made.

Overall, this student scored 35 marks out of 55 for this question.

## Script 4 – Question 2f

(f) Evaluate, from the point of view of Soyara plc, each of the three payment options, and recommend the most appropriate option.

(12)

Option 1 would be a good option as the money is fully settled so there is no bad debts and will be able to cover up production costs. Also out of the £ 3, 40% of the customers buy through option A, so it is a pretty popular option.

Option 2 would be a good option as you get an extra £100 for every car before being paid in full. This option can cause bad debts and liquidity problems as 25% of the customers use this method. However a profit is being made.

Option 3 will give you a profit of  $(990 + 10800) 9900$  of £890 for every car that is being sold. Also you get paid every month ~~so it~~ <sup>however</sup> ~~is not a real~~ still causes a bit of liquidity problems and also bad debts can be a problem too even though a profit is made.

Overall, option 1 is a best option considering it is a new business and payment paid in full so no liquidity problems to the Soyara plc.

**Question: 2 (f)**

This answer covers all three options and mentions the effect on liquidity and the possibility of bad debts for all three. The student also calculates the "profit" of £1890 for option 3, although this ignores any administration costs of this option, and the word "extra" really should be inserted before profit. Sometimes, it may be appropriate to include further calculations in an evaluation part of a question. The evaluation/conclusion is present, with a reason given for the decision.

This answer just reached level 3 and was awarded 7 marks.