Pearson

International Advanced Level Accounting

Unit 2 WAC12

Corporate and Management Accounting

Question 4

Exemplar scripts with examiner commentaries

Issue 1. June 2017 examination series

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 6

Source material for Question 4 is on page 10 and 11 of the source booklet.

If you answer Question 4 put a cross in the box ☒ .

4 (a) Calculate the weighted average cost of capital.

(6)

(90 x 0.03) ordinary shares = £2.7 m

(0.04 x 20) preference shares = £0.8 m

(70 x 0.07) debenture = £4.9m

80 x 5.75/100 Bank loan = £4.6m

= £13m

(b) Calculate the average rate of return (accounting rate of return) of the project.

(18)

Year	Inflow	Outflow	Net cash flow
0		260 000 000	(260 000 000)
1	93600000 ~~+1800000~~	20800000 ~~+13000000~~	72800000
2	98280000 ~~+1890000~~	21840000 ~~+13000000~~	76440000
3	103194000 ~~+1984500~~	21840000 ~~+13000000~~	81354000
4	108108000 ~~+2079000~~	22880000 ~~+13000000~~	85228000
5	115830000 ~~+2227500~~	22880000 ~~+13000000~~	92950000
			148777000

Year	Inflow	Outflow	Net cash flow
0		(260 000 000)	(260,000 000)
1	93600000	33800000	59800000
2	98280000	34840000	63440000
3	103194000	34840000	68354000
4	108108000	35880000	72228000
5	115830000	35880000	79950000
			698958000 — net cash flow total

ARR = $\frac{\text{net cash flow}}{5} \Big/ \text{investment} \times 100$

$\frac{698958000}{260000000} \times 100 = \frac{698958000}{5} = 139791600$

$\frac{139791600}{260000000} \times 100 = 53.77\%$

(c) Evaluate the project for the company, using the calculations made and considering any other relevant factors.

(6)

ARR gives you a investment return of 57%. Which is almost nearer way more than the arr the construction plc is looks for so it can be a very important impact to take the project. Also the number of customers are increasing weekly even when you increase the price which is a very good sign ~~shows~~ showing that ths will continue to rise.

However this method doesn't take the time factor into consideration which can be a big problem and also the values are not actual values so if the actual values are a big change from the given values, it can cause the whole calculation to go wrong. However, ARR is quite reliable and a good method so the project can be taken.

(Total for Question 4 = 30 marks)

Examiner commentary
Question: 4

In part (a) the student successfully calculates the interest paid in monetary terms (£13m) but stops there. The weighted average cost of capital was required and this was 5%. The answer scores 3 out of 6 for this section.

In part (b) the average rate of return should be based on profit, not cash flow, but the headings here are "inflow", "outflow" and "net cash flow". It would have been better to use revenue or income, costs or expenses, and profit. However, marks were awarded despite the headings. The inflow column is correct and achieved 3 marks. The outflow column was incorrect and attained no marks. The bridge was depreciated over 5 years at 20% using the straight-line method, so a total of £260m would be deducted over the 5 years. The student had this figure under "year 0" and was generously awarded the 2 marks available.

The correct method would have been to deduct depreciation as an expense when calculating profit for each year. If the bridge had not been fully depreciated within 5 years, the £260m cost would have been incorrect. The net cash flow total is an incorrect addition and scores no marks. The calculations to find the average profit (although labelled net cash flow) and average rate of return at the end are correct using the own figure rule.

This gave a total of 11 marks out of 18 for part (b).

In part (c), all of the first paragraph is valid, with some analysis present when discussing the number of customers rising despite prices increasing. The second paragraph mentions the "time factor", but does not specifically mention the fall in the value of money over time. There is an evaluation/conclusion, with a main reason given for taking on the project.

This was a level 3 answer and attained 5 out of 6 marks.