

**Paper Reference WAC12/01**  
**Pearson Edexcel**  
**International**  
**Advanced Level**

**Accounting**  
**International Advanced Level**  
**Paper 2: Corporate and Management Accounting**

**Monday 4 November 2019 – Morning**

**Time: 3 hours plus your additional time allowance**

**Source Book**

**Do NOT return this Source Book with the Question Paper**

## SECTION A

**Answer BOTH questions in this section.**

1. **Cypriat plc employs chefs to produce ready-to-cook meals at its factory. The meals are then delivered to the company's shops, before being sold to customers. At 30 September 2019, the balances shown on the next two pages were in the books.**

**(continued on the next page)**

1. continued.

	Debit	Credit
	£	£
Advertising	59 000	
Bank	93 750	
Bank charges	11 000	
Bank loan		375 000
Bank loan interest	15 000	
Cash	127 000	
8% debenture 2024		1 500 000
Direct materials	3 090 000	
Discount received on direct materials		71 000
Electricity	180 000	
Equipment at cost	60 000	
Factory buildings at cost	2 100 000	
Factory buildings provision for depreciation		84 000
Fuel for motor vans	140 000	
Gas	24 000	
Goodwill	11 000	
Insurance	46 000	
Inventory of direct materials at 1 October 2018	244 500	

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## 1. continued.

	Debit	Credit
	£	£
Land at cost	2 325 000	
Motor vans at cost	315 000	
Motor vans provision for depreciation		199 000
Motor vans maintenance costs	238 000	
Office expenses	138 000	
Ordinary shares of £1		1 558 000
Rent for shops	654 000	
Retained earnings		384 750
Revenue		7 489 000
Stationery	9 000	
Trade payables		48 000
Wages	<u>1 828 500</u>	<u>                    </u>
	<u><u>11 708 750</u></u>	<u><u>11 708 750</u></u>

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1. continued.

## Additional information at 30 September 2019

- Inventory of direct materials **£281 500**
- Advertising includes **£12 000** paid in advance.
- No entry has yet been made in the books for the payment of interest on the debenture.
- Electricity is to be apportioned on the following basis:

<b>Factory</b>	<b>4</b>
<b>Office</b>	<b>1</b>
<b>Shops</b>	<b>5</b>

- Equipment consists of five new ovens, purchased at the start of the year, which are expected to last **10** years.
- Assuming a nil residual value and using the straight line method:
  - the factory building is to be depreciated over a **50–year** life
  - the motor vans are to be depreciated over a **four–year** life.

(continued on the next page)

1. continued.
- Gas is to be apportioned one third to each of the factory, the office and the shops.
- Insurance is to be apportioned on the following basis:

<b>Factory</b>	<b>7</b>
<b>Motor vans</b>	<b>10</b>
<b>Office</b>	<b>1</b>
<b>Shops</b>	<b>5</b>

- Interest owing on the bank loan is **£6 000**
- Wages were:

	<b>£</b>
<b>Chefs</b>	<b>525 500</b>
<b>Office staff</b>	<b>117 000</b>
<b>Motor van drivers</b>	<b>302 000</b>
<b>Shop staff</b>	<b><u>884 000</u></b>
	<b>1 828 500</b>

- A provision for corporation tax is to be made for **£185 000**, which is to be paid by **30 April 2020**

(continued on the next page)



**1. continued.**

## **Required**

- (a) Prepare for Cypriat plc, in accordance with International Accounting Standard (IAS) 1 (Revised), for the year ended 30 September 2019, a Statement of Profit or Loss and Other Comprehensive Income.  
(43 marks)**
  
- (b) Evaluate the use of information and communication technology (ICT) in accounting.  
(12 marks)**

**(Total for Question 1 = 55 marks)**

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2. **Homesounds plc is a multinational electronics company producing a range of products. The company has recently received permission to produce digital radios from the holders of the patent on payment of a royalty fee of £1·45 per unit produced.**

**Homesounds plc has to decide between two possible options for a site for a new factory to build the digital radios.**

**The following information regarding the two sites is available.**

**Option 1 Town Centre site**

- **Rent of the factory will be £60 000 per month.**
- **Payments to direct labour will be at a rate of £7·50 per unit.**
- **Material costs will be £3·75 per unit.**
- **Power costs will be £14 625 per quarter (three-month period) plus 5 pence (£0·05) per unit.**
- **Managers' salaries will be £45 000 per month.**
- **Delivery costs will be 35 pence (£0·35) per unit.**
- **Other fixed costs will be £27 000 per month.**

**(continued on the next page)**

**2. continued.**

**Option 2 Countryside site:**

- **Rent of the factory will be £55 000 per month.**
- **Payments to direct labour will be at a rate of £7·80 per unit.**
- **Material costs will be £4·05 per unit.**
- **Power costs will be £15 000 per quarter (three-month period) plus 10 pence (£0·10) per unit.**
- **Managers' salaries will be £40 000 per month.**
- **Delivery costs will be 70 pence (£0·70) per unit.**
- **Other fixed costs will be £25 000 per month.**

**Digital radios will sell for £35·00 each.**

**Annual production will be 180 000 units, all of which will be sold.**

**(continued on the next page)**

**2. continued.**

## **Required**

**(a) Calculate the break–even point for Option 1 Town Centre site for ONE year, measured in:**

**(i) sales units  
(12 marks)**

**(ii) sales revenue.  
(2 marks)**

**(b) Calculate for Option 1 Town Centre site for ONE year the:**

**(i) margin of safety in sales units  
(3 marks)**

**(ii) margin of safety as a percentage of sales.  
(3 marks)**

**(c) Calculate the profit for the Option 1 Town Centre site for ONE year.  
(4 marks)**

**(d) Explain TWO ADVANTAGES of break–even analysis.  
(4 marks)**

**(e) Explain TWO DISADVANTAGES of break–even analysis.  
(4 marks)**

**(continued on the next page)**

**2. continued.**

- (f) Complete a break–even graph, in the Data Book, for Option 2 Countryside site for ONE year, for an output of 0 to 180 000 units.**

**Your graph must show the following:**

- **appropriate scales**
- **fixed costs**
- **total costs**
- **sales revenue**
- **break–even point**
- **margin of safety for an output of 180 000 units**
- **profit for an output of 180 000 units**
- **the angle of incidence.**

**(8 marks)**

- (g) Explain what useful information the angle of incidence would give to the management of the company.**

**(3 marks)**

- (h) Evaluate the TWO possible options for the site of the new factory, considering financial and non–financial factors.**

**(12 marks)**

**(Total for Question 2 = 55 marks)**

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**TOTAL FOR SECTION A = 110 MARKS**

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## SECTION B

**Answer THREE questions from this section.**

### 3. Merillion plc produces parts for cars from two factories:

- Ashton factory produces exhaust units
- Berton factory produces petrol tanks.

There is also a head office at Chanton.

Merillion plc produces statements using both absorption costing and marginal costing.

The following information is available, for the Ashton factory, for the year ended 30 September 2019

Opening inventory	5 000 units valued at £82 000
Production	96 000 units per year
Direct labour	1.5 hours work per unit at a wage rate of £7.20 per hour
Direct materials	£3.50 per unit
Fixed overheads	£7 000 per month
Semi variable costs	£144 000 per year plus £2.50 per unit
Sales price	£29 per unit
Closing inventory	6 000 units

Head office fixed costs are £54 000 per year, apportioned between Ashton and Berton in the ratio 5 : 3

(continued on the next page)

3. continued.

## Required

- (a) Prepare for management, a profit and loss statement for the Ashton factory, for the year ended **30 September 2019** using **marginal costing**. Your statement must show both the total contribution and the total profit.  
(14 marks)

Merillion plc has received an offer from an overseas supplier who is willing to supply the exhaust units for **£15** per unit.

- (b) Explain **TWO non-financial** factors that Merillion plc may have to consider before deciding whether to accept the offer from the overseas supplier.  
(4 marks)
- (c) Evaluate, considering **only financial** factors, whether Merillion plc should accept the offer from the overseas supplier to supply at **£15** per unit.  
(6 marks)

(continued on the next page)



3. continued.

The profit and loss statement for the Berton factory, for the year ended **30 September 2019**, was prepared using **absorption costing**, and is shown below.

**8%** of production remained unsold.

	£	£
Revenue		<b>2 154 000</b>
Cost of sales:		
Variable production cost	<b>1 085 000</b>	
Fixed production cost	<b><u>764 000</u></b>	
	<b>1 849 000</b>	
Less closing inventory	<b><u>(147 920)</u></b>	
Cost of sales		<b><u>1 701 080</u></b>
Profit		<b>452 920</b>

- (d) Prepare the profit and loss statement for the Berton factory, for the year ended **30 September 2019**, using **marginal costing**.  
(6 marks)

(Total for Question 3 = 30 marks)

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4. You are the Assistant Financial Accountant for Jamalpur Logistics plc.

The Statements of Financial Position for the last two years are shown below and on the next two pages.

	30 September 2018	30 September 2019
<b>ASSETS</b>	<b>£</b>	<b>£</b>
<b>Non-current assets</b>		
Property, plant and equipment	27 084 000	22 125 000
Provision for depreciation	(7 358 000)	(6 661 000)
Property, plant and equipment carrying value	19 726 000	15 464 000
Intangible assets	<u>5 600 000</u>	<u>5 200 000</u>
	25 326 000	20 664 000
<b>Current assets</b>		
Inventories	8 774 000	9 245 000
Trade receivables	642 000	750 000
Other receivables	46 000	34 000
Bank	286 000	—

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## 4. continued.

	30 September 2018	30 September 2019
Cash	<u>105 000</u>	<u>93 000</u>
	9 853 000	10 122 000
	_____	_____
<b>Total assets</b>	<b><u>35 179 000</u></b>	<b><u>30 786 000</u></b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Ordinary shares of £0·50	8 100 000	9 200 000
7% preference shares of £1	2 500 000	2 000 000
General reserve	1 012 000	1 253 000
Retained earnings	<u>4 237 000</u>	<u>5 017 000</u>
	15 849 000	17 470 000
<b>Non-current liabilities</b>		
8% bank loan	4 800 000	3 600 000
11% debenture	5 000 000	_____
Mortgage on property	<u>3 200 000</u>	<u>3 000 000</u>
	13 000 000	6 600 000

(continued on the next page)

## 4. continued.

	30 September 2018	30 September 2019
<b>Current liabilities</b>		
Trade payables	5 586 000	6 036 000
Other payables	114 000	102 000
Bank overdraft	—	144 000
Current tax payable	<u>630 000</u>	<u>434 000</u>
	6 330 000	6 716 000
	—	—
<b>Total equity and liabilities</b>	<u><u>35 179 000</u></u>	<u><u>30 786 000</u></u>

(continued on the next page)

4. continued.

## **Additional information**

- On **17 October 2018** ordinary shareholders received a final dividend for **2018** of **£162 000**
- On **30 October 2018** preference shareholders received a final dividend for **2018** of **£100 000**
- On **23 November 2018** property that cost **£4 900 000** with depreciation to date of **£1 290 000** was sold for **£3 850 000**
- On **4 December 2018** plant that cost **£387 000** with a carrying value of **£193 000** was sold for **£167 000**
- On **5 January 2019** equipment was bought for **£328 000**
- On **11 April 2019**, after the redemption of preference shares, the remaining preference shareholders received an interim dividend of **3·5%**
- On **22 April 2019**, after the issue of additional ordinary shares, all ordinary shareholders received an interim dividend of **1%**

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**4. continued.**

- **On 1 May 2019 Jamalpur Logistics plc bought shares in ABC Ltd for £241 000**  
**On 25 June 2019 Jamalpur Logistics plc received dividends of £18 000 from ABC Ltd.**  
**On 18 September 2019 Jamalpur Logistics plc sold the shares in ABC Ltd for £227 000**
- **Amortisation of intangible assets for the financial year totalled £300 000**
- **An intangible asset was sold for £100 000 during the financial year.**
- **Operating profit for the year was £1 270 000**

**The Chief Financial Accountant has completed the Cash Flows from Operating Activities for the Statement of Cash Flows for the year ended 30 September 2019**

**She wants you to help with the preparation of all other sections of the Statement of Cash Flows.**

**(continued on the next page)**

**4. continued.**

## **Required**

**(a) Prepare, for the year ended 30 September 2019, the following sections from the Statement of Cash Flows, in accordance with International Accounting Standard (IAS) 7**

**(i) Cash flows from Investing activities  
(7 marks)**

**(ii) Cash flows from Financing activities  
(10 marks)**

**(iii) The reconciliation of cash and cash equivalents at the start of the financial year with cash and cash equivalents at the end of the financial year.  
(3 marks)**

**The Chief Financial Accountant wishes to ensure that your figures agree with her figures.**

**(b) Calculate, using your answers from (a), the net cash flow from Operating activities, for the financial year ended 30 September 2019  
(4 marks)**

**(continued on the next page)**

**4. continued.**

- (c) Evaluate the performance of Jamalpur Logistics plc concerning liquidity, for the financial year ended 30 September 2019 (6 marks)**

**(Total for Question 4 = 30 marks)**

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5. Jaffna Doors Ltd produces glass doors in a factory. The Cost Accountant is considering the figures for the production department for the month of October.

	Budget		Actual
Production (units)	1 920		1 880
Direct materials	4 224 square metres	£194 304	3 984 square metres £171 312
Direct labour	3 360 hours	£28 560	3 478 hours £27 824
Overheads		<u>£52 760</u>	<u>£54 820</u>
Total cost		£275 624	£253 956

Overheads are regarded as a fixed cost.

(continued on the next page)

**5. continued.**

## **Required**

**(a) Calculate, for an output of 1 880 units, the TOTAL budgeted:**

**(i) quantity of raw materials, in square metres  
(2 marks)**

**(ii) cost of the raw materials  
(2 marks)**

**(iii) number of direct labour hours  
(2 marks)**

**(iv) cost of direct labour.  
(2 marks)**

**(b) Calculate, for the month of October, the TOTAL:**

**(i) material usage variance  
(4 marks)**

**(ii) material price variance.  
(6 marks)**

**(continued on the next page)**

5. continued.

The following variances have already been calculated:

Direct labour rate	£1 739 Favourable
Direct labour efficiency	£1 598 Adverse

## Required

- (c) Complete the reconciliation statement, in the Data Book, for the **total actual** cost of production of **1 880** units, to the **total budgeted** cost of production of **1 880** units.  
(6 marks)
- (d) Evaluate the performance of the production department of Jaffna Doors Ltd for October.  
(6 marks)

(Total for Question 5 = 30 marks)

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6. You are the Finance Director for Emirates Techtronics plc.  
At the next Board Meeting, you must present some important accounting ratios.

The following information is available after the financial statements have been prepared for the year ended  
**30 September 2019**

Ordinary shares of £1	£50 000 000
3% irredeemable preference shares of £1	£10 000 000
Retained earnings	£7 850 000
5% bank loan repayable 2021	£8 000 000
7% debenture 2022	£15 000 000
Profit for the year after interest	£2 184 000
Corporation tax on profit	£415 000
Ordinary dividend payable for the year	£600 000
Market price of an ordinary share	£1.19

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**6. continued.**

## **Required**

**(a) Calculate the following for the year ended  
30 September 2019**

**(i) Dividend per share  
(3 marks)**

**(ii) Dividend yield  
(3 marks)**

**(iii) Dividend cover  
(4 marks)**

**(iv) Earnings per share  
(3 marks)**

**(v) Price earnings ratio  
(3 marks)**

**(vi) Return on capital employed.  
(8 marks)**

**(continued on the next page)**

**6. continued.**

**At the Board Meeting, the Chief Executive said, ‘The dividend yield is an important ratio and helps judge the success of the company’.**

**(b) Evaluate the importance of the dividend yield ratio in judging the success of Emirates Techtronics plc.  
(6 marks)**

**(Total for Question 6 = 30 marks)**

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**TOTAL FOR SECTION B = 90 MARKS**

**TOTAL FOR PAPER = 200 MARKS**

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