

Please check the examination details below before entering your candidate information

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Pearson Edexcel International Advanced Level

Time 3 hours

Paper
reference

WAC12/01

Accounting

International Advanced Level

PAPER 2: Corporate and Management Accounting

You must have:
Source Booklet (enclosed)

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **both** questions in Section A and **three** questions from Section B.
- All calculations must be shown.
- Answer the questions in the spaces provided
– *there may be more space than you need.*
- Do not return the Source Booklet with the question paper.

Information

- The total mark for this paper is 200.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.
- The source material for use with Questions 1 to 6 is in the enclosed Source Booklet.

Advice

- Read each question carefully before you start to answer it.
- Check your answers if you have time at the end.

Turn over ►

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SECTION A

Answer BOTH questions in this section.

Source material for Question 1 is on pages 2 to 4 of the Source Booklet.

1 (a) Complete the table to show how the following are recorded.

	Irredeemable preference shares	Redeemable preference shares
(i) Where the shares are recorded in the Statement of financial position (under which heading). (2)		
(ii) How/where dividends paid on the shares are recorded in the Income statement. (2)		

(b) Calculate the following for the year ended 31 December 2021, giving your answer to two decimal places.

(i) Gross profit as a percentage of revenue

(4)

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(ii) Net profit for the year after tax as a percentage of revenue

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(iii) Earnings per ordinary share

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(iv) Price / earnings ratio

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(v) Dividend per share

(4)

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(vi) Dividend cover

(3)

(vii) Dividend yield

(3)

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(viii) Return on Capital employed

(10)

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(ix) Gearing ratio

(5)

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(c) Evaluate the financial performance of MGH Textiles plc for the year ended 31 December 2021, compared to the performance for the year ended 31 December 2020. You should give possible reasons for the changes between the two years.

(12)

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(Total for Question 1 = 55 marks)



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

2 (a) Calculate the break-even point for **Option A**, the open-top bus tours around the town, measured in:

(i) total sales units (total number of customers)

(15)

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(ii) total sales revenue.

(2)

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(b) Calculate the number of customers needed per tour to break-even.

(3)

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(c) Calculate for **Option A**, for the six-month tourist season, the:

(i) margin of safety in sales units (number of customers)

(3)

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(ii) margin of safety as a percentage of sales.

(3)

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(d) Calculate the expected profit for **Option A**, for a six-month tourist season.

(4)

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(e) Complete a break-even graph for **Option B**, the mini-bus tours to local beauty spots, for Evangelos.

(9)

Workings

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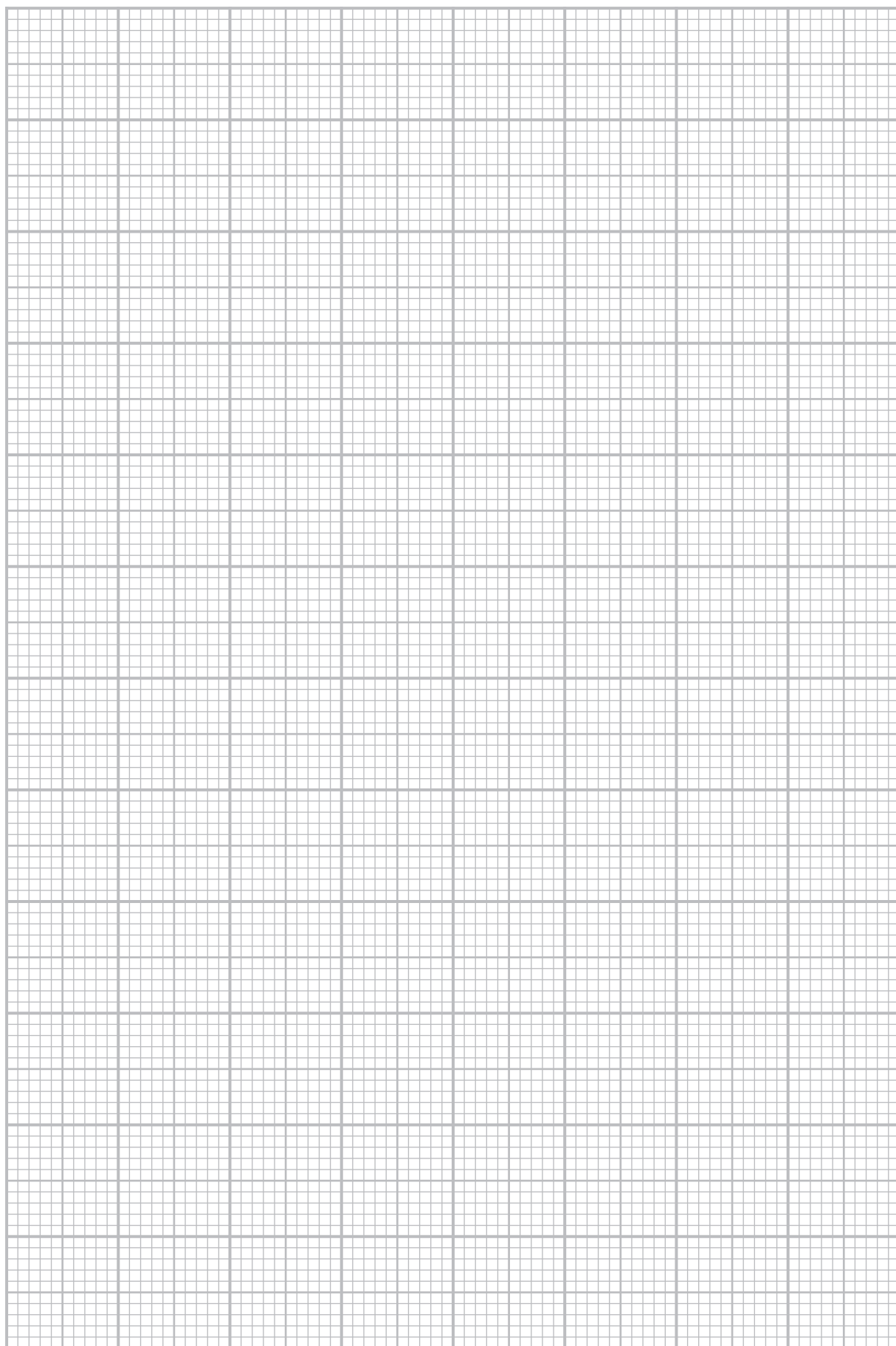
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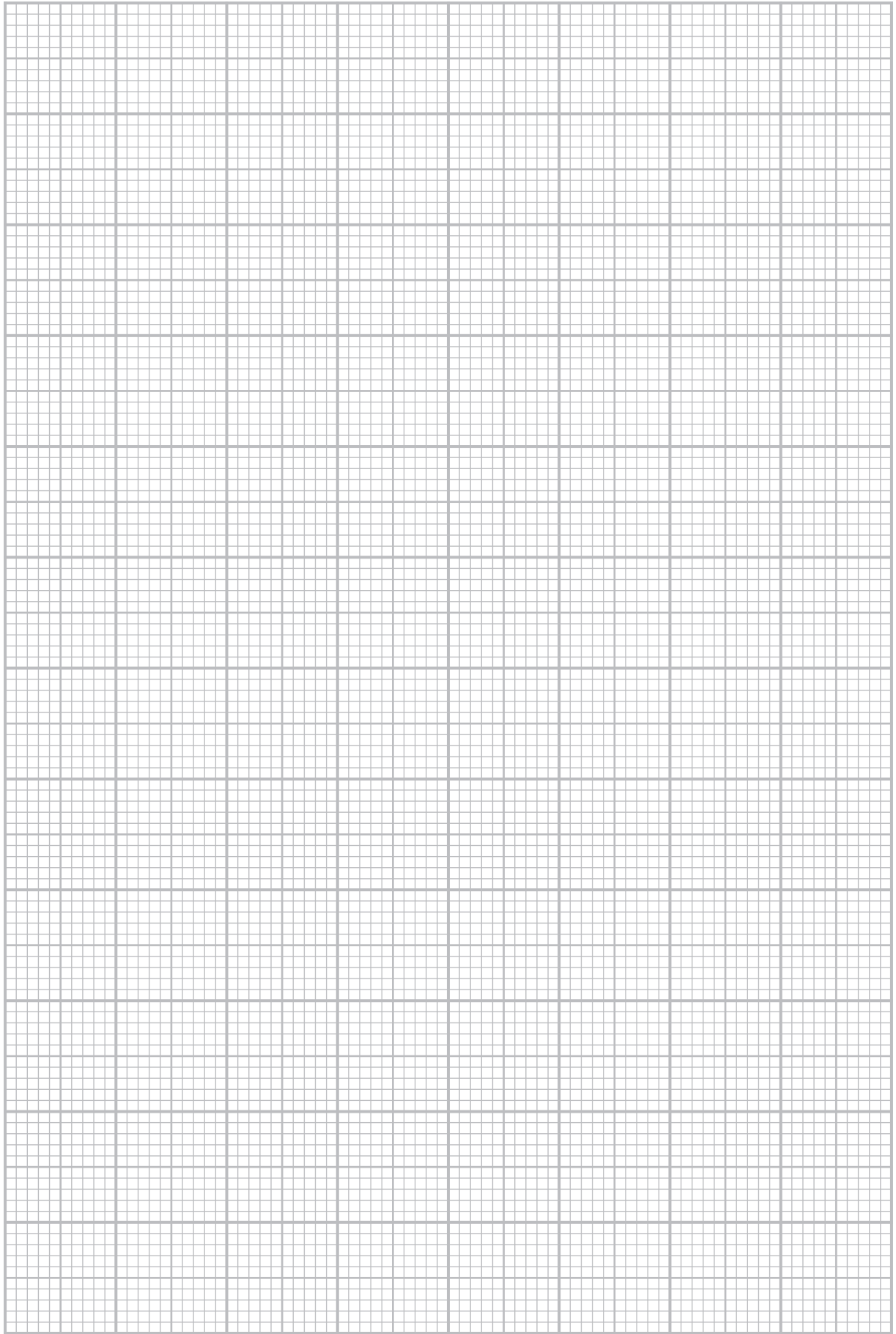
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(f) Calculate the expected profit for **Option B**, for a six-month tourist season.

(4)

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QUESTION 2(g) BEGINS ON PAGE 20.



(g) Evaluate the **two** possible bus tour options for Evangelos and recommend **one** option.

(12)

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(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS



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(ii) Share premium

(3)

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(iii) Application and allotment

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(iv) First call

(2)

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(v) Second and final call

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(vi) Bank (relevant extracts to share issue only). A balance is not required at the year end.

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

Source material for Question 4 is on pages 10 and 11 of the Source Booklet.

4 (a) Prepare, for **each** of the four months from April to July 2022 for the North Point store, the:

(i) Purchases budget, in pounds (£)

(2)

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(b) Prepare, for **each** of the four months from April to July 2022 for the North Point store, the:

- (i) sales budget, in pounds (£) (2)

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(ii) extract from the cash budget showing the amount received from customers.

(10)

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(c) Evaluate the terms on which purchases and sales are made by QPKS Heating plc.

(6)

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(Total for Question 4 = 30 marks)



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(b) Evaluate the usefulness of preparing a Statement of Cash Flows for Valetta Motors plc.

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(Total for Question 5 = 30 marks)



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(b) Explain:

(i) **one** disadvantage of marginal costing

(2)

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(ii) **two** disadvantages of absorption costing.

(4)

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Pearson Edexcel International Advanced Level

Time 3 hours

Paper
reference

WAC12/01

Accounting

International Advanced Level

PAPER 2: Corporate and Management Accounting

Source Booklet

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Turn over ►

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SECTION A

Answer BOTH questions in this section.

- 1** You are an accountant for MGH Textiles plc. The following information is available for the financial year ended 31 December 2021.

Ordinary shares of £0.50 issued at a premium of £0.40 per share.	90 million shares
Irredeemable 6% preference shares of £1.00	10 million shares
Redeemable 7% preference shares of £0.80	20 million shares
Other reserves	£23 000 000
8% Debenture 2026	£15 000 000
9% Bank loan repayable 2024	£12 000 000
Revenue	£360 000 000
Cost of sales	£225 000 000
Net profit for the year after interest	£24 000 000
Tax on profit	£2 500 000
Interim ordinary dividend paid for the year	£225 000
Final ordinary dividend paid for the year	1.75 pence (£0.0175) per share
Market share price	£1.60

Required

You need to prepare the following information for a meeting of senior managers.

- (a) Complete the table in the Question Paper to show how the following are recorded.
- (i) Irredeemable preference shares and redeemable preference shares in the Statement of financial position. (2)
 - (ii) Dividends paid on irredeemable preference shares and dividends paid on redeemable preference shares in the Income statement. (2)



(b) Calculate the following for the year ended 31 December 2021, giving your answer to two decimal places.

- | | |
|---|------|
| (i) Gross profit as a percentage of revenue | (4) |
| (ii) Net profit for the year after tax as a percentage of revenue | (3) |
| (iii) Earnings per ordinary share | (4) |
| (iv) Price/earnings ratio | (3) |
| (v) Dividend per share | (4) |
| (vi) Dividend cover | (3) |
| (vii) Dividend yield | (3) |
| (viii) Return on Capital employed | (10) |
| (ix) Gearing ratio | (5) |



The following information is available for the previous year, ending 31 December 2020.

Gross profit as a percentage of revenue	30.1%
Net profit for the year after tax as a percentage of revenue	7.2%
Earnings per ordinary share	26.98 pence
Price / earnings ratio	8.27 times
Dividend per share	3 pence
Dividend cover	14.38 times
Dividend yield	1.35%
Return on capital employed	21.24%
Gearing ratio	36.49%

At the meeting, a manager says "How do the figures for 2021 compare to 2020? Are they better or worse? I would like to know why the figures are different to last year."

Required

- (c) Evaluate the financial performance of MGH Textiles plc for the year ended 31 December 2021, compared to the performance for the year ended 31 December 2020. You should give possible reasons for the changes between the two years.

(12)

(Total for Question 1 = 55 marks)



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2 Evangelos is a bus driver in the seaside town of Sunnymede. He is considering using his lottery winnings of £40 000 to set up his own business providing bus tours.

Evangelos has to decide between two possible options.

Option A is to operate tours using an open-top bus around the town.

Option B is to operate tours using a mini-bus to local beauty spots outside the town.

The following information is available for **Option A**, the open-top bus tours around the town.

- The tourist season will be 180 days (six months) and there will be four tours per day.
- Each tour will carry an average of 40 customers.
- Customers will pay £8 for a ticket.
- An open-top bus will be purchased for £40 000 and last for five years before being sold for £1 000 scrap value.
- The open-top bus will be serviced every two months of the tourist season at a cost of £360 per service.
- A ticket office will be hired to sell the tickets at a rent of £25 per day.
- A member of staff will be employed to sell the tickets at a salary of £1 920 per month.
- A licence to operate must be paid to the town authorities of £1 250 per month during the tourist season.
- Fuel costs for each tour will be £35, to be treated as a fixed cost.
- Evangelos will pay himself a wage of 37.5% of all ticket sales.

Required

- (a) Calculate the break-even point for **Option A**, the open-top bus tours around the town, measured in:
- (i) total sales units (total number of customers) (15)
 - (ii) total sales revenue. (2)
- (b) Calculate the number of customers needed per tour to break-even. (3)
- (c) Calculate for **Option A**, for the six-month tourist season, the:
- (i) margin of safety in sales units (number of customers) (3)
 - (ii) margin of safety as a percentage of sales. (3)
- (d) Calculate the expected profit for **Option A**, for a six-month tourist season. (4)



The following information is available for **Option B**, the mini-bus tours to local beauty spots.

- The tourist season will be 180 days (six months) and there will be **one** tour per day.
- Each tour will carry an average of 12 customers.
- Customers will pay £25 for a ticket.
- Total fixed costs for the year will be £30 000
- Evangelos will pay himself a wage of 40% of all ticket sales.

Required

(e) Complete, on the graph paper in the Question Paper, a break-even graph for **Option B**, the mini-bus tours to local beauty spots, for Evangelos.

Your graph **must** show the following:

- appropriate axes and scales
- fixed costs
- total costs
- sales revenue
- break-even point measured in the number of customers and sales revenue
- margin of safety measured in the number of customers
- profit for the expected number of customers.

(9)

(f) Calculate the expected profit for **Option B**, for a six-month tourist season.

(4)

(g) Evaluate the **two** possible bus tour options for Evangelos and recommend **one** option.

(12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

SECTION B

Answer **THREE** questions from this section.

- 3** Divesocean Hotels plc had the following balances at the start of the financial year on 1 January 2021.

	£ 000
Ordinary Shares of £1	32 000
Share Premium	8 000

To expand the business, the directors decided to issue additional ordinary shares to existing shareholders.

During the year ended 31 December 2021, the following took place:

- On 1 February the company offered 6 000 000 ordinary shares at a price of £1.25 on the following terms:
 - 20 pence (£0.20) on application
 - 45 pence (£0.45) on allotment (including the 25 pence (£0.25) premium)
 - 35 pence (£0.35) first call
 - 25 pence (£0.25) second and final call
- On 13 March the company had received 8 300 000 applications. The directors rejected applications for 2 300 000 shares and allotted the shares to the successful applicants.
- On 24 March monies were returned to the unsuccessful applicants.
- On 30 June the balances due on allotment were fully received.
- On 15 July the first call was made and the amounts were fully received.
- On 31 August the second and final call was made and the amounts were fully received.



Required

- (a) Prepare the following ledger accounts to record the transactions for the year ended 31 December 2021.
- (i) Ordinary share capital (6)
 - (ii) Share premium (3)
 - (iii) Application and allotment (6)
 - (iv) First call (2)
 - (v) Second and final call (3)
 - (vi) Bank (relevant extracts to share issue only). A balance is not required at the year end. (4)
- (b) Evaluate the use of ordinary shares as a method of raising further finance for Divesocean Hotels plc. (6)

(Total for Question 3 = 30 marks)

- 4 QPKS Heating plc purchases gas boilers from suppliers, which are then sold to customers.

The company has many stores throughout the country, and is to open its first store in the North Point area on 1 April 2022.

The following information is available concerning purchases of gas boilers for the North Point store:

- In the period April to July purchases will be 50 units each month.
- There are four suppliers of the gas boilers who each supply a boiler for £540
- The breakdown of the credit terms given by the four suppliers are:
 - Acme sell only for cash and supply 20% of boilers
 - Burghley give one month's credit and supply 40% of boilers
 - Crystal give two months' credit and supply 30% of boilers
 - Diamond give three months' credit and supply 10% of boilers.
- Full advantage is taken of credit terms offered by suppliers.

Required

You are the Cost Accountant for QPKS Heating plc and have to prepare the following budgets **in columnar format**.

- (a) Prepare, for **each** of the four months from April to July 2022 for the North Point store, the:

- (i) Purchases budget, in pounds (£) (2)

- (ii) Trade Payables budget, in pounds (£), showing the amount owed to Burghley, Crystal, and Diamond and the total owed at the end of **each** of the four months. (10)

The following information is available concerning the North Point store:

- QPKS Heating plc will keep one boiler in the store from each supplier on permanent display to customers starting from April.
- The mark-up on all boilers is 80%
- All purchases, except those on display, are to be sold in the same month as purchase.
- Sales are made on the following terms:
 - 50% are for cash
 - 50% have nothing to pay for one month, then will spread payments equally over a six-month period, with the first payment due one month after the sale.



Required

- (b) Prepare, for **each** of the four months from April to July 2022 for the North Point store, the:
- (i) sales budget, in pounds (£) (2)
 - (ii) extract from the cash budget showing the amount received from customers. (10)
- (c) Evaluate the terms on which purchases and sales are made by QPKS Heating plc. (6)

(Total for Question 4 = 30 marks)

5 You are the Financial Accountant for Valetta Motors plc.

Extracts from the Statements of Financial Position for the last two years are shown below.

	31 December 2020	31 December 2021
	£ (000)	£ (000)
ASSETS		
Non-current assets		
Intangible assets	1 900	2 300
Property, plant and equipment at cost	6 439	4 552
Less Provision for depreciation	<u>(2 548)</u>	<u>(2 146)</u>
Property, plant and equipment carry over	<u>3 891</u>	<u>2 406</u>
	5 791	4 706
Current assets		
Inventories	3 651	3 650
Trade receivables	217	209
Other receivables	19	24
Cash and cash equivalents	<u>-----</u>	<u>113</u>
	3 887	3 996
Current liabilities		
Bank overdraft	67	<u>-----</u>
Trade payables	2 281	2 079
Other payables	44	50
Current tax payable	<u>298</u>	<u>272</u>
	2 690	2 401



Additional Information

- On 4 April 2021, equipment that cost £252 000 with a net book value of £174 000 was sold for £161 000
- On 23 June 2021, property that cost £1 760 000 with depreciation to date of £525 000 was sold for £1 812 000
- On 25 October 2021, plant was bought for £125 000 by cheque.
- All Property, plant and equipment is kept in the Property, plant and equipment Account at cost. All sales of non-current assets are entered into the Disposals of non-current assets account.
- On 13 December 2021, an intangible asset was purchased for £595 000 by cheque.
- The bank overdraft averaged £48 000 for 5 months of the year at an interest rate of 10% per annum.
- Profit **after** interest for the year ended 31 December 2021 was £1 432 000

Required

- (a) Prepare, for the year ended 31 December 2021, the:
- (i) Property, plant and equipment at cost Account (4)
 - (ii) Operating Activities section from the Statement of Cash Flows, in accordance with International Accounting Standard (IAS) 7 Statement of Cash Flows (revised). (20)
- (b) Evaluate the usefulness of preparing a Statement of Cash Flows for Valetta Motors plc. (6)

(Total for Question 5 = 30 marks)

- 6 Little Ben plc manufactures watches. 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 December 2021:

Opening inventory	5 950 units
Opening inventory value	Marginal costing £160 650 Absorption costing £190 400
Production	76 000 units for the year
Semi-Variable costs	£174 800 fixed element per year plus £0.65 per unit of production
Fixed overheads	£19 000 per month
Direct materials	£12.10 per unit
Direct labour	1 hour 45 minutes work per unit at a wage rate of £8.40 per hour
Sales	76 830 units for the year
Selling price	£52 per unit

Inventory is valued using First In First Out (FIFO).

Required

- (a) Prepare for management, **in columnar format**, a Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2021, showing inventory valuation using:

- marginal costing
- absorption costing.

(18)

- (b) Explain:

- (i) **one** disadvantage of marginal costing
- (ii) **two** disadvantages of absorption costing.

(2)

(4)

A new customer is considering buying 5 000 watches but is only prepared to pay £30 per unit.

- (c) Evaluate whether Little Ben plc should accept the offer from the potential new customer.

(6)

(Total for Question 6 = 30 marks)

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



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