Centre No.						Paper Reference	Surname	Initial(s)
Candidate No.						W A C 0 2 / 0 1	Signature	

Paper Reference(s)

WAC02/01

Pearson Edexcel

International Advanced Level

Accounting (Modular Syllabus)

Unit 2: Corporate and Management Accounting

Tuesday 21 January 2014 – Afternoon

Time: 3 hours

Examiner's use only

Team Leader's use only

Question Number	Leave Blank
1	
2	
3	
4	
5	
6	
7	
Total	

Materials required for examination	Items included with question papers
Nil	Source booklet

Instructions to Candidates

In the boxes above, write your centre number, candidate number, your surname, initial(s) and signature.
Check that you have the correct question paper.
Answer FIVE questions, choosing TWO from Section A and THREE from Section B.
Indicate which question you are answering by marking the box (☒).
If you change your mind, put a line through the box (☒) and then indicate your new question with a cross (☒).
All calculations must be shown.
Write your answers in the spaces provided in this question paper.
Do not return the insert with the question paper.

Information for Candidates

The marks for individual questions and the parts of questions are shown in round brackets: e.g. **(2)**.
There are 7 questions in this question paper. The total mark for this paper is 200.
There are 44 pages in this question paper. Any blank pages are indicated.
Calculators may be used.
The source material for use with questions 1 to 7 is in the enclosed source booklet.

Advice to Candidates

Write your answers neatly and in good English.

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P 4 3 1 8 3 A 0 1 4 4

Turn over

PEARSON

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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 the net present value of the contract at the end of year 4.

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(18)

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(b) Calculate the Payback period for the contract.

(8)

P 4 3 1 8 3 A 0 4 4 4

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

P 4 3 1 8 3 A 0 5 4 4

Leave blank

(12)

Leave blank

(d) (i) Complete the calculation, clearly stating any formula used, to find the exact Internal Rate of Return, accurate to **two** decimal places.

(10)

Leave blank

(ii) Using your answer for the exact Internal Rate of Return calculated in (d)(i), decide whether Tsevo Farms should invest in the project, giving a reason for your answer.

(4)

Q1

(Total 52 marks)

P 4 3 1 8 3 A 0 8 4 4

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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 a cash flow statement for the year ended 31 December 2013 for Zonqor Minerals plc in accordance with International Accounting Standard (IAS) 7 Cash Flow Statements (revised).

Leave blank

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(40)

P 4 3 1 8 3 A 0 1 3 4 4

Leave blank

(b) Evaluate the raising of capital for a plc by issuing a debenture instead of taking out a bank loan.

Leave blank

(12)

Q2

(Total 52 marks)

Leave blank

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) Journal entries to show the items 1–6 above as recorded in the books of Kelontan Power plc. Dates and narratives are **not** required.

Leave blank

(18)

P 4 3 1 8 3 A 0 1 7 4 4

Turn over

Leave blank

(b) The Equity section from the Statement of Financial Position after the above items have been entered into the books.

Leave blank

(14)

P 4 3 1 8 3 A 0 1 9 4 4

Turn over

Leave blank

(c) Briefly explain

(i) **two advantages** to Kelotan Power plc of redeeming some of the 4% Redeemable Preference shares.

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(4)

(ii) **two disadvantages** to Kelotan Power plc of redeeming some of the 4% Redeemable Preference shares.

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(4)

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(d) Evaluate the creation and utilisation of a Capital Redemption Reserve.

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(12)

Q3

(Total 52 marks)

TOTAL FOR SECTION A: 104 MARKS

P 4 3 1 8 3 A 0 2 2 4 4

Leave blank

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) Prepare a Capital Budget to finance the launch of the new Zeus car.

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(b) Prepare a Production Budget, in units of cars produced, for each week of the first four weeks of production of Zeus cars.

(6)

Leave blank

(c) Prepare a Cash Budget to show the amount received from customers for each of the first four weeks of sales of Zeus cars.

(12)

P 4 3 1 8 3 A 0 2 5 4 4

Turn over

Leave blank

(d) Evaluate the three payment options from the point of view of Auto Albion Motors plc.

(8)

Q4

(Total 32 marks)

Leave blank

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

Source material for question 5 is on page 10 of the source booklet.

5. (a) Calculate for Saidpur Household Appliances Limited for the 6-month period ended 31 December 2013 the:

(i) break-even point in units of output

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(10)

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(ii) margin of safety in sales revenue

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(4)

Leave blank

(iii) profit or loss.

(4)

P 4 3 1 8 3 A 0 2 9 4 4

Turn over

Leave blank

(b) Calculate the selling price Saidpur Household Appliances Limited should charge in order to arrive at break-even point for a production of 8 500 units.

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(c) Evaluate the two possible future policies for Saidpur Household Appliances Limited to follow for the next six months.

(8)

Q5

(Total 32 marks)

P 4 3 1 8 3 A 0 3 1 4 4

Turn over

Leave blank

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

Source material for question 6 is on pages 11 and 12 of the source booklet.

6. (a) Calculate the gearing ratio, stating clearly the formula used.

(6)

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(b) Calculate the following ratios:

(i) Return on Capital employed

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(3)

(ii) Earnings per ordinary share

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(iii) Price/earnings ratio

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(iv) Dividend paid per share

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(v) Dividend cover

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(3)

(vi) Dividend yield.

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(c) Evaluate the performance and position of Southern Gas plc as a business compared to Northern Gas plc for the financial year ended 31 December 2013.

(8)

Q6

(Total 32 marks)

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

Source material for question 7 is on pages 13 and 14 of the source booklet.

7. (a) Calculate the purchase price of Ngau Builders plc.

(6)

Leave blank

(b) Calculate the goodwill paid by Sheung Wan Construction plc in the purchase of Ngau Builders plc.

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(2)

(c) Calculate the amount of cash a shareholder in Ngau Builders plc would receive for each share held.

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(4)

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(d) Prepare the Statement of Financial Position of Sheung Wan Construction plc as at 1 January 2014 after the purchase of Ngau Builders plc.

Leave blank

(12)

P 4 3 1 8 3 A 0 4 1 4 4

Leave blank

(e) From the point of view of a shareholder in Ngau Builders plc, evaluate the purchase of the company by Sheung Wan Construction plc.

(8)

(Total 32 marks)

Q7

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

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Paper Reference(s)

WAC02/01

Pearson Edexcel

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Accounting (Modular Syllabus)

Unit 2 – Corporate and
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Source booklet for use with Questions 1 to 7.

Do not return the insert with the question paper.

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PEARSON

SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

1. Tsevo Farms Limited has won a four-year contract to supply a major supermarket chain with salads and sandwiches. The initial costs involved in obtaining the contract were £700 000.

The following information relates to the contract:

- In the first year, 13 500 products a week will be supplied, at an average selling price of £0.73 each.
- In years two and three, 14 000 products a week will be supplied, at an average selling price of £0.75 each.
- In year four, 14 500 products a week will be supplied, at an average selling price of £0.77 each.
- In years one and two, the running costs (including depreciation) are expected to be £8 500 a week.
- In years three and four, the running costs (including depreciation) are expected to be £8 800 a week.
- Depreciation is expected to be £164 000 per annum for the first four years.
- Assume 52 weeks in a year.
- The cost of capital for the company is 9%.

Required:

(a) Calculate the net present value of the contract at the end of year 4.

(18)

A table showing the discount factors is given.

Year	9%
1	0.917
2	0.842
3	0.772
4	0.708

(b) Calculate the Payback period for the contract.

(8)

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

(12)

The Chief Accountant for the company is also appraising the project using the Internal Rate of Return method. She has calculated the following figures:

Discount Rate	Net Present Value
16%	£21 430
20%	(£34 239)

Required:

(d) (i) Complete the calculation, clearly stating any formula used, to find the exact Internal Rate of Return, accurate to **two** decimal places.

(10)

(ii) Using your answer for the exact Internal Rate of Return calculated in (d)(i), decide whether Tsevo Farms should invest in the project, giving a reason for your answer.

(4)

(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. The Statements of Financial Position of Zonqor Minerals plc as at 31 December 2012 and 31 December 2013 were as follows:

	31 December 2012	**31 December 2013**
ASSETS	£	£
Non-current assets at cost	2 216 000	2 413 000
Provision for depreciation	(530 000)	(450 000)
Non-current assets carry over	1 686 000	1 963 000
Current assets		
Inventories	718 000	756 000
Trade and other receivables	112 000	119 000
Cash and cash equivalents	404 000	494 000
	1 234 000	1 369 000
Total Assets	2 920 000	3 332 000
EQUITY AND LIABILITIES		
Equity	£	£
Share capital - £1 Ordinary shares	1 000 000	1 200 000
6% Preference shares	400 000	400 000
Share premium	300 000	400 000
Retained earnings	601 000	634 000
Total capital and reserves	2 301 000	2 634 000
Non-current liabilities		
7% Debenture 2018	------------	250 000
Bank loan	175 000	------------
	175 000	250 000
Current liabilities		
Trade and other payables	323 000	347 000
Current tax payable	121 000	101 000
	444 000	448 000
Total Equity and Liabilities	2 920 000	3 332 000

Additional information:

1. Machinery costing £258 000 was sold for £54 000 on 1 April 2013. The book value of the machinery was £41 000.

2. Property was purchased for £455 000 on 1 May 2013.

3. An issue of 200 000 £1 Ordinary shares at a premium of 50 pence per share was made on 31 March 2013.

4. Ordinary shareholders received the following dividends in the year:

   - final dividend for 2012 of 4 pence per share on 22 January 2013
   - an interim dividend of 2 pence per share on 26 July 2013

5. Preference shareholders received their dividends in full during the year.

6. On 1 January 2013 the bank loan of £175 000 was paid off.

7. On 1 May 2013 a £250 000 7% debenture was issued, with interest to be paid in two equal half-yearly payments.

8. Operating profit before tax for the year ended 31 December 2013 was £222 000.

Required:

(a) Prepare a cash flow statement for the year ended 31 December 2013 for Zonqor Minerals plc in accordance with International Accounting Standard (IAS) 7 Cash Flow Statements (revised).
(40)

(b) Evaluate the raising of capital for a plc by issuing a debenture instead of taking out a bank loan.
(12)

(Total 52 marks)

Answer space for question 2 is on pages 10 to 15 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 3

3. Kelontan Power plc supplies electricity. The company has an Authorised Share Capital of 40 000 000 £1 Ordinary Shares and 15 000 000 4% Redeemable Preference Shares of £1 each. On 1 January 2013, at the start of the financial year, the following balances were in the books:

	£
Ordinary Share Capital	30 000 000
Share Premium Reserve	7 500 000
4% Redeemable Preference Share Capital	10 000 000
Revaluation Reserve	1 000 000
Retained Earnings Reserve	12 850 000
General Reserve	3 000 000
7% Debenture 2018	5 000 000

The profit after interest, for the year ended 31 December 2013, before adjustments, was £4 572 000.

In December 2013, the directors of Kelontan Power plc agreed to:

1. provide a final dividend to Ordinary shareholders of 3 pence per share. The dividend was paid on 2 December 2013.
2. transfer 80% of the General Reserve to the Retained Earnings Reserve.
3. make a provision to cover an amount to be repaid to customers, overcharged in error. The company has 40 000 customers, who have been overcharged an average of £50 each.
4. redeem 5 000 000 4% Redeemable Preference shares at par.
5. revalue the company head office property from a present value of £4 000 000, to a market value of £5 000 000.
6. pay the final half-yearly interest instalment due to the debenture holders for the year on 29 December 2013.

Required:

(a) Journal entries to show the items 1–6 above as recorded in the books of Kelontan Power plc. Dates and narratives are **not** required.

(18)

(b) The Equity section from the Statement of Financial Position after the above items have been entered into the books.

(14)

At a Board of Directors meeting at the start of the year, a director stated:

"I know that Redeemable Preference shares should be treated as Debt, but Preference shares should be treated as Equity. Is it a good idea that the Preference shares we have issued are redeemable?"

Required:

(c) Briefly explain

(i) **two advantages** to Kolatun Power plc of redeeming some of the 4% Redeemable Preference shares.

(4)

(ii) **two disadvantages** to Kolatun Power plc of redeeming some of the 4% Redeemable Preference shares.

(4)

(d) Evaluate the creation and utilisation of a Capital Redemption Reserve.

(12)

(Total 52 marks)

Answer space for question 3 is on pages 16 to 22 of the question paper.

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 4

4. Auto Albion Motors plc are developing a new car, the Zeus.

The following information is available:
The costs involved in the launch of the new car are expected to be:

	£ million
Research and development	80
Purchase of land for factory	31
Building new factory	42
Machinery and equipment for new factory	28
Marketing	39

Capital for the new car project is to be funded in the following ways:

- A share issue to ordinary shareholders for 40% of the capital required.
- £84 million in prior charge capital is to be raised, consisting of a 6% debenture and a bank loan. This is to be raised in the following ratio: two thirds 6% debenture : one third bank loan
- The remainder is to be sourced from retained profit.

Required:

(a) Prepare a Capital Budget to finance the launch of the new Zeus car.

(6)

Additional information:

All cars are built to meet sales orders.

If a sales order cannot be met in the same week, the factory will produce the car in the next week, or as soon as possible.

The capacity of the factory is 6 800 cars a week.

In the first four weeks sales of Zeus cars are expected to be:

Week 1 8 000 Week 2 6 000 Week 3 5 500 Week 4 3 200

Required:

(b) Prepare a Production Budget, in units of cars produced, for each week of the first four weeks of production of Zeus cars.

(6)

Additional information:

The Zeus car will be sold to customers at a selling price of £11 750.

Customers are to be given three payment options to choose from:

- Option 1 – 60% of customers are expected to pay for their new car in cash in full on the day of the sales order.
- Option 2 – Buy the new car on the terms "nothing to pay for 12 months", with payment being made in full 12 months after the date of the sales order.
  25% of customers are expected to select this option.
- Option 3 – Buy the new car on the terms "10% deposit, then 24 monthly payments of £450, starting one month after the sales order.
  The remaining customers are expected to select this option.

Required:

(c) Prepare a Cash Budget to show the amount received from customers for each of the first four weeks of sales of Zeus cars.

(12)

(d) Evaluate the three payment options from the point of view of Auto Albion Motors plc.

(8)

(Total 32 marks)

Answer space for question 4 is on pages 23 to 26 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 5

5. Saidpur Household Appliances Limited produces kettles at its factory. For the 6 months ended 31 December 2013, the following information is available.

- Rent of the factory was £3 800 per quarter (three months).
- Payments to the workforce were at a rate of £3.60 per kettle.
- Material costs were £4.25 per kettle.
- Managers' salaries were £5 700 per month.
- Delivery costs were 20 pence (£0.20) per kettle.
- Other fixed costs were £2 440 per month.
- Production of kettles for the 6-month period was 8 500 kettles.
- All output is sold.
- Selling price was £14.95 per kettle.

Required:

(a) Calculate for Saidpur Household Appliances Limited for the 6-month period ended 31 December 2013 the:

(i) break-even point in units of output

(10)

(ii) margin of safety in sales revenue

(4)

(iii) profit or loss.

(4)

The 6 months ended 30 June 2014 are expected to see difficult trading conditions. The directors' policy is to break even, hoping to survive for the future. Output will be maintained at the present level, but selling price will be reduced as much as possible to arrive at break-even point.

Required:

(b) Calculate the selling price Saidpur Household Appliances Limited should charge in order to arrive at break-even point for a production of 8 500 units.

(6)

A management consultant has been asked his opinion on the intended policy of maintaining output levels and reducing selling prices in the next six months. The management consultant says Saidpur Household Appliances Limited should maintain selling prices and reduce output instead.

Saidpur Household Appliances Limited must choose between two possible policies for the future.

- Maintain present output level and reduce selling price
- Reduce present output level and maintain selling price

(c) Evaluate the two possible future policies for Saidpur Household Appliances Limited to follow for the next 6 months.

(8)

(Total 32 marks)

Answer space for question 5 is on pages 27 to 31 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 6

6. You are the accountant for Southern Gas plc, which supplies gas to households. You will have to report on the financial statements of the company at the Board of Directors' meeting. Information concerning the performance of the company for the financial year ended 31 December 2013 is as follows:

Authorised share capital	40 million (40 000 000) £0.50 Ordinary shares
Issued share capital	30 million (30 000 000) £0.50 Ordinary shares
Net profit before interest and tax	£1 575 000
Net profit after interest and tax	£818 000
Total Equity	£22 850 000
Non-current liabilities	£12 625 000
Total ordinary dividend paid for year	£616 000
Share price	£0.53

Required:

(a) Calculate the gearing ratio, stating clearly the formula used.

(6)

(b) Calculate the following ratios:

(i) Return on Capital employed

(3)

(ii) Earnings per ordinary share

(3)

(iii) Price/earnings ratio

(3)

(iv) Dividend paid per share

(3)

(v) Dividend cover

(3)

(vi) Dividend yield.

(3)

Gas is supplied to households by two large companies, Southern Gas plc and Northern Gas plc. At the Board meeting, you must report whether Southern Gas plc has performed better or worse than the rival Northern Gas plc.

Information for Northern Gas plc for the financial year ended 31 December 2013 is given below.

Gearing ratio	54%
Return on capital employed	3.94%
Earnings per ordinary share	3.7 pence

Required:

(c) Evaluate the performance and position of Southern Gas plc as a business compared to Northern Gas plc for the financial year ended 31 December 2013.

(8)

(Total 32 marks)

Answer space for question 6 is on pages 32 to 36 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 7

7. Sheung Wan Construction plc purchased Ngau Builders plc on 1 January 2014. The directors of Sheung Wan Construction plc agreed to take over all of the assets and to settle all the liabilities of Ngau Builders plc. The purchase price was agreed at 1.5 times the net book value of Ngau Builders plc, **after** any revaluations.

The purchase was settled on the following terms. For every one share held in Ngau Builders plc, a shareholder received:

- four ordinary shares in Sheung Wan Construction plc of £0.50 each at a premium of £0.22 per share
- the balance settled in cash.

The Statements of Financial Position of the two companies on 31 December 2013, before any revaluations, were as follows:

	Sheung Wan Construction plc		Ngau Builders plc	
ASSETS	£	£	£	£
Non-current Assets				
Property, plant and equipment	780 000 000		49 500 000	
Intangible assets	16 000 000		5 740 510	
		796 000 000		55 240 510
Current Assets				
Inventories	18 500 000		4 350 000	
Trade and other receivables	12 540 000		768 000	
Cash and cash equivalents	7 286 000		12 890	
		38 326 000		5 130 890
Total Assets		834 326 000		60 371 400
EQUITY AND LIABILITIES	£	£	£	£
Equity				
Ordinary Shares of £0.50 each	500 000 000		- - - - - - - - -	
Ordinary Shares of £1 each	- - - - - - - - -		24 000 000	
Share premium	200 000 000		18 000 000	
Retained earnings	44 955 000		5 254 400	
Total capital and reserves		744 955 000		47 254 400
Non-current liabilities				
6.5% Debenture 2017	25 000 000		- - - - - - - -	
Bank loan	50 000 000		6 000 000	
		75 000 000		6 000 000
Current liabilities				
Trade and other payables	11 650 000		2 410 000	
Current tax payable	2 721 000		1 707 000	
Short-term provisions	- - - - - - - -		3 000 000	
		14 371 000		7 117 000
Total Equity and Liabilities		834 326 000		60 371 400

Additional information:

The assets of Ngau Builders plc were revalued as follows:

- Property with a book value of £7 860 000 to a current market value of £9 120 000
- Plant with a book value of £3 010 000 reduced by £943 000
- Trade Receivables reduced by 5%
- Current tax payable reduced to a figure of £1 240 000.

Required:

(a) Calculate the purchase price of Ngau Builders plc.

(6)

(b) Calculate the goodwill paid by Sheung Wan Construction plc in the purchase of Ngau Builders plc.

(2)

(c) Calculate the amount of cash a shareholder in Ngau Builders plc would receive for each share held.

(4)

(d) Prepare the Statement of Financial Position of Sheung Wan Construction plc as at 1 January 2014 after the purchase of Ngau Builders plc.

(12)

Shares in Sheung Wan Construction plc were trading on the market at £0.72 per share. Shares in Ngau Builders plc were trading at £2.30 a share on the market.

(e) From the point of view of a shareholder in Ngau Builders plc, evaluate the purchase of the company by Sheung Wan Construction plc.

(8)

(Total 32 marks)

Answer space for question 7 is on pages 38 to 42 of the question paper.

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