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Please check the examination details below before entering your candidate information

Candidate surname	Other names

Pearson Edexcel
International Advanced Level

Centre Number | | | | | |

Candidate Number | | | | |

Thursday 9 January 2020

Morning (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 space 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 and 3 of the Source Booklet.

1 (a) Calculate the net cash flow for **each** of the 5 years of the project.

(20)

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(b) Calculate the payback period of the project.

(7)

(c) Calculate the net present value of the project.

(7)

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

(9)

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(e) Evaluate the project for HK Parcels plc, using your calculations and any other relevant factors.

(12)

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(Total for Question 1 = 55 marks)

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QUESTION 2 BEGINS ON THE NEXT PAGE.

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Source material for Question 2 is on pages 4 to 7 of the Source Booklet.

2 (a) Prepare, using the information in your Source Booklet and any other relevant information, the following for the year ended 31 December 2019:

(i) Property, Plant and Equipment Account

(4)

(ii) Provision for Depreciation on Property, Plant and Equipment Account.

(4)

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(b) Prepare a Statement of Cash Flows for the year ended 31 December 2019 for Altocirrus Publishers plc in accordance with International Accounting Standard (IAS) 7.

(35)

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(c) Evaluate the role of the auditor in the corporate governance of a public limited company.

(12)

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(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

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QUESTION 3 IN SECTION B BEGINS ON THE NEXT PAGE.

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SECTION B
Answer THREE questions from this section.

Indicate which question you are answering by marking a cross in the box ☒. If you change your mind, put a line through the box ☒ and then indicate your new question with a cross ☒.

If you answer Question 3 put a cross in the box ☐ .

Source material for Question 3 is on page 8 of the Source Booklet.

3 (a) Calculate the gearing ratio at 1 January 2019, stating the formula used.

(8)

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(b) Prepare the Journal entries to show the redemption of shares on 1 March 2019.

Narratives are not required.

(9)

(c) Calculate the total of the final dividend received by Rupjit, who holds 64 000 shares in Kishorgonj Holdings plc.

(7)

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(d) Evaluate from the viewpoint of Kishorgonj Holdings plc the redemption of the ordinary shares on 1 March 2019.

(6)

(Total for Question 3 = 30 marks)

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

Source material for Question 4 is on page 9 of the Source Booklet.

4 (a) Prepare a revenue budget for **each month** for the period January 2020 to June 2020.

(3)

	January	February	March	April	May	June

Workings

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(b) Prepare a **revised** revenue budget for **each month** for the period January 2020 to June 2020.

(4)

	January	February	March	April	May	June

Workings

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(c) Prepare a trade receivables budget, showing trade receivables at the end of **each month**, for the period January 2020 to June 2020.

(13)

	January	February	March	April	May	June

Workings

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(d) Explain any **two** stages in the process of budget preparation.

(4)

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(e) Evaluate the possible change being considered by Kyriakides Ltd to allow customers to buy on credit.

(6)

(Total for Question 4 = 30 marks)

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QUESTION 5 BEGINS ON THE NEXT PAGE.

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If you answer Question 5 put a cross in the box ☐ .

Source material for Question 5 is on pages 10 to 12 of the Source Booklet.

5 (a) Explain **two** factors that may be considered when determining the agreed value of goodwill for a company entering a merger.

(4)

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(b) Calculate the purchase consideration to be paid by Equator Holidays plc.

(3)

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(c) Prepare, in the books of Coastal Waves plc, the:

(i) Realisation Account

(7)

(ii) Sundry Shareholders Account.

(6)

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(d) Calculate how many shares Jonathan would receive in Equator Holidays plc.

(4)

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(e) Evaluate the merger of the two companies from Jonathan's point of view.

(6)

(Total for Question 5 = 30 marks)

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If you answer Question 6 put a cross in the box ☐ .

Source material for Question 6 is on pages 14 and 15 of the Source Booklet.

6 (a) Explain **two** advantages of using marginal costing when preparing financial statements.

(4)

1 .....

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2 .....

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(b) Explain **two** advantages of using absorption costing when preparing financial statements.

(4)

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QUESTION 6 (c) BEGINS ON PAGE 34.

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(c) Prepare, for Lalith da Silva, **two** Statements of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019, in **columnar format**, using:

- marginal costing
- absorption costing.

(16)

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Workings

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Lalith da Silva has said to you "I thought preparing financial statements using absorption costing instead of marginal costing always makes more profit for the business".

(d) Evaluate this statement.

(6)

(Total for Question 6 = 30 marks)

TOTAL FOR SECTION B = 90 MARKS

TOTAL FOR PAPER = 200 MARKS

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Pearson Edexcel International Advanced Level

Thursday 9 January 2020

Morning (Time: 3 hours) | Paper Reference **WAC12/01**

Accounting

International Advanced Level

Paper 2: Corporate and Management Accounting

Source Booklet

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SECTION A
Answer BOTH questions in this section.

1 HK Parcels plc is a delivery company that has been making losses in recent years in a very competitive market.

HK Parcels plc is now considering a project to purchase 10 new electric delivery vehicles to replace older diesel delivery vehicles.

The following information is available.

- The total initial costs involved in buying the 10 new delivery vehicles are £600 000
- In Year 1, each delivery vehicle will make 50 deliveries per day, charging customers £2.50 per delivery.
- In both Year 2 and Year 3, each delivery vehicle will make 65 deliveries per day, charging customers £3.00 per delivery.
- In both Year 4 and Year 5, each delivery vehicle will make 80 deliveries per day, charging customers £3.50 per delivery.
- In all Years 1 to 5, drivers will be paid 50 pence (£0.50) per delivery.
- In both Year 1 and Year 2, other running costs (including depreciation) will be £800 a week per delivery vehicle.
- In both Year 3 and Year 4, other running costs (including depreciation) will be £900 a week per delivery vehicle.
- In Year 5, other running costs (including depreciation) will be £1 000 a week per delivery vehicle.
- On the last day of Year 5, all the delivery vehicles will be sold for a total of £50 000
- The delivery vehicles will be operated for 6 days per week, for 50 weeks a year.

Required

(a) Calculate the net cash flow for **each** of the 5 years of the project.

(20)

(b) Calculate the payback period of the project.

(7)

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HK Parcels plc have had difficulties in raising funds to finance the project and its bank is only prepared to lend at a high rate of interest.

The cost of capital for HK Parcels plc for the project is 20%.

The discount factors for 20% are shown below.

Year	20% Discount Factor
1	0.833
2	0.694
3	0.579
4	0.482
5	0.402

Required

(c) Calculate the net present value of the project.

(7)

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

(9)

(e) Evaluate the project for HK Parcels plc, using your calculations and any other relevant factors.

(12)

(Total for Question 1 = 55 marks)

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2 The Statements of Financial Position of Altocirrus Publishers plc at 31 December 2018 and at 31 December 2019 were as follows.

	31 December 2018	31 December 2019
ASSETS	**£**	**£**
Non-current assets		
Property, plant and equipment at cost	2 262 000	2 278 000
Provision for depreciation	(381 000)	(385 000)
Property, plant and equipment carrying value	1 881 000	1 893 000
Intangibles	126 000	138 000
	2 007 000	2 031 000
Current assets		
Inventories	376 000	391 000
Trade receivables	281 000	229 000
Other receivables	24 000	29 000
Cash and cash equivalents	--------	89 000
	681 000	738 000
Total Assets	2 688 000	2 769 000

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	31 December 2018	31 December 2019
EQUITY AND LIABILITIES		
Equity		
Ordinary shares of £1 each	900 000	950 000
4.75% non-redeemable Preference shares of £1 each	60 000	60 000
Share premium	200 000	220 000
General reserve	100 000	120 000
Retained earnings	661 000	834 000
Total equity and reserves	1 921 000	2 184 000
Non-current liabilities		
6.5% Debenture 2024	----------	300 000
8% Bank loan	400 000	----------
	400 000	300 000
Current liabilities		
Trade payables	172 000	189 000
Other payables	66 000	61 000
Current tax payable	104 000	35 000
Bank overdraft	25 000	----------
	367 000	285 000
Total Equity and Liabilities	2 688 000	2 769 000

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Additional information

- On 21 January 2019, equipment that had accumulated depreciation of £14 000 was sold for £2 000
- On 15 February 2019, plant was bought for £35 000

Required

(a) Prepare, in your Question Paper, using the above and any other relevant information, the following for the year ended 31 December 2019:

(i) Property, Plant and Equipment Account

(4)

(ii) Provision for Depreciation on Property, Plant and Equipment Account.

(4)

Additional information

- On 16 March 2019, ordinary shareholders received a final dividend for the year ended 31 December 2018 of 2.1 pence (£ 0.021) per share.
- On 30 April 2019, an issue of 50 000 ordinary shares of £1 each at a premium of 40 pence (£0.40) per share was made.
- On 30 June 2019, the following took place:
  - a 10% debenture of £300 000 was issued
  - an 8% bank loan of £400 000 was repaid.
- There were no accruals or prepayments for interest in the year ended 31 December 2019.
- On 11 July 2019, all ordinary shareholders received an interim dividend of 1.4 pence (£0.014) per share for the year ended 31 December 2019.
- On 14 August 2019, a copyright for book titles was bought for £12 000
- Preference shareholders received their dividends in full during the year ended 31 December 2019.
- Profit after interest, but before tax, for the year ended 31 December 2019 was £263 050

Required

(b) Prepare a Statement of Cash Flows for the year ended 31 December 2019 for Altocirrus Publishers plc in accordance with International Accounting Standard (IAS) 7.

(35)

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(c) Evaluate the role of the auditor in the corporate governance of a public limited company.

(12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

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SECTION B
Answer THREE questions from this section.

3 The following balances were in the books of Kishorgonj Holdings plc on 1 January 2019, at the start of the financial year.

	£ '000
£1 Ordinary shares	13 500
Share premium reserve	27 000
5 year Bank loan	7 500
7% Debenture 2022	5 000
Foreign exchange reserve	3 500
General reserve	3 400
Retained earnings	2 600

Note – all the £1 Ordinary shares were originally issued at a premium of £2 per share.

Required

(a) Calculate the gearing ratio at 1 January 2019, stating the formula used.

(8)

On 1 March 2019, the directors of Kishorgonj Holdings plc decided to redeem one ordinary share for every nine shares held. The redemption was at the market price of £3.00 per share.

(b) Prepare the Journal entries to show the redemption of shares on 1 March 2019.

Narratives are not required.

(9)

Additional information

- On 1 June 2019, a total interim dividend of £150 000 was paid to shareholders who held shares at that date.
- On 1 December 2019, the directors decided the total dividend for 2019 would be 4% of the nominal value of the total shares at that date.

Required

(c) Calculate the total of the final dividend received by Rupjit, who holds 64 000 shares in Kishorgonj Holdings plc.

(7)

(d) Evaluate from the viewpoint of Kishorgonj Holdings plc the redemption of the ordinary shares on 1 March 2019.

(6)

(Total for Question 3 = 30 marks)

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4 Kyriakides Ltd owns furniture stores in the high streets of large towns. You work in the finance department of Kyriakides Ltd and have been asked to help with the preparation of budgets for the six-month period January 2020 to June 2020.

Due to the growth of the internet, revenue for Kyriakides Ltd is declining. Revenue for December 2019 was £480 000 for all stores. This is expected to fall at a constant monthly rate to £432 000 in June 2020.

Required

(a) Prepare a revenue budget for **each month** for the period January 2020 to June 2020.

(3)

In 2019 all sales were for cash. Starting in January 2020, Kyriakides Ltd is considering selling to customers on credit. It is expected that this will result in revenue increasing in January 2020 by 5% on the December 2019 figure. Revenue will continue to rise by 5% **each month**, on the previous month's figure until April 2020. The revenue for **each** of May 2020 and June 2020 will be the same as the revenue for April 2020.

Required

(b) Prepare a **revised** revenue budget for **each month** for the period January 2020 to June 2020.

(4)

It is expected that 50% of sales will be on credit. Credit customers will pay nothing in the month of the sale. They will then have to make two equal payments in the two months following the sale.

(c) Prepare a trade receivables budget, showing trade receivables at the end of **each month**, for the period January 2020 to June 2020.

(13)

(d) Explain any **two** stages in the process of budget preparation.

(4)

(e) Evaluate the possible change being considered by Kyriakides Ltd to allow customers to buy on credit.

(6)

(Total for Question 4 = 30 marks)

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5 The directors of Coastal Waves plc and Rift Valley Safaris plc decided to merge to form a new company.

The new company, formed on 1 January 2020, is called Equator Holidays plc.

The Statement of Financial Position of Coastal Waves plc on 31 December 2019 was as follows.

	£ 000	
ASSETS		
Non-current assets		
Property, plant and equipment	1 040	
Fixtures and fittings	55	
Computer systems	48	
Motor vehicles	75	
		1 218
Current assets		
Inventories	15	
Trade receivables	76	
Bank	18	
Cash	5	
		114
Total Assets		1 332
EQUITY AND LIABILITIES		
Ordinary shares of £1 each	500	
Share premium	200	
Foreign exchange reserve	33	
Retained earnings	142	
Total Equity and Reserves		875

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Non-current liabilities		
Bank loan	350	
		350
Current liabilities		
Trade payables	107	
		107
Total Equity and Liabilities		1 332

Equator Holidays plc took over all the assets and liabilities of Coastal Waves plc.

In agreeing the merger, a value was agreed for **each** of the assets and liabilities of the company. A value was then agreed for the goodwill.

Required

(a) Explain **two** factors that may be considered when determining the agreed value of goodwill for a company entering a merger.

(4)

The purchase consideration was settled by issuing shares in Equator Holidays plc to the shareholders of Coastal Waves plc on the following terms.

For every one share held in Coastal Waves plc, two ordinary shares of £1 in Equator Holidays plc, with a premium of 10 pence (£0.10) for each share, were issued.

Required

(b) Calculate the purchase consideration to be paid by Equator Holidays plc.

(3)

(c) Prepare, in the books of Coastal Waves plc, the:

(i) Realisation Account

(7)

(ii) Sundry Shareholders Account.

(6)

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Coastal Waves plc was formed in 1995 when there was the **one and only** issue of shares.

Jonathan paid £9 800 to buy his shares in Coastal Waves plc in 1995, when the shares were issued.

Required

(d) Calculate how many shares Jonathan would receive in Equator Holidays plc.

(4)

(e) Evaluate the merger of the two companies from Jonathan's point of view.

(6)

(Total for Question 5 = 30 marks)

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QUESTION 6 BEGINS ON PAGE 14.

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6 You have just been appointed as the accountant for Mannar Microwaves Ltd, which produces and sells microwave ovens. On investigation of the financial records, you find that financial statements have been drawn up using both marginal costing and absorption costing.

A director of the company, Lalith da Silva, asks you to explain why financial statements have been drawn up using both methods.

Required

(a) Explain **two** advantages of using marginal costing when preparing financial statements.

(4)

(b) Explain **two** advantages of using absorption costing when preparing financial statements.

(4)

The following information is available for the year ended 31 December 2019.

- Opening inventory – 2 600 units.
- Opening inventory valuation:
  - marginal costing valued at £12 per unit
  - absorption costing valued at £16 per unit.
- Production – 22 500 units in the year.
- Fixed overheads – £1 650 per week.
- Semi-variable costs – £519 fixed element per week plus 17 pence (£0.17) per unit.
- Direct materials – £6.96 per unit.
- Direct labour – 40 minutes work per unit at a wage rate of £7.80 per hour.
- Selling price – £24.75 per unit.
- Assume 50 weeks in a year.

The business has only one customer, a major retailer, who it supplies with 500 microwave oven units per week, for 50 weeks in the year.

Required

(c) Prepare, for Lalith da Silva, **two** Statements of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019, in **columnar format**, using:

- marginal costing
- absorption costing.

(16)

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Lalith da Silva has said to you "I thought preparing financial statements using absorption costing instead of marginal costing always makes more profit for the business".

Required

(d) Evaluate this statement.

(6)

(Total for Question 6 = 30 marks)

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

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