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Please check the examination details below before entering your candidate information

Candidate surname	Other names

Centre Number | Candidate Number

Pearson Edexcel International Advanced Level

Friday 27 October 2023

Afternoon (Time: 3 hours)

Paper reference **WAC12/01**

Accounting

International Advanced Level
UNIT 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.

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SECTION A

Answer BOTH questions in this section. Write your answers in the spaces provided.

Source material for Question 1 is on pages 2 and 3 of the Source Booklet.

1 (a) Calculate the break-even point for the production of e-bikes in the UK, for Year One in:

(i) sales units

(14)

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(ii) revenue.

(2)

(b) Calculate for Year One the:

(i) margin of safety in sales units

(4)

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

(3)

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The closing inventory of e-bikes is expected to be valued at £683 775

(c) Calculate the budgeted net profit for PedalPower plc for Year One.

(6)

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(d) Complete a break-even graph for Year One for an output of 0 to 45 000 units.

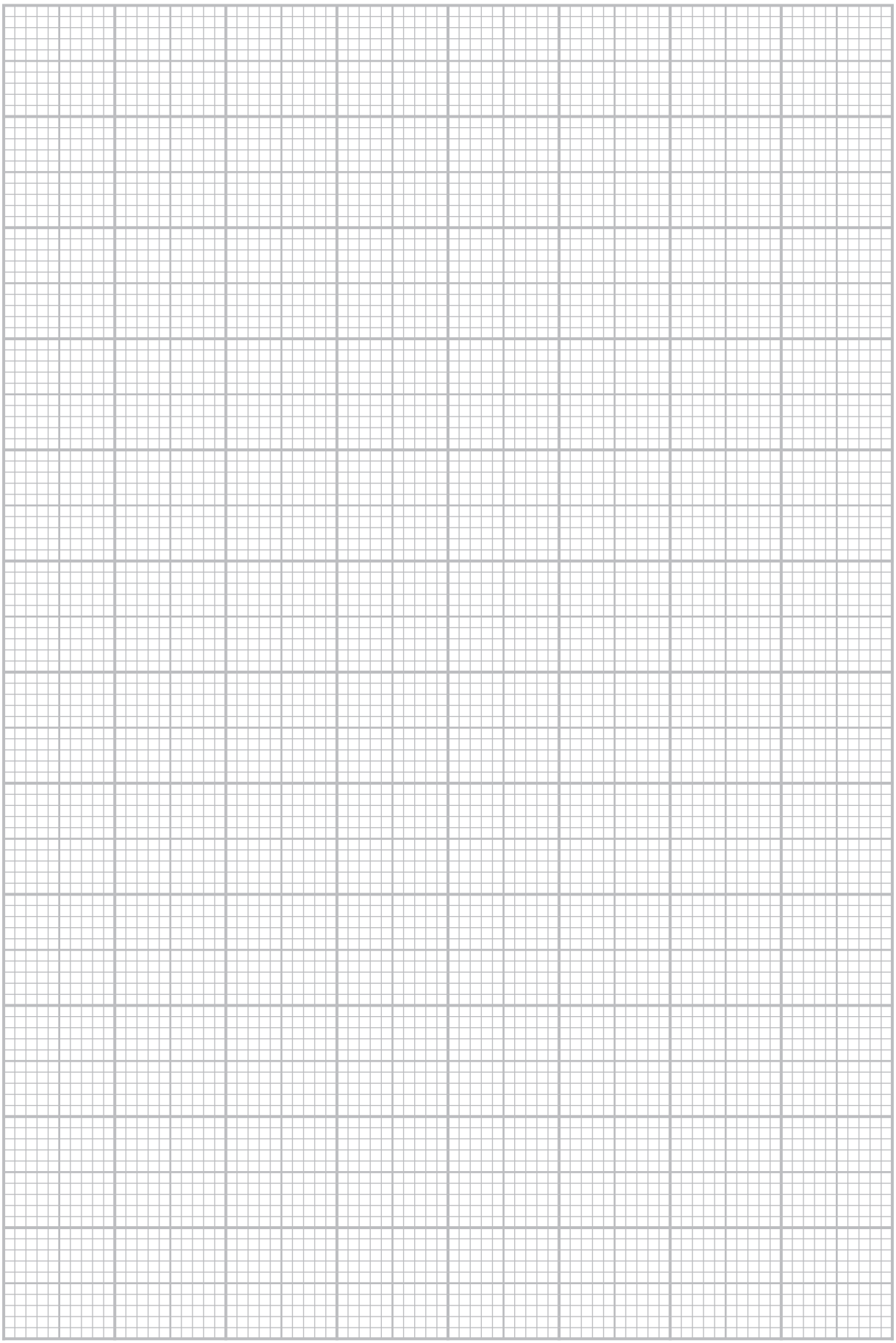
You may decide to use this page for workings.

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Workings

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(e) Evaluate the **two** possible options for the manufacture of the e-bikes, in the UK or outside the UK, and recommend one option.

(12)

(Total for Question 1 = 55 marks)

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Source material for Question 2 is on pages 4 and 5 of the Source Booklet.

2 (a) Prepare the Statement of Financial Position for Matara Clothing plc at 30 September 2023 in accordance with International Accounting Standard (IAS) 1.

(43)

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(b) Evaluate the usefulness of the Auditor's Report to the users of financial statements of Matara Clothing plc.

(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. Write your answers in the spaces provided.

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 pages 6 and 7 of the Source Booklet.

3 (a) Prepare the revenue budget for the period, January 2024 to April 2024, showing the revenue received for **each** month in pounds (£).

(3)

Revenue Budget	January	February	March	April

Workings

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(b) Prepare the production budget for January 2024 to April 2024, showing the production of rugs for **each** month in units.

(7)

Production Budget (rugs)	**January**	**February**	**March**	**April**
Less opening inventory				
Production for sales in month				
Production for closing inventory				
Total production for the month				

Workings

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(c) Prepare an extract from the cash budget for January 2024 to April 2024, showing the amount paid for labour for **each** month in pounds (£).

(4)

Cash Budget (extract)	January	February	March	April

Workings

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(d) Prepare the material purchases budget for January 2024 and February 2024, (two months only) showing the material purchased for **each** month in pounds (£).

(10)

Material Purchases Budget	January	February

Workings

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(e) Evaluate whether the order of drawing up budgets shown is a suitable order for Magic Carpet plc.

(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 pages 8 and 9 of the Source Booklet.

4 (a) Calculate the budgeted net profit for one year of operating the motorway.

(14)

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(b) Calculate the average rate of return (accounting rate of return) of the project, stating the formula used.

(4)

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(c) Calculate the payback period of the project.

(6)

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(d) Evaluate whether Roadway Construction plc should proceed with the project.

(6)

(Total for Question 4 = 30 marks)

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

Source material for Question 5 is on pages 10 and 11 of the Source Booklet.

5 (a) Complete the table to show how the following reserves in a company are:

- created
- used.

Reserve	Created	Used
(i) Retained earnings **(2)**		
(ii) Foreign exchange reserve **(2)**		
(iii) Share premium reserve **(2)**		
(iv) Revaluation reserve **(3)**		

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(b) Calculate the gearing ratio of Yau Tong Trading plc at the start of the financial year, on 1 October 2022.

(7)

(c) Calculate the total interest that must be paid by Yau Tong Trading plc in the financial year ending 30 September 2023.

(4)

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(d) Prepare Journal entries, including a date and a narrative, for the issue of the bonus shares.

(4)

(e) Evaluate the gearing ratio at the start of the year, making suggestions as to how it could be improved.

(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 12 and 13 of the Source Booklet.

6 (a) Calculate, for the year ended 30 September 2023, the:

(i) dividend per ordinary share

(3)

(ii) dividend yield

(3)

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(iii) dividend cover

(4)

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(iv) return on capital employed

(8)

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(v) price/earnings ratio.

(6)

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(b) Evaluate whether Dhara should sell her shares in Rajshahi Electronics plc and place the monies received into the bank account.

(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

Friday 27 October 2023

Afternoon (Time: 3 hours)

Paper reference **WAC12/01**

Accounting

International Advanced Level

UNIT 2: Corporate and Management Accounting

Source Booklet

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SECTION A

Answer BOTH questions in this section.

1. PedalPower plc is a new company about to enter the United Kingdom (UK) market supplying electronic bicycles (e-bikes).

PedalPower plc has to decide between two possible options.

Option One

Manufacture the e-bikes in a factory in the UK.

The following information is available for Year One.

- Delivery costs to retailers will be £18 per e-bike.
- Direct labour costs will be £62.50 per e-bike.
- Managers' salaries will be £68 000 per month.
- Material costs will be £130 per e-bike.
- Other fixed costs will be £35 000 per month.
- Power costs will be £21 750 per quarter (three-month period) plus £4 per e-bike.
- Rent of the factory will be £75 000 per month.
- Royalty payments to the designer of the e-bike will be £20 per e-bike.
- Each e-bike will be sold to retailers for £320

In Year One, production will be 45 000 e-bikes and 95% are expected to be sold.

Required

(a) Calculate the break-even point for the production of e-bikes in the UK, for Year One in:

(i) sales units

(14)

(ii) revenue.

(2)

(b) Calculate for Year One the:

(i) margin of safety in sales units

(4)

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

(3)

The closing inventory of e-bikes is expected to be valued at £683 775

(c) Calculate the budgeted net profit for PedalPower plc for Year One.

(6)

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Option Two

Plan for the e-bikes to be manufactured abroad, outside the UK.

The e-bikes will be shipped to the UK in containers.

The e-bikes will then be stored in a warehouse in the UK, before delivery to retailers.

- Delivery costs to retailers will be £18 per e-bike.
- Managers' salaries will be £744 000 per year.
- Manufacturing costs will be £157 per e-bike.
- Other fixed costs will be £346 000 per year.
- Power costs will be £60 000 per year.
- Rent of the warehouse will be £650 000 per year.
- Royalty payments to the designer of the e-bike will be £20 per e-bike.
- Shipping costs will be £1000 per container. One container will contain 200 e-bikes.

Each e-bike will be sold to retailers for £300

In Year One, 45 000 e-bikes will be purchased and 100% are expected to be sold.

Required

(d) Complete a break-even graph for Year One for an output of 0 to 45 000 units.

Graph pages are available on pages 6 and 7 of the question paper.

The graph must show the following:

- appropriate labelling of axes
- appropriate scales
- fixed costs
- total costs
- revenue
- break-even point measured in units and sales revenue
- profit for an output of 45 000 units
- margin of safety measured in units for an output of 45 000 units
- the angle of incidence.

(14)

(e) Evaluate the **two** possible options for the manufacture of the e-bikes, in the UK or outside the UK, and recommend one option.

(12)

(Total for Question 1 = 55 marks)

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2 The following information is available for Matara Clothing plc at 30 September 2023, subject to some final adjustments.

	Debit	**Credit**
	£	**£**
Bank loan		50 000
Bank overdraft		27 800
Cash	23 000	
Computer equipment – carrying value	45 000	
9% Debenture 2027		800 000
Debenture interest		36 000
Factory – carrying value	850 000	
Fixtures and fittings – carrying value	12 500	
Foreign exchange reserve		30 000
General reserve		40 000
Bank loan interest		12 750
Inventory at 30 September 2023	64 000	
Investment property at cost	1 235 000	
Land at cost	1 460 000	
Machinery – carrying value	180 000	
Motor vehicles at cost	124 000	
Motor vehicles – provision for depreciation		60 000
Other payables		3 500
Other receivables	9 800	
Plant and equipment – at cost	72 000	
Plant and equipment – provision for depreciation		21 600
Provision for possible damages in law suit		100 000

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	Debit	Credit
	£	£
Retained earnings		255 650
Share capital (ordinary shares @ £1 each)		2 000 000
Share premium		200 000
Taxation		252 000
Trade payables		110 000
Trade receivables	167 000	
Trademark purchased	55 000	

Final adjustments that need to be made before preparation of the Statement of Financial Position.

- Profit for the year is £298 000 before the adjustments below.
- This year's profit is not included in the retained earnings balance above.
- The bank loan is due to be repaid in February 2024.
- The factory is to be revalued upwards by 5% on its carrying value.
- Land is to be revalued upwards by 15%.
- Motor vehicles need to be depreciated by 25% per year using the reducing balance method.
- Plant and equipment need to be depreciated over 10 years using the straight line depreciation method.
- The law suit case will not be heard in court until 2025.
- Taxation for the year has been agreed with the tax authorities.
  Taxation due includes £67 000 to be paid within 30 days.
  The remainder is to be paid on 31 December 2024.
- A final dividend of 1.2p (£0.012) per share has been declared and will be paid on 11 October 2023.

Required

(a) Prepare the Statement of Financial Position for Matara Clothing plc at 30 September 2023 in accordance with International Accounting Standard (IAS) 1

(43)

(b) Evaluate the usefulness of the Auditor's Report to the users of financial statements of Matara Clothing plc.

(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 Magic Carpet plc has been a producer of rugs for many years and is preparing budgets for the start of 2024.

Budgeted sales for the period January 2024 to May 2024 are shown below.

January	2 700 rugs
February	2 100 rugs
March	2 200 rugs
April	2 400 rugs
May	1 800 rugs

The selling price in January and February will be £80 per rug.

The selling price of a rug will increase by 5% on 1 March. The higher selling price will apply to March and April.

Required

(a) Prepare the revenue budget for the period, January 2024 to April 2024, showing the revenue received for **each** month in pounds (£).

(3)

At the end of each month Magic Carpet plc holds 60% of the following month's budgeted sales in inventory.

(b) Prepare the production budget for January 2024 to April 2024, showing the production of rugs for **each** month in units.

(7)

The standard labour cost for one rug is 2.5 hours of labour at £9.60 per hour, paid in the same month as production.

(c) Prepare an extract from the cash budget for January 2024 to April 2024, showing the amount paid for labour for **each** month in pounds (£).

(4)

The standard material cost for one rug is 40 metres of material at £0.72 per metre.

At the end of each month Magic Carpet plc holds 50% of the following month's material required for production.

Magic Carpet plc is unsure about the price of material from March onwards.

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Required

(d) Prepare the material purchases budget for **January 2024 and February 2024**, (two months only) showing the material purchased for **each** month in pounds (£).

(10)

Magic Carpet plc has prepared its budgets in the order shown below.

- Sales of rugs.
- Revenue in pounds (£).
- Production of rugs.
- Extract of cash budget – amount paid to labour each month.
- Material purchases in pounds (£).

(e) Evaluate whether the order of drawing up budgets shown is a suitable order for Magic Carpet plc.

(6)

(Total for Question 3 = 30 marks)

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4 Roadway Construction plc is considering the possibility of building and operating a private motorway. Drivers will have to pay to use the motorway.

The cost of building the motorway will be £20 000 000

The company will depreciate the initial costs of the investment over five years.

The following information will apply to **each** of the first five years of the project.

- The motorway operates 24 hours a day, 365 days per year.
- The cost for a car to use the motorway will be £5 per journey.
- Between 7 am (07:00) and 8 pm (20:00) 275 cars per hour are expected to use the motorway.
- Between 8 pm (20:00) and 7 am (07:00) 90 cars per hour are expected to use the motorway.
- The cost for a lorry to use the motorway will be £8 per journey.
- Between 7 am (07:00) and 8 pm (20:00) 38 lorries per hour are expected to use the motorway.
- Between 8 pm (20:00) and 7 am (07:00) 12 lorries per hour are expected to use the motorway.
- In order to operate the motorway will require a number of members of staff.
  The 24-hour day is divided into three working periods.
  The number of staff required for each working period is shown in the table below.
  Each member of staff is paid at a rate of £75 per working period.

Working period	**Number of staff required**
Morning	6
Afternoon	6
Evening	3

- Motorway maintenance costs will be £1 000 a day.
- Other overheads, excluding depreciation, will be £450 000 per year.

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Required

(a) Calculate the budgeted net profit for one year of operating the motorway.

(14)

(b) Calculate the average rate of return (accounting rate of return) of the project, stating the formula used.

(4)

(c) Calculate the payback period of the project.

(6)

(d) Evaluate whether Roadway Construction plc should proceed with the project.

(6)

(Total for Question 4 = 30 marks)

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5 (a) Complete the table in the Question Paper to show how the following reserves in a company are:

- created
- used.

(i) Retained earnings

(2)

(ii) Foreign exchange reserve

(2)

(iii) Share premium reserve

(2)

(iv) Revaluation reserve

(3)

Yau Tong Trading plc, had the following balances in the books on 1 October 2022, the start of the financial year.

8% bank loan 2026	£24 000 000
General reserve	£46 500 000
11% mortgage loan	£36 000 000
Ordinary shares of £0.50 each	£60 000 000
Retained earnings	£16 500 000 Debit
5% Redeemable Preference shares of £1 each	£10 000 000
Share premium	£15 000 000

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Required

(b) Calculate the gearing ratio of Yau Tong Trading plc at the start of the financial year, on 1 October 2022.

(7)

(c) Calculate the total interest that must be paid by Yau Tong Trading plc in the financial year ending 30 September 2023.

(4)

The directors of Yau Tong Trading plc decided to issue bonus shares, using the general reserve, in the ratio of one bonus share issued for every three ordinary shares held.

The issue of bonus shares took place on 12 July 2023.

(d) Prepare Journal entries, including a date and a narrative, for the issue of the bonus shares.

(4)

At a Board Meeting on 1 July 2023, the Marketing Director said:
'I can see the figure calculated for the gearing ratio at the start of the year. Is this a good figure? How can we improve the gearing ratio?'

(e) Evaluate the gearing ratio at the start of the year, making suggestions as to how it could be improved.

(6)

(Total for Question 5 = 30 marks)

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6 You are an accountant for Rajshahi Electronics plc and have been asked to calculate some accounting ratios for the Annual Report.

The following information is available for the year ended 30 September 2023.

Profit for the year after interest before tax	£3 200 000
Tax on profit	£610 000
Interim dividend per ordinary share	0.5 pence (£0.005)
Final ordinary dividend paid for the year	£1 680 000
Market price of ordinary share	£1.30
Ordinary shares of £1 each	£80 000 000
Share premium	£40 000 000
4% Irredeemable Preference shares of £1 each	£12 000 000
Retained earnings	£6 700 000
6% Bank Loan 2026	£20 000 000
10% Debenture 2028	£25 000 000

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Required:

(a) Calculate, for the year ended 30 September 2023, the:

(i) dividend per ordinary share

(3)

(ii) dividend yield

(3)

(iii) dividend cover

(4)

(iv) return on capital employed

(8)

(v) price/earnings ratio.

(6)

Dhara is a shareholder in Rajshahi Electronics plc. Two years ago, she bought 1 000 ordinary shares for £1.35 per share.

Dhara is considering selling her shares in Rajshahi Electronics plc and placing the money received from the sale in a bank account. Dhara will receive 3% interest per year on any monies deposited in the bank account.

(b) Evaluate whether Dhara should sell her shares in Rajshahi Electronics plc and place the monies received into the bank account.

(6)

(Total for Question 6 = 30 marks)

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

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