

**Pearson Edexcel International Advanced Level**

**Friday 24 May 2024**

Afternoon (Time: 3 hours)

Paper  
reference

**WAC12/01**

**Accounting**

**International Advanced Level**

**PAPER 2: Corporate and Management Accounting**

**Source Booklet**

**Do not return this Booklet with the question paper.**

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## SECTION A

**Answer BOTH questions in this section.**

- 1** PH plc is to start producing acid at its chemical factory on 1 July 2024.

The following information is available for the production of acid at the chemical factory for the period 1 July to 30 September 2024.

- To produce the acid requires two chemicals (X and Y) and water.
- The acid is produced using the three inputs X, Y and water, in the ratio 1 : 2 : 7
- The costs of the inputs are:
  - Chemical X is £4.76 per litre for the three months
  - Chemical Y is £2.75 per litre but rising by 4% on 1 September
  - Water is £1.05 per litre but rising by 5% on 1 August
  - The cost of water for September will be the same as August.
- The credit terms given by the three suppliers are:
  - Xerxes plc sells only for cash and supplies Chemical X
  - Yolanda plc gives one month's credit and supplies Chemical Y
  - Zephyr Water plc gives two months' credit and supplies the water required.
- Full advantage is taken of credit terms offered by suppliers.
- PH plc has budgeted to produce 44 000 litres of acid per month.

You are the Cost Accountant for PH plc and have to prepare budgets.

### Required

- (a) Prepare the following budgets for **each** of the three months from July to September 2024 for PH plc.
- (i) Purchases budget, in litres. (3)
- (ii) Purchases budget, in pounds (£). (6)
- (b) Prepare the Trade Payables budget, in pounds (£), showing the amount owed to suppliers at the end of **each** of the three months July to September 2024. (4)



Acid sells for £19.50 per litre.

PH plc only has four customers that have a contract to receive a fixed amount of acid each month.

The following sales information is available.

	Sales per month – litres	Credit terms for payment	Credit limit
Alpha plc	10 000	1 month	£200 000
Beta plc	12 000	1 month	£200 000
Gamma plc	9 000	2 months	£200 000
Delta plc	11 000	2 months	£200 000

### Required

- (c) Prepare the Sales budget, in litres, showing the amount sold for **each** of the three months July to September 2024. (2)
- (d) Prepare the Inventory budget, in litres, for **each** of the three months July to September 2024. (4)
- (e) Prepare the Trade Receivables budget, in pounds (£), showing the amount owed by customers at the end of **each** of the three months July to September 2024. (10)
- (f) Prepare an extract from the Cash budget showing the amounts received from customers for **each** of the three months July to September 2024. (14)
- (g) Evaluate the role of budgeting as a management tool for planning, forecasting and control. (12)

(Total for Question 1 = 55 marks)

- 2 Gallanna Homes plc had the following balances at the start of the financial year on 1 April 2023.

	£ 000
Share Capital (Ordinary Shares of £1 each)	65 000
Share Premium	13 000

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

During the year ended 31 March 2024, the following took place.

- On 7 April 2023 the company offered 12 000 000 ordinary shares at a price of £1.20 on the following terms:
  - 10 pence (£0.10) on application
  - 40 pence (£0.40) on allotment (including the 20 pence (£0.20) premium)
  - 30 pence (£0.30) first call
  - 25 pence (£0.25) second call
  - 15 pence (£0.15) third and final call.
- On 3 May 2023 applications for 13 560 000 shares had been received. The directors rejected applications for 1 560 000 shares and allotted the shares to the successful applicants.
- On 24 July 2023 monies were returned to the unsuccessful applicants.
- On 31 August 2023 the balances due on allotment were fully received.
- On 18 November 2023 the first call was made and the amounts were fully received.
- On 31 January 2024 the second call was made and the amounts were fully received.
- On 15 March 2024 the third and final call was made and the amounts were fully received.

## Required

(a) Prepare the following ledger accounts to record the transactions for the financial year ended 31 March 2024.

(i) Ordinary share capital. (7)

(ii) Share premium. (3)

(iii) Application and allotment. (6)

(iv) First call. (3)

(v) Second call. (2)

(vi) Third and final call. (3)

(vii) Bank account (showing extracts relevant to the share issue only). (6)

You should show the following where relevant:

- dates
- opening balances at the start of the financial year at 1 April 2023
- closure of any relevant accounts during the financial year ended 31 March 2024
- closing balances at the end of the financial year at 31 March 2024
- opening balances at the start of the financial year at 1 April 2024.

(b) State if the issue of the shares was a bonus issue or a rights issue of shares. (1)

(c) Explain **two differences** between a bonus issue of shares and a rights issue of shares. (4)

(d) Explain **one** example of how an issue of bonus shares has the same effect as a rights issue of shares. (2)

On 1 April 2023, before the issue of the shares, the following information applied.  
The:

- gearing ratio of Gallanna Homes was 22%
- total figure for equity, reserves and non-current liabilities was £200 000 000

**Required**

(e) Calculate the gearing ratio of Gallanna Homes plc after the issue of the shares. (6)

Gallanna Homes plc had also considered the issue of a debenture to raise the funds required.

(f) Evaluate the decision of Gallanna Homes plc to issue ordinary shares instead of a debenture. (12)

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**(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** Below and on the following page is the Statement of Profit or Loss and Other Comprehensive Income and notes to the accounts of Cirium Manufacturing plc for the year ended 31 March 2024. The Statement of Profit or Loss and Other Comprehensive Income has been prepared in accordance with International Accounting Standard (IAS) 1.

The statement is to be presented at the Annual General Meeting of shareholders, who have been asked to submit any questions they may have, before the meeting.

<b>Statement of Profit or Loss and Other Comprehensive Income for Cirium Manufacturing plc for the year ended 31 March 2024</b>	
	£
Revenue	946 953
Cost of sales	(326 817)
Gross profit	620 136
Other income	4 800
Distribution costs	(238 790)
Administrative expenses	(97 216)
Financial cost	(19 930)
Profit on ordinary activities before tax	269 000
Corporation tax	(45 600)
Profit on ordinary activities after tax	223 400
<b>Cost of sales</b>	<b>£</b>
Opening inventory	2 011
Direct materials	128 400
Less discount received	(3 210)
Factory rent	23 600
Machinery depreciation	19 200
Factory power	12 416
Machinery maintenance	15 176
Production staff wages	132 308





Less closing inventory	<u>(3 084)</u>
	326 817
Distribution costs	
Fuel	14 226
Motor lorries depreciation	22 000
Promotions and advertising	28 000
Warehouse rent	118 310
Motor lorries expenses	11 178
Transport staff wages	<u>45 076</u>
	238 790
Administrative expenses	
Audit fees	3 664
Bad debts written off	3 080
Increase in allowance for irrecoverable debts	2 400
Discount allowed	18 833
Office expenses	1 263
Office staff wages	57 912
Insurance	<u>10 064</u>
	97 216
Financial costs	
Interest on bank loan	14 500
Overdraft interest	<u>5 430</u>
	19 930

## Required

A shareholder asks at a meeting, 'Does the company own all of the non-current assets that we use in the business?'

- (a) (i) State **two** non-current assets that the company uses but **does not own**. (2)
- (ii) State **two** reasons that may explain the difference between the value of opening inventory and the value of closing inventory. (2)
- (iii) State **two** items that could be included under the heading of Other income. (2)
- (iv) Calculate the percentage of discount received on purchases of direct materials. (2)
- (v) State **two** reasons that may explain why the allowance for irrecoverable debts has increased. (2)

The first £29 000 of profit is not liable for corporation tax.

- (vi) Calculate the percentage rate of corporation tax that is paid on profits over £29 000 (3)
- (vii) Explain the term 'audit fees'. (3)



You have also been asked to complete some book-keeping.

The following information is available.

- Two years ago the company was formed, on 1 April 2022
- On 1 April 2022 four motor lorries were purchased for £30 000 each.
- All motor lorries were expected to last for five years before being sold for £2 500 each.
- Each motor lorry is depreciated using the straight-line method of depreciation.
- On 31 March 2024 one motor lorry was sold for £19 500, payment being made by cheque.
- It is company policy to charge a full year's depreciation on any motor lorries sold during the year.

**Required**

(b) Complete the entries in the following accounts in the Question Paper for the financial year 1 April 2023 to 31 March 2024

(i) Motor Lorries Provision for Depreciation Account.

(4)

(ii) Disposal of Motor Lorries Account.

(4)

One shareholder states that he has seen the terms 'continuing activities' and 'discontinued activities' in previous financial statements.

(c) Evaluate the importance of disclosing continuing activities and discontinued activities in the financial statements.

(6)

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**(Total for Question 3 = 30 marks)**

- 4 Bangla Red Sun Electronics plc has a contract to supply its only customer, a major mobile phone producer, PulseWaves plc, with 200 000 memory cards per month.

The following information is available for the year ended 31 March 2024

Opening inventory	95 000 memory cards valued at £3.50 per memory card
Production	2 390 000 memory cards
Direct materials	£0.31 per memory card
Direct labour	12 minutes' work per memory card at a wage rate of £10.80 per hour
Semi variable costs	£286 800 per year plus £0.42 per memory card
Fixed overheads	£114 000 per month
Selling price	£4.30 per unit

**Required**

- (a) Calculate the quantity of memory cards that are in the closing inventory at 31 March 2024. (3)

- (b) Prepare for management the Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2024. Closing inventory is to be valued using **absorption costing**. (14)

Management has requested the **marginal cost** of producing **one** memory card.

- (c) Calculate the **marginal cost** of producing **one** memory card. (3)

- (d) Explain **two** disadvantages of **marginal costing**. (4)

PulseWaves plc has notified Bangla Red Sun Electronics plc that it is having financial problems and it would like to reduce the price it is paying per memory card.

PulseWaves plc wishes to pay £3.50 per memory card for the next three months.

PulseWaves plc states it hopes to be able to pay the normal price of £4.30 per memory card after the three-month period.

**Required**

- (e) Evaluate, from the viewpoint of Bangla Red Sun Electronics plc, the proposal of PulseWaves plc. (6)

(Total for Question 4 = 30 marks)



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- 5 Jesmin runs a shop that sells paintings produced by local artists. The local artists leave their paintings in the shop and hope they will be sold. If they are sold, Jesmin charges a commission to the artists.

Jesmin is concerned about the level of sales, break-even point and profits.

Information for the year ended 31 March 2024 is as follows.

- Average price charged to customers who buy a painting is £55
- Number of paintings sold per week is 11
- Commission charged to artists by Jesmin on paintings sold is 50% of the selling price.
- Rent of shop premises £490 per month.
- Insurance per year £440
- Loan interest paid £225 per month.
- Other fixed costs £165 per month.
- Assume 52 weeks per year.

**Required**

- (a) Calculate the number of paintings Jesmin had to sell in the year ended 31 March 2024 to break even.

(8)

- (b) Calculate the profit or loss made by Jesmin in the year ended 31 March 2024.

(3)

For the year starting 1 April 2024 and ending 31 March 2025, Jesmin is considering closing the shop, working from home, and selling through the internet.

The following estimates would apply to selling through the internet.

- Average price charged to customers who buy a painting will be £60
- The number of paintings sold will be 10 per week.
- Commission charged to artists by Jesmin on paintings sold will be 50% of the selling price.
- There will be no rent for premises to be paid.
- Insurance will be 70% of the insurance charged for the shop.
- Loan interest paid will be £225 per month.
- The cost of a website will be £45 a month.
- Other fixed costs will fall by £55 a month.
- A garden studio to store the paintings will have to be built. This will cost £5 000. The cost of the studio would be spread over 20 years.
- Assume 52 weeks per year.



**Required**

- (c) Calculate the number of paintings Jesmin would have to sell in the year ending 31 March 2025 to break even. (7)
- (d) Calculate the expected profit or loss for Jesmin for the year ending 31 March 2025. (3)
- (e) Calculate the expected margin of safety in sales units for Jesmin for the year ending 31 March 2025. (3)
- (f) Evaluate the proposal of Jesmin to close the shop and sell the paintings from home, through the internet. (6)

**(Total for Question 5 = 30 marks)**

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- 6 The Statements of Financial Position of Kowloon Tong Stores plc on 31 March 2023 and 31 March 2024 are shown below.

	31 March 2023	31 March 2024
<b>ASSETS</b>	<b>£</b>	<b>£</b>
<b>Non-current assets</b>		
Intangibles – goodwill	228 000	216 000
Property, plant and equipment at cost	15 431 000	16 817 000
Provision for depreciation	(4 876 000)	(5 429 000)
Property, plant and equipment carrying value	10 555 000	11 388 000
Total non-current assets	10 783 000	11 604 000
<b>Current assets</b>		
Inventories	4 105 000	4 082 000
Trade receivables	1 327 000	1 459 000
Other receivables	88 000	77 000
Cash and cash equivalents	<u>186 000</u>	<u>-----</u>
Total current assets	5 706 000	5 618 000
<b>Total assets</b>	<u>16 489 000</u>	<u>17 222 000</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital – ordinary shares of £0.50	8 000 000	7 000 000
5% irredeemable preference shares of £1	1 500 000	1 500 000
Share premium	2 000 000	1 750 000



Retained earnings	<u>1 602 000</u>	<u>3 746 000</u>
Total equity and reserves	13 102 000	13 996 000
<b>Non-current liabilities</b>		
8% bank loan	1 850 000	1 650 000
9% debenture 2028	<u>-----</u>	<u>500 000</u>
	1 850 000	2 150 000
<b>Current liabilities</b>		
Trade payables	1 043 000	913 000
Other payables	37 000	41 000
Current tax payable	457 000	98 000
Cash and cash equivalents	<u>-----</u>	<u>24 000</u>
	1 537 000	1 076 000
<b>Total equity and liabilities</b>	<u>16 489 000</u>	<u>17 222 000</u>

### Additional information

- Goodwill of £240 000 was paid when purchasing another business in the year ended 31 March 2022. The goodwill is being amortised (depreciated) over 20 years.
- On 12 May 2023 a retail property was bought for £2 200 000
- On 23 May 2023 ordinary shareholders received a final dividend for the year ended 31 March 2023 of 1.1 pence (£0.011) per share.
- On 24 August 2023 a redemption of 2 000 000 ordinary shares of 50 pence (£0.50) each at a premium of 12.5 pence (£0.125) per share was made.
- On 1 October 2023 bank loan repayments were made.
- On 1 October 2023 a 9% debenture was issued.
- On 18 October 2023 all ordinary shareholders received an interim dividend of 0.4 pence (£0.004) per share.
- On 8 March 2024 a property was sold for a profit of £215 000
- Preference shareholders received their dividends in full during the year.

## Required

Your line manager, the Senior Accountant, has asked you to carry out a number of tasks.

- (a) Prepare the following sections of the Statement of Cash Flows for the year ended 31 March 2024 for Kowloon Tong Stores plc in accordance with International Accounting Standard (IAS) 7 Cash Flow Statements.

(i) Financing activities.

(11)

(ii) Investing activities.

(9)

The Senior Accountant has produced the **Operating activities** section of the Cash Flow Statement. She would like you to do a calculation to see if you agree with her total for Operating activities. You should use the Total Financing activities figure from (a)(i) and the Total Investing activities figure from (a)(ii) and any other relevant information.

- (b) Calculate the **total** of the **Operating activities** section of the Statement of Cash Flows.

(4)

A bank loan, ordinary shares, preference shares and a debenture have all been used as sources of finance for Kowloon Tong Stores plc.

- (c) Evaluate how well Kowloon Tong Stores plc has managed its sources of finance during the year ended 31 March 2024.

(6)

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(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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