X209/13/01

NATIONAL QUALIFICATIONS 2012

FRIDAY, 11 MAY
1.00 PM – 4.00 PM

ACCOUNTING
ADVANCED HIGHER

Candidates should attempt **six** questions in total, as follows.

Section A

Question 1

and Question 2 **or** 3

and Question 4 **or** 5

Section B

Question 6

and Question 7 **or** 8

and Question 9 **or** 10

Answers must be in ink. Answers in pencil will **not** be accepted, though incidental working may be in pencil.

All working should be shown fully and clearly labelled. Any incorrect figure not supported by adequate working will receive no marks. Candidates using calculators should pay particular heed.

Begin your answer to each question on a fresh page.

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SECTION A

You should attempt 3 questions from this section.

Question 1, AND Question 2 OR 3, AND Question 4 OR 5.

1. Part A

The following balances were taken from the ledger accounts of Matthews plc on 31 December Year 2.

	£	
10% Preference Shares of £1 each	100,000	
Ordinary Shares of £0·50 each	187,500	
10% Debentures	100,000	
Share Premium	30,900	
Sales	525,700	
Purchases	217,500	
Wages and salaries	42,200	
Rent and rates	15,000	
Directors' emoluments	6,100	
Discounts (Net)	700	Cr
Machinery (at cost)	400,000	
Delivery Vans (at cost)	125,000	
Provision for Depreciation		
Machinery	25,000	
Delivery Vans	9,000	
Investment income	4,500	
Bank interest	2,300	Cr
Profit and Loss Account balance (1 January Year 2)	5,265	
Sundry administration expenses	7,980	
Sundry distribution costs	17,825	
Debenture interest	5,000	
Stock (1 January Year 2)	14,605	
Vehicle expenses	4,220	
Debtors	10,940	
Creditors	9,330	
Investments (Market Value £105,000)	100,000	
Bank	12,575	Dr
Dividends paid (see Note 7)	?	

1. Part A (continued) *Marks*

The following additional information is available.

1 Stock at 31 December Year 2 was £25,500.

2 The following accruals and prepayments were outstanding at 31 December Year 2.

	Accruals	Prepayments
Wages and Salaries	£1,500	
Rent and Rates		£5,800
Audit Fee	£10,200	

3 After allowing for accruals and prepayments the following expenses are to be allocated as follows.

Expenses	Cost of Sales	Administration	Distribution
Wages and Salaries	20%	40%	40%
Rent and Rates	50%	20%	30%

4 Depreciation for the year is to be charged as follows.

Machinery	25% on cost
Delivery Vans	15% on written down value

5 Depreciation should be allocated as follows.

	Cost of Sales	Administration	Distribution
Machinery	70%	Nil	30%
Delivery Vans	Nil	Nil	100%

6 Corporation Tax of £45,400 is to be provided on this year's profit.

7 In addition to the above balances Matthews plc paid the Preference Dividends in full and an ordinary share dividend of 3p per share.

You are required to:

(*a*) calculate the following totals to be included in the Published Profit and Loss Accounts of Matthews plc:

(i) Cost of Sales;

(ii) Distribution Expenses;

(iii) Administration Expenses. **15**

(*b*) Prepare the Published Profit and Loss Account for Matthews plc for the year ended 31 December Year 2 and the Balance Sheet at that date in accordance with the best accounting practice. **27**

1. (continued) *Marks*

Part B

The Managing Director provides you with the following information and asks you to calculate investment ratios for inclusion in the Annual Report.

The Market Price per Ordinary Share is £1·20.

Calculate the following.

(*a*) Earnings per share

(*b*) Price Earning Ratio

(*c*) Dividend Yield **8**

(50)

[Turn over for Question 2 on *Page six*

2. L Smith had the following assets and liabilities at 1 January Year 2.

	£	
Land and buildings (cost)	250,000	
Motor Vehicles (cost)	25,000	
Prepaid Insurance	240	
Stock	32,600	
Debtors	32,000	
Creditors	22,600	
Wages due	500	
Bank	22,500	Cr
Provision for depreciation:		
Motor Vehicles	5,000	
Capital	289,240	

1 Smith provides for Depreciation monthly on the following basis.

Motor Vehicles — 20% straight line method.

2 Smith keeps a notebook where he records his receipts and payments during the year.

Receipts	£
Cash takings banked	75,500
Debtors cheques	159,000
Additional Capital	25,000
Sale of motor vehicle on 1 July Year 2	5,000
(Costing £7,500 on 1 January Year 1)	
Total	264,500
Payments	
Rates	2,400
Wages and Salaries	42,500
Electricity	1,860
Insurance	5,500
Creditors	123,400
Total	175,660

3 The following amounts have been paid from his cash takings before they were banked.

Drawings — £200 per week
Purchases —£3,200
Repairs to buildings — £2,900

4 Smith took goods at a sales value of £400 from the business for his own use. Smith operates on a mark up of 25%.

5 Stock was valued at £29,500 on 31 December Year 2.

6 One debtor owing £4,300 failed to pay and was declared bankrupt. A dividend of £0·20 in the £ has been received.

7 Discount allowed during the year amounted to £2,300 and discount received £745.

2. (continued) *Marks*

8 The following balances were outstanding at the end of the financial year.

Debtors — £28,000
Creditors — £19,200.

9 Smith decides to create a provision for doubtful debts of 5% per annum.

10 Accruals and prepayments at 31 December Year 2 were as follows.

Insurance prepaid — £300
Electricity due — £75.

From the above information you are required to prepare for the year ended 31 December Year 2:

(*a*) Trading and Profit and Loss Account. **30**

(*b*) Calculate the following figures which would be included in the Balance Sheet at 31 December Year 2:

(i) Net Book Value of Motor Vehicles;

(ii) Bank Balance;

(iii) Closing Capital figure. **10**

NB A Balance Sheet is not required. **(40)**

[Turn over

3. Part A

Use the Worksheet provided to answer both parts of this question.

Livingstone plc provided the following financial information for the year ended 30 June Year 3.

1 Changes in Current Assets/Liabilities.

Stocks	£20,000 increase
Debtors	£30,000 decrease
Creditors	£20,000 increase

2 Movements in Fixed Assets.

	BUILDINGS £000's	**EQUIPMENT £000's**	**VEHICLES £000's**
Acquisitions and Disposals			
During the year:			
Acquisitions	150	200	60
Disposals	(50)	(75)	(20)
Provisions for Depreciation			
During the year:			
Written off to Profit and Loss	—	100	30
On disposals	—	(40)	(5)
Revaluation of Assets			
Increase in Value	200	—	—

3 Sales of Fixed Assets realised.

Buildings	£100,000
Equipment	£30,000
Vehicles	£10,000

4 The Profit and Loss Account for the year ended 30 June Year 3 allowed for:

Debenture Interest Payable	£10,000
Ordinary Dividends	£20,000
Corporation Tax	£25,000

5 Unappropriated profit for the year ended 30 June Year 3 was £80,000.

6 Analysis of the Balance Sheets as at 30 June Year 2 and Year 3 identified the following.

	At 30 June Year 2	**At 30 June Year 3**
Corporation Tax Owing	£30,000	£40,000
Debenture Interest Owing	£20,000	£20,000

7 There were no changes made to Long-term financing during the year.

3. (continued) *Marks*

Complete the necessary statements **on the Worksheet provided** to show for the year ended 30 June Year 3:

(i) Net Cash Inflow from Operating Activities;

(ii) Increase/Decrease in Bank balance. **31**

Part B

Livingstone plc's bank account was overdrawn by £100,000 at 30 June Year 2.

The directors wish to build a new factory in Bathgate costing £500,000 and to increase their bank balance to £150,000.

The Authorised Capital consists of 1,000,000 Ordinary Shares of 50p each. Issued Capital is currently 400,000 Ordinary Shares.

To finance this they decide to raise capital by:

(i) Issuing 300,000 £1 10% Debentures;

(ii) Issuing Ordinary shares for the remainder of the sum required.

On the Worksheet provided calculate the Share Premium Livingstone plc require to attach to each share in order to raise the capital required. **9**

(40)

[Turn over

Marks

4. Businesses use accounting ratios to compare their results of one year against those of another or to compare their results with those of a competitor.

(*a*) Identify and describe areas of financial performance that a Finance Manager might consider. **6**

(*b*) Select 2 of these areas of performance and discuss 2 ratios for each that a Finance Manager might calculate and indicate their significance.

(NB marks will not be awarded for stating ratio formulae.) **16**

(*c*) Discuss the limitations of ratio analysis when carrying out inter-firm comparisons. **8**

(30)

5. Social Accounting is a diverse activity mainly concerned with offering a complementary form of accounting as opposed to the more usual economic and profit orientated accounting.

(*a*) Describe what is meant by the term Social Audit. **6**

(*b*) Outline the social and environmental issues an organisation may wish to report on. **16**

(*c*) Describe the benefits to an organisation of adopting a Social Accounting Policy. **8**

(30)

[Turn over for Section B on *Page twelve*

SECTION B

Marks

You should attempt 3 questions from this section.

Question 6, AND Question 7 OR 8, AND Question 9 OR 10.

6. Part A

Thomson Ltd are manufacturers. Using existing machinery, running costs for Year 1 are expected to be £150,000 per annum, rising by 10% each year for the following 5 years.

Thomson's directors propose to invest in new machinery at the start of Year 1. The following estimated data relates to the proposed investment.

1 The new machinery will cost £500,000 and the existing machinery will realise £20,000 when sold at the start of Year 1.

2 The new machinery will have a life of 6 years after which it will be sold for £50,000.

3 In addition to the initial investment costs the following running costs will be incurred.

	Wages	Repairs	Other Costs
	£	£	£
Year 1	33,000	5,000	92,000
2	35,000	7,000	96,000
3	37,000	8,500	93,000
4	39,000	9,500	95,000
5	41,000	10,500	94,000
6	43,000	12,000	98,000

4 The other costs in note 3 include straight line depreciation on the new equipment.

5 All cash flows other than those in notes 1 and 2 will be assumed to occur at the end of the relevant year.

(*a*) Calculate the net cash savings in annual running costs which would be made for each of Years 1–6 if the existing machinery is replaced under this proposal. **8**

(*b*) Calculate for the proposed investment:

(i) the Payback period (to the nearest day);

(ii) the Accounting Rate of Return based on the average additional profit Thomson Ltd is estimated to make over the life of the new equipment;

(iii) the Net Present Value (assuming a discount rate of 12%).

The discount factors at 12% are:

Year	1	0.893
	2	0.797
	3	0.712
	4	0.636
	5	0.567
	6	0.507

18

(*c*) The Net Present Value of the investment at a discount rate of 15% is -£1,201.

Calculate the Internal Rate of Return for the proposed investment. **6**

Part B

Mitchell plc manufactures Product M. The following data apply to the 5 months ending 31 May Year 3.

1 **Sales of Product M (in units)**

January	6,000
February	7,200
March	8,600
April	9,500
May	8,000

2 The selling price will be £12 per unit in January and February, thereafter reducing to £10 per unit. 50% of each month's sales are for cash and the remainder sold on credit. A spot discount of 5% is given to cash customers only.

3 Production is, and will be, arranged so that at the end of each month unit stocks represent 60% of the next month's sales.

4 Each unit of Product M uses 2 kg of material costing £3·40 per kg. Materials will be purchased one month before they are required for production.

Prepare the following budgets for the **3 months** ended 31 March Year 3.

(*a*) Sales (in units and net value) **7**

(*b*) Production (in units) **6**

(*c*) Material Purchases (in units and value) **5**

(50)

[Turn over

7. Part A *Marks*

Propertyguard Ltd manufactures 'Texflo' in 3 processes. The following data apply to May of Year 4.

Raw Materials

Opening Stocks: Material A: 9,000 kg at £1 per kg
Material B: 4,000 kg at £2 per kg

Purchased on 1 May: Material A: 40,000 kg at £1·70 per kg
Material B: 20,000 kg at £2 per kg

Raw materials are issued and charged to processes on a **first in, first out basis**.

Process 3

Work in Progress at 1 May: 2,000 kg
(Materials – £2,460, Labour – £848, Overheads – £515)

Raw Materials added during the month: Material A 20,000 kg
Material B 10,000 kg

Other costs incurred during the month: Direct Labour – £12,000
Variable Overheads – 80% of Direct Labour
Fixed Overheads – £6,000

Work in Progress at 31 May: 3,000 kg, complete as regards materials, 60% complete for labour and 50% complete for overheads.

Expected Process Losses: 5% of total input weight.

The process accounts are prepared using **Marginal Costing**.

(*a*) Prepare statements to show:

(i) the equivalent unit production in May for each element of cost;

(ii) the cost per equivalent unit of each element of cost. **14**

(*b*) Prepare the Process 3 Account for May. **6**

Under abnormal circumstances total process losses can rise to 10% of total input weight, while all other data remain unchanged.

(*c*) Redraft the **output section only** of the Process 3 Account to show the effect of such process losses. **4**

7. (continued) *Marks*

Part B

RG Manufacturing make products S and T in a single process. S and T sell for £20 and £35 respectively.

Joint production costs in March were £45,000.

Output in March:	Product	
	S	3,000 units
	T	1,500 units

(*a*) Calculate the cost per unit and the profit per unit for each product if costs are apportioned on the basis of:

(i) the physical quantities produced;

(ii) the total sales value of units produced. **10**

In April, demand for each product is expected to rise by one third. Joint production costs will increase pro rata, in addition to an increase of £3,000 in fixed costs.

(*b*) Calculate the new cost per unit and profit per unit for each product if costs are apportioned on the basis of the total sales value of units produced. **6**

(40)

[Turn over

Marks

8. McLaughlin & Winchester have provided the following information relating to the production and sale of Product Y.

Product Y

Selling Price per carton of 25 units: Sales of 1-1,000 cartons £175
Additional sales above 1,000 cartons £150

Unit Costs:

Direct Materials	£2
Direct Labour	£1
Variable Overhead	£1

Under normal conditions Fixed Overheads are £30,000 per month and 25,000 units will be produced.

The following data apply to the 3 months ended 31 March Year 6.

	Units
Production	
January	28,000
February	24,000
March	32,000
Stocks held	
1 January	2,000
31 January	2,500
28 February	2,800
31 March	4,000
Actual Fixed Overheads incurred	
January	£30,000
February	£29,000
March	£33,000

Prepare statements to show the profit earned in each of the 3 months January to March Year 6 using:

(*a*) Marginal Costing;

(*b*) Absorption Costing. **40**

Marks

9. (*a*) Explain **limiting factors** and the implications these may have for decision making within a manufacturing organisation. **8**

(*b*) Explain how a firm can maximise profits from a range of products when a limiting factor exists. **6**

(*c*) Discuss reasons why a firm may choose a production mix which does not maximise profits. **4**

Many firms routinely buy in some components from outside suppliers for the range of products they produce, whilst making other parts themselves.

(*d*) Explain how such practices may enable the firms to maximise profits. **8**

(*e*) State the disadvantages of buying in large quantities of component parts. **4**

(30)

10. (*a*) Explain the difference between the terms 'budgeted cost' and 'standard cost'. **4**

(*b*) State the formula for each of the following variances.

(i) Sales Price

(ii) Sales Volume

(iii) Material Price

(iv) Material Usage

(v) Labour Rate

(vi) Labour Efficiency

(vii) Fixed Overhead Volume

(viii) Fixed Overhead Expenditure. **8**

(*c*) Explain, for each of variances (i)-(viii) above, an underlying reason why the variance might arise.

Note: Reasons such as 'an unexpected rise/fall in sales' will not be sufficient to gain marks. **12**

(*d*) Explain why it is important to recognise costs as either controllable or non-controllable when carrying out a variance analysis. **6**

(30)

[*END OF QUESTION PAPER*]

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FOR OFFICIAL USE

X209/13/11

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FRIDAY, 11 MAY
1.00 PM – 4.00 PM

ACCOUNTING ADVANCED HIGHER
Worksheets for Question 3 Parts A and B

Fill in these boxes and read what is printed below.

Full name of centre

Town

Forename(s)

Surname

Date of birth
Day Month Year

Scottish candidate number

Number of seat

The Worksheets for Question 3 Parts A and B need only be completed if the question is attempted.

The Worksheets should be inserted inside the front cover of the candidate's answer book and returned with it.

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WORKSHEET FOR QUESTION 3 Part A

You should answer all of Question 3 Part A on this worksheet.

3. Part A

(*a*) (i)

Reconciliation of operating profit to net cash inflow from operating activities		
	£	£
Operating Profit (before interest and taxation)		
Non Cash Adjustments		
Changes in Working capital		
Net cash inflow (outflow) from operations		

3. Part A (continued) *Marks*

(*a*) (ii)

	£	£
Net cash inflow (outflow) from operating activities		
Returns on investments and servicing of finance		
Net cash inflow (outflow) from returns on investments and servicing of finance		
Taxation		
Capital expenditure and financial investments		
Net cash inflow (outflow) from capital expenditure and financial investments		
Equity dividend paid		
Net cash inflow (outflow) before management of liquid resources and financing		
Management of liquid resources and financing		
Increase (decrease) in Cash/Bank during the Year		

31

WORKSHEET FOR QUESTION 3 Part B *Marks*

You should answer all of Question 3 Part B on this worksheet.

3. Part B

9

(40)

[*END OF WORKSHEETS*]