X209/13/01

NATIONAL QUALIFICATIONS 2013

THURSDAY, 9 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.

SECTION A

You should attempt 3 questions from this section.

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

1. William Ferguson started manufacturing and selling solar panels on 1 January Year 1. He provides you with the following information for the financial year ended 31 December Year 1.

	£
Sales	268,000
Cost of Goods Sold	93,800
Advertising	9,000
General expenses	27,000
Wages	108,000
Stock	30,800
Debtors	24,500
Creditors	13,500

His business had the following fixed assets which were depreciated as follows:

	£	
Machinery (at cost 1 January Year 1)	100,000	10% per annum diminishing balance
Vehicles (at cost 1 January Year 1)	48,000	20% per annum on cost

Ferguson informs you that:

In Year 2 profits were earned and expenses incurred at the same rate as in Year 1 with the exception of a 5% increase in wages at the start of Year 2.

On 30 June Year 2 his business was completely destroyed by fire and he was unable to resume trading until 1 January Year 3.

He provides you with the following analysis of his bank account on 30 June Year 2.

	£	
Opening Balance	1,500	Cr
Received from customers	205,200	
Paid to suppliers	78,600	
Wages paid	47,250	
Advertising	5,250	
General expenses	11,250	
Refunds of overcharges to customers	3,200	
Drawings	12,000	

Balances of Debtors and Creditors on that date were £23,200 and £16,300 respectively.

Marks

1. (continued)

(*a*) Calculate:

(i) Gross Profit Percentage for Year 1;

(ii) Sales for 6 months ended 30 June Year 2;

(iii) Purchases for 6 months ended 30 June Year 2. **7**

(*b*) Prepare the Trading and Profit and Loss Account for 6 months ended 30 June Year 2 and a Balance Sheet at that date. **39**

Ferguson's business insurance covers the loss of assets and the loss of profits for up to one year during any period he is unable to trade.

(*c*) Calculate the total value of the insurance claim Ferguson will make. **4**

(50)

[Turn over

Marks

2. PART A

Anderson PLC and Watson PLC provide you with the following financial information for the year ended 31 December Year 3.

	Anderson PLC	**Watson PLC**
	£000s	£000s
Sales	480	400
Cost of goods sold	338	288
Expenses (excluding interest)	72	76
Interest charges on loan and overdraft	6	4
Profit after interest	66	32
Fixed Assets	240	200
Stock	56	48
Debtors	40	40
Bank	64 Dr	32 Cr
Mortgage repayable Year 16	42	
Creditors	28	96
Ordinary Shares of 50p each	200	100
Share Premium	30	20
Profit and Loss Account balance	100	40

All transactions are on a credit basis. Stocks, Debtors and Creditors have remained constant throughout the year and both companies charge similar selling prices.

The directors of Anderson PLC are convinced that their company:

1 obtains more favourable purchase prices from suppliers;

2 is more efficient at controlling expenses;

3 has better credit control;

4 has more rigorous stock control;

5 makes better use of their fixed assets.

Discuss whether Anderson PLC's comments are justified. Your comments should be supported by appropriate workings. **20**

2. (continued)

PART B

You work for a firm of financial advisors and have been asked to analyse the investment performances of the following 2 companies.

	Bowlers plc	**Rounders plc**
Net profit after interest and tax	£150,000	£350,000
Ordinary Shares of £1 each	£200,000	£1,000,000
5% Preference Shares	£250,000	Nil
8% Debentures	Nil	£500,000
Ordinary Shares market price	£1·75	£1·50
Ordinary dividend per share	10p	8p

(*a*) You are required to calculate for each company:

(i) Dividend yield;

(ii) Dividend cover;

(iii) Earnings per share;

(iv) Price/earnings ratio.

Answers should be given to 2 decimal places. **8**

(*b*) (i) By analysis of each of the ratios calculated above state the advice you would offer to a potential investor. **8**

(ii) Calculate the Capital Gearing Ratio for each company. **2**

(iii) Explain which company would be the better investment in periods of high profit. **2**

(40)

[Turn over

3. Merchant plc has provided the following data for the year ended 31 December Year 2.

Trial Balance as at 31 December Year 2.

	Dr £000s	Cr £000s
Sales		2,400
Purchases of finished goods	500	
Wages and salaries	1,000	
Stock on 1 January Year 2	250	
General expenses	420	
Debenture interest paid	20	
Discounts (Net)	10	
Carriage inwards	10	
Directors' fees	65	
Debtors and creditors	450	80
Bank	720	
Land and warehouses at cost	2,000	
Equipment at cost	1,000	
Vehicles at cost	600	
Provisions for depreciation:		
Equipment		200
Vehicles		90
Interest received		25
VAT		60
10% Debentures (Years 4–10)		400
Ordinary Shares of 50p each (fully paid)		2,500
8% £1 Preference Shares (fully paid)		1,000
Share Premium		100
Investments at cost (Market Value £70,000)	60	
Profit and Loss Account balance at 31 December Year 2		250
	7,105	7,105

In addition:

1 Stocks of Finished Goods at 31 December Year 3 — £188,000.

2 Auditors' Fees unpaid — £15,000.

3 Prepaid General Expenses amounted to £5,000.

4 Allocate expenses as follows:

	Cost of Sales	Distribution	Administration
Wages and salaries	30%	40%	30%
General expenses	Nil	20%	80%
Depreciation of Equipment	80%	Nil	20%
Depreciation of Vehicles	Nil	90%	10%

Marks

3. (continued)

5 Depreciation is to be charged as follows.

Equipment — 20% on reducing balance.
Vehicles — 20% on cost.

6 Corporation Tax charge for the year is £45,000.

7 The following dividends were paid on 20 December Year 2. **No entries** had been made in the accounts of the plc.

Ordinary share dividend of 1p per share.
Preference share dividend paid in full.

(*a*) Using the above information calculate:

(i) Cost of Sales;

(ii) Distribution Costs;

(iii) Administration Expenses. **16**

(*b*) Prepare the Profit and Loss Account for the year ended 31 December Year 2 in a form suitable for publication, together with a Balance Sheet on that date. **24**

(40)

[Turn over

Marks

4. "The fact that a business has made a healthy profit does not necessarily mean that there is sufficient ready cash available to meet its needs."

(*a*) Explain the purpose of a Cash Flow Statement (FRS1) and outline the accounting statements required to prepare it. **6**

(*b*) Identify the different sections contained in the Cash Flow Statement and describe the information included in each section. **24**

(30)

5. Explain how the following are dealt with when preparing a Consolidated Balance Sheet.

(i) Goodwill

(ii) Post acquisition profits

(iii) Minority Interest

(iv) Unrealised profits

(v) Consolidated reserves **(30)**

[Turn over for Section B on *Page ten*

SECTION B

Marks

You should attempt 3 questions from this section.

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

6. Ring Ltd has been formed to produce 4 products – W, X, Y and Z. Each product passes through 3 departments — Machining, Assembly and Finishing.

Estimated data for Period 1

Product	**W**	**X**	**Y**	**Z**
Units Produced	200	250	400	210
Labour hours per unit	10	8	10	8

NOTES:

1 Labour hours are split between departments as follows.

Machining – 50%
Assembly – 30%
Finishing – 20%

2 The percentage of labour hours spent on machines in the Machining Department is

Product W – 80%
Product X – 50%
Product Y – 60%
Product Z – 75%.

3 **Departmental Overhead Costs**

Machining	**Assembly**	**Finishing**
£19,406	£10,164	£9,222

(*a*) (i) Calculate the factory-wide rate for overhead absorption based upon direct labour hours worked.

(ii) Calculate the overhead charge per unit for each product. **7**

(*b*) (i) Calculate departmental rates for overhead absorption for each department using the following bases.

Machining – Rate per machine hour
Assembly – Rate per labour hour
Finishing – Rate per unit

(ii) Calculate the overhead charge per unit for each product. **18**

Marks

6. (continued)

The factory overhead costs were further analysed on an activity basis as follows.

Activity	**Cost**	**Cost Driver**
Set up	£20,000	Number of production runs
Material requisitioning	£8,000	Number of requisitions
Quality control	£5,492	Number of production runs
Order despatch	£5,300	Number of batches sold

Products W, X and Y will be produced in batches of 50.

Product Z will be produced in batches of 70.

All sales will be in batches of 10.

The number of requisitions for each product will be 10.

(*c*) (i) Calculate the overhead absorption rate for each activity.

(ii) Show for each product the total overhead absorbed per activity.

(iii) Calculate the overhead charge per unit for each product. **25**

(50)

[Turn over

Marks

7. Wagner plc has been formed to manufacture 4 products. Budgets will be produced for each 60–day budget period each year.

Estimated data for Period 1 Year 1

Product	**A**	**B**	**C**	**D**
Production (Units)	1,000	2,000	3,000	2,000
Costs per unit (£)				
Materials	10	10	5	9
Labour	20	8	25	32
Variable overhead	5	6	10	15
Selling price per unit (£)	115	44	80	96

Fixed costs will be £160,000.

No stocks will be held.

Production will be scheduled at a uniform rate throughout the budget period.

(*a*) Calculate:

(i) the weighted average contribution per unit for each product;

(ii) the budgeted total contribution and profit for Period 1;

(iii) the break even point in units of each product and in total;

(iv) the number of days' production required to break even;

(v) the sales in units and value of **each product** required to provide a profit of £72,000 after tax at 25%. **25**

Wagner plc's directors are also considering the addition of Product E which would cost £50 per unit and take 2 hours to produce. Fixed costs would rise to £250,000.

Wagners plc's capacity is limited by the shortage of labour to 18,000 hours per budget period. Labour costs £10 per hour.

The demand for Product E will be dependent upon its price as follows.

Price	Demand
£90	3,000 units
£120	2,000 units

The minimum production run of any product is to be 1,000 units.

(*b*) (i) Calculate the effect on maximum profits if Product E is produced in each of the above quantities.

(ii) Advise Wagner plc whether or not to produce Product E and at which level of output. **15**

(40)

[Turn over for Question 8 on *Page fourteen*

Marks

8. PART A

Fire Ltd produces a single product called Magma.

The following data relate to Year 3.

	Budgeted	**Actual**
Production and Sales (units)	4,000	3,975
Selling price per unit	£300	£310
Direct material usage	8 kg per unit	31,600 kg
Direct material cost	£8 per kg	£259,500
Direct labour	10 hours per unit	40,250 hours
Direct labour cost	£10 per hour	£394,450
Variable overhead	30% of labour cost	£115,000
Fixed overhead (Recovered at a rate per unit)	£15 per unit	£61,000

(*a*) Calculate the total **standard** cost of **actual** sales for Year 3. **4**

(*b*) Calculate the following variances.

(i) Sales price

(ii) Sales volume

(iii) Material price

(iv) Material usage

(v) Labour rate

(vi) Labour efficiency

(vii) Variable overhead expenditure

(viii) Variable overhead efficiency

(ix) Fixed overhead expenditure

(x) Fixed overhead volume **24**

Marks

8. (continued)

PART B

Ice plc has provided the following budget data for Month 6.

Output	6,000 units
Costs:	
Materials	1,200 kg @ £3 per kg
Labour	1,800 hours @ £8 per hour
Direct expenses	£1,500
Maintenance	£1,000 (£400 fixed)
Heating and lighting	£1,600
Rent and rates	£2,000
Salaries	£10,000
Miscellaneous expenses	£3,000 (£1,200 variable)

Ice plc's maximum production capacity is 10,000 units.

50% of all sales will be for cash at £10 per unit and the remainder sold on credit at a discount of 5% of the cash price.

Assuming an activity level of 80% prepare a budget statement for Month 7 and calculate the budgeted profit for the month. **12**

(40)

[Turn over for Questions 9 and 10 on *Page sixteen*

Marks

9. "Outputs from production processes may be higher or lower than expected."

(*a*) Explain the treatment of production losses or gains in process accounting. **12**

(*b*) Discuss the problems of arriving at an accurate cost per unit in process accounting (other than the problems caused by production losses or gains). **18**

(30)

10. (*a*) Explain the differences between "mutually exclusive" and "alternative" projects. **6**

(*b*) Describe **4** methods of investment appraisal, stating the advantages and disadvantages of each. **20**

(*c*) Explain why investment appraisal methods based upon discounted cash flows may not be suitable for use when comparing "mutually exclusive" projects. **4**

(30)

[*END OF QUESTION PAPER*]