X209/701

NATIONAL
QUALIFICATIONS
2010

WEDNESDAY, 2 JUNE
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. Part A

The following balances are taken from the books of Turriff plc at 31 December Year 2.

Issued Share Capital:	£
10% Preference Shares of £1 each	75,000
Ordinary Shares of £1 each	150,000
10% Debentures	80,000
Share Premium	37,500
Sales	380,000
Purchases	174,000
Wages and Salaries	33,750
Rent and Rates	12,000
Carriage out	4,500
Directors' emoluments	4,875
Discount allowed	2,850
Discount received	3,375
Machinery (Cost)	320,000
Delivery Vans (Cost)	100,000
Provision for Depreciation:	
Machinery	20,000
Delivery Vans	7,500
Investment income	5,625
Bank Interest received	1,875
Profit and Loss Account balance (1 January Year 2)	12,375
Sundry administration expenses	6,375
Sundry distribution costs	9,750
Debenture interest	6,000
Stock (1 January Year 2)	11,250
Delivery Vans expenses	3,375
Interim preference dividend	3,750
Interim ordinary dividend	3,000
Debtors	10,750
Creditors	15,150
Investments at cost	50,000
Bank	32,175

Marks

1. **Part A (continued)**

The following additional information is available.

(i) Stock at 31 December Year 2 is £24,000.

(ii) After allowing for an accrual of £6,000, Wages and Salaries are to be divided as follows.

Cost of Sales	Administration	Distribution
30%	30%	40%

(iii) After taking into account a prepayment of £4,600, Rent and Rates should be apportioned 50% to Cost of Sales with the remainder split equally between Distribution costs and Administrative expenses.

(iv) Depreciation for the year is to be charged as follows.

Machinery	20% on cost
Delivery Vans	10% on written down value

(v) Depreciation should be allocated as follows.

	Cost of Sales	Administration	Distribution
Machinery	60%	Nil	40%
Delivery Vans	Nil	Nil	100%

(vi) Corporation Tax of £42,000 is to be provided on this year's profit.

(vii) An audit fee of £8,400 is accrued.

(viii) The Directors propose:

(i) to pay the final preference dividend;
(ii) to provide for a final dividend of 4p per ordinary share.

(ix) Authorised Share Capital

75,000	10% Preference Shares of £1 each	£75,000
200,000	Ordinary Shares of £1 each	£200,000

You are required to prepare the Published Profit and Loss Account for Turriff plc for the year ended 31 December Year 2 in accordance with the best accounting practice. **(Full workings must be shown for Cost of Sales, Distribution Costs and Administration Expenses.)** **31**

[Turn over

Marks

1. (continued)

Part B

Whyte plc issued 500,000 £1 8% Preference Shares at £1·75 per share.

Payments for the shares were to be made as follows.

	Per Share
On Application	£0·50
On Allotment	£1·00
First and Final Call	£0·25

The Share Premium was payable on allotment.

The following balances were shown on the accounts on 1 July Year 2 after all Application and Allotment and Share Premium monies were received.

Preference Share Capital – £375,000
Bank – £750,000 (Dr)
Share Premium ?

The First and Final Call was made on 3 September Year 2 and one shareholder, who had been allotted 10,000 shares, failed to pay the First and Final Call of 25p per share. The shares were declared forfeit on 20 October Year 2.

These shares were later reissued on 30 October Year 2 to Alan Grey at a price of £0·60 per share.

You are required to prepare the relevant accounts to record the above transactions. **19**

(50)

[Turn over for Question 2 on *Page six*

2. Orion plc, Mercury plc and Saturn plc have the following capital structures.

	Orion plc	**Mercury plc**	**Saturn plc**
	£000	£000	£000
Authorised Share Capital			
Ordinary Shares of £0·50 each	1,000	1,000	1,000
10% Preference Shares of £1 each	500	300	300
8% Debentures	500	300	200
Issued Share Capital			
Ordinary Shares of £0·50 each	500	800	400
10% Preference Shares of £1 each	500	200	200
8% Debentures	500	300	200

(*a*) From the information above you are required to:

(i) **calculate** the gearing ratio for each company;

(ii) **state** which company has the lowest gearing ratio;

(iii) **state** the company which would give the best return to ordinary shareholders in periods of high profit. Justify your choice;

(iv) **discuss** the effect on the return to the Ordinary Shareholders of Orion plc if the remainder of the ordinary shares were issued. **10**

(*b*) At 31 December Year 5 **each** company had:

1 earned an operating profit of £150,000;
2 estimated corporation tax at the rate of 25%;
3 paid an interim dividend to ordinary shareholders of 2%.

You are required to **calculate** for **each** company:

(i) Total profit available for distribution to the ordinary shareholders;

(ii) Total dividend to be paid to ordinary shareholders if each company wishes to retain 20% of their profit within the company;

(iii) Final dividend proposed;

(iv) Total percentage dividend to be paid to ordinary shareholders;

(v) Ordinary dividend per share;

(vi) Earnings per share. **24**

2. (continued)

(*c*) The market price of each ordinary share at 31 December Year 5 was as follows.

Orion plc	£0·70
Mercury plc	£0·60
Saturn plc	£0·80

You are required to **calculate** for **each** company:

(i) Price/earnings ratio;

(ii) Dividend yield. **6**

(40)

[Turn over

3. Part A

Wilson plc provides you with the following information relating to the acquisition and disposal of fixed assets for the financial year ended 31 December Year 5.

1 The cost of Fixed Assets at 1 January Year 5 was as follows.

	Date Acquired	**Cost**
		£
Land and Buildings	1 January Year 3	200,000
Machinery	1 July Year 3	140,000
Vehicles	1 April Year 3	80,000

2 The depreciation policies of Wilson plc are:

(i) Land and Buildings – no depreciation is charged;

(ii) Machinery – 10% per annum using the straight line method;

(iii) Vehicles – 20% per annum on the reducing balance method.

Depreciation is charged for a full year in the year of acquisition and no depreciation is charged in the year of disposal.

3 During the year ended 31 December Year 5 the following acquisitions and disposals were made.

(i) Land purchased costing £50,000.

(ii) Machinery purchased costing £75,000.

(iii) Machinery costing £55,000 was sold for £35,000.

(iv) Vehicles costing £30,000 were sold for £10,000.

4 Land was revalued and increased by £30,000.

Marks

3. Part A (continued)

You are required to calculate:

(*a*) (i) annual depreciation for Machinery and Vehicles for **each** of Years 3 and 4;

(ii) total depreciation which had been charged on the Machinery which was sold during Year 5;

(iii) total depreciation which had been charged on the Vehicles which were sold during Year 5. **6**

(*b*) Calculate the profit or loss on the sale of Machinery and on the sale of Vehicles. **4**

(*c*) Complete the Fixed Asset Schedule for Year 5 on the Worksheet provided. **14**

Part B

Brian Wilson calculated the value of his closing stock on 31 December to be £250,000 at cost price. On 27 January his warehouse was destroyed by fire and the majority of the stock lost.

You are provided with the following information.

(i) Wilson's normal mark-up is 25%.

(ii) Purchases received from suppliers during January amounted to £25,000 at cost.

(iii) Sales during January amounted to £116,000 of which:

£100,000 were sold on normal terms
£6,000 were sold to Customer A including a **mark-up** of 20%
£10,000 were sold to Customer B including a **margin** of 20%.

(iv) Goods costing £800 were donated to charity during January.

(v) Wilson took goods from the warehouse with a selling price of £600.

(vi) Customer B returned goods valued at £500 on 25 January.

(vii) It is estimated that the cost of stock salvaged amounted to £40,000. Of this stock salvaged it is estimated that half of it will have to be sold at a discount of 20%.

You are required to prepare a stock loss valuation statement for submission to the insurance company. **16**

(40)

[Turn over

Marks

4. When preparing Consolidated Balance Sheets great care must be taken to ensure that they present a true and fair view to the shareholders of the parent company.

Give a detailed description of why the following items occur and explain clearly how they will be calculated and dealt with in the Consolidated Balance Sheet.

(*a*) Goodwill

(*b*) Minority Interest

(*c*) Post-acquisition Profits

(*d*) Unrealised Profits

(*e*) Cash in Transit **(30)**

5. The purpose of an audit is to ensure that the accounts of the company are accurate and that the information produced by managers is not misleading.

(*a*) Describe the duties and responsibilities of the external auditors in achieving the above statement. **10**

(*b*) The auditors will produce an Audit Report of their findings. Describe the Standard Format of the Auditor's Report. **20**

(30)

[Turn over for SECTION B on *Page twelve*

SECTION B

You should attempt 3 questions from this section:

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

6. Part A

Rashfield Processing Ltd makes Product A in Processes 1, 2 and 3. The following data apply to Process 3 for November Year 1.

Transfers in from Process 2	12,000 kg at £4·00 per kg
Additional materials	8,000 kg at £3·50 per kg
Direct wages	2,000 hours at £9·30 per hour
Variable overheads	Absorption rate £4·60 per labour hour
Fixed overheads	£8,500
Normal Loss (100% Waste)	5% of total input
Sales value of losses in excess of Normal Loss	£2 per kg
Closing stock of work in process*	1,000 kg

*Materials	100% complete
Wages	60% complete
Overheads	40% complete

Output from Process 3 in November was 90% of the level expected after allowing for work in process.

Process losses can only be identified at the end of the process.

Rashfield Processing Ltd uses marginal costing.

(*a*) (i) Prepare a statement of equivalent production for November Year 1.

(ii) Calculate the cost per equivalent unit of production for each element of cost. **16**

(*b*) (i) Prepare the Process 3 Account for November Year 1.

(ii) Prepare the Abnormal Gain or Loss Account as necessary for November Year 1. **24**

Marks

6. (continued)

Part B

Rashfield Processing Ltd also makes Product B in a single process. The following data apply to November Year 1.

Work in process at 1 November	2,000 units
	Materials 100% complete – £2,000
	Conversion costs 60% complete –£900
Started during November	20,000 units
Work in process at 30 November	1,500 units
	Materials 75% complete
	Conversion costs 50%
Costs incurred in November	Materials – £23,550
	Conversion – £30,075

Calculate the number of equivalent units produced in November and the cost per equivalent unit for each element of cost using FIFO. **10**

(50)

[Turn over

Marks

7. Berwick Ltd makes 4 products using multi-purpose machines. There are 4 Budget Periods in each financial year.

Budgeted data for Period 3 Year 1

	Product			
	A	**B**	**C**	**D**
Demand in Units	2,000	3,000	4,000	3,000
Per unit:				
Selling price	£80	£200	£200	£80
Materials	£10	£20	£15	£25
Labour	£30	£80	£100	£25
Machine hours	2·5	8	10	2

Variable overheads will be absorbed at the rate of £4 per machine hour.

Fixed overheads will be £127,500.

All production is sold in the budget period.

(*a*) Assuming the above product mix calculate:

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

(ii) the budgeted total contribution and profit;

(iii) the break even point in units. **17**

Berwick Ltd schedules a uniform level of production of each product throughout each 90 day budget period.

(*b*) (i) **Calculate** the level of sales required in Period 3 to make a profit of £165,000 after tax at 25% (answer to the nearest unit).

(ii) How many days production does your answer to part (*b*) (i) represent in Period 3? (Answer to the nearest day.) **7**

7. (continued) *Marks*

Berwick Ltd is negotiating a contract to supply 4,500 units of Product E beginning in Period 1 Year 2. This contract must be accepted in full or not at all.

Additional Data for Period 1 Year 2
Existing Products

	Budgeted Demand (Units)	Machine hours (per Unit)	Minimum Production (Company Policy) (Units)
A	2,000	2·5	1,500
B	3,000	8	2,000
C	4,000	10	3,500
D	3,000	2	2,500

The budgeted demand requires machines to operate at 75% capacity.

Product E

Contribution per unit	£32
Machine hours per unit	8

Fixed overheads will rise by £100,000 if Product E is made.

All other **budget** data will remain unchanged from **Period 3 Year 1**.

(*c*) Advise Berwick Ltd whether to undertake the contract to manufacture Product E.

Your answer **must** be supported by appropriate workings. **16**

(40)

[Turn over

Marks

8. The following data relates to Electronics plc for Year 3.

	Budget	Actual
Revenues		
Production/Sales in Units	10,000	12,000
Selling price per unit	£50	£45
Costs		
Materials – Quantity (kg)	30,000	33,000
Price per kg	£3·50	£3·75
Direct labour – Hours	15,000	19,000
Total Cost	£120,000	£140,000
Variable overhead	£45,000	£50,000
Fixed overhead	£60,000	£86,000

Variable overheads are recovered as a rate per direct labour hour.
Fixed overheads are recovered as a rate per unit produced.

(*a*) Calculate the **budgeted** profit for Year 3. **4**

(*b*) Calculate the **actual** profit for Year 3. **4**

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

(*d*) Calculate the following variances.

(i) Sales Price

(ii) Sales Volume

(iii) Materials Price

(iv) Materials Usage

(v) Labour Rate

(vi) Labour Efficiency

(vii) Variable Overhead Expenditure

(viii) Variable Overhead Efficiency

(ix) Fixed Overhead Expenditure

(x) Fixed Overhead Volume **20**

(*e*) Complete the Standard Costing Profit Statement on the Worksheet provided. **8**

(40)

Marks

9. Job Costing and Contract Costing are closely related methods used to arrive at the cost of work undertaken by a firm.

(*a*) Compare Job and Contract Costing and state circumstances under which a firm would use one method rather than the other. **8**

(*b*) Discuss the problems which have to be addressed when preparing accounts for contracts which span several accounting periods. **16**

(*c*) Explain the significance of establishment costs to a firm beginning a new contract. **6**

(30)

10. Absorption Costing and Marginal Costing are both used in management accounting.

(*a*) Compare the use of each of the above techniques in the production of periodic profit statements. **12**

(*b*) Explain how the choice of technique used may affect profits disclosed both in the short term and over the life of a business. **10**

(*c*) Describe how the use of either or both techniques may benefit decision-making. **8**

(30)

[*END OF QUESTION PAPER*]

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FOR OFFICIAL USE

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2010

WEDNESDAY, 2 JUNE
1.00 PM – 4.00 PM

ACCOUNTING
ADVANCED HIGHER
Worksheets for
Question 3 Part A (*c*) and
Question 8 (*e*)

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

Marks

Worksheet for Question 3 Part A (*c*)

FIXED ASSET SCHEDULE

Tangible Assets	**Land and Buildings**	**Machinery**	**Vehicles**	**Total**
	£000s	£000s	£000s	£000s
Cost				
At 1 January Year 5				
Additions				
Revaluations				
Disposals				
At 31 December Year 5				
Depreciation				
At 1 January Year 5				
Depreciation on disposals				
Charge for year				
At 31 December Year 5				
Net Book Value				
At 1 January Year 5				
At 31 December Year 5				

(14)

Marks

Worksheet for Question 8 (*e*)

Standard Costing Profit Statement			
	£	£	£
Standard (Budgeted) Sales			
Sales Variances	Favourable	Adverse	
Price			
Volume			
Actual Sales			
Less Standard Cost of Actual Sales			
Standard Profit for Actual Sales			
Cost Variances	Favourable	Adverse	
Material Price			
Material Usage			
Labour Rate			
Labour Efficiency			
Variable Overhead Expenditure			
Variable Overhead Efficiency			
Fixed Overhead Expenditure			
Fixed Overhead Volume			
Net Variance			
Actual Profit			

(8)

[*END OF WORKSHEETS*]