X209/701

NATIONAL QUALIFICATIONS 2007

FRIDAY, 18 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.

Marks will be deducted for untidy and badly arranged work.

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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. Scottish Hydroparts plc has provided the following data for the year ended 31 December YEAR 2, after the preparation of the Manufacturing Account.

Trial Balance as at 31 December YEAR 2

	(£000s)	(£000s)
Sales		11,000
Factory Cost of Production	7,000	
Ordinary Shares, fully paid 50p per share		1,800
8% Preference Shares, fully paid £1 per share		400
Share Premium		400
Investments at Cost (Market Value £140,000)	100	
Profit and Loss Account Balance at 31 December YEAR 1		300
Stocks		
Raw Materials at 31 December YEAR 2	130	
Work-in-Progress at 31 December YEAR 2	80	
Finished Goods at 1 January YEAR 2	240	
Purchases of Finished Goods	550	
Carriage Inwards (on Purchases of Finished Goods)	5	
Wages and Salaries	1,395	
Accrued Manufacturing Expenses		39
Interim Ordinary Dividend	180	
General Expenses	360	
Debenture Interest Paid	20	
Carriage Outwards	14	
Directors' Fees	500	
Debtors and Creditors	299	60
Cash at Bank	484	
Cash in Hand	120	
Premises at Cost	1,200	
Plant and Machinery at Cost	1,500	
Vehicles at Cost	800	
Provisions for Depreciation		
Plant and Machinery		528
Vehicles		160
Interest Received		10
VAT		80
10% Debentures (Years 3–6)		200
	14,977	14,977

1. (continued)

In addition:

(i) Stocks of Finished Goods at 31 December YEAR 2—£300,000
(ii) Auditors Fees unpaid—£10,000
(iii) Prepaid General Expenses amounted to £16,000
(iv) Allocate the following expenses as:

	Administration	**Selling and Distribution**
Wages and Salaries	20%	80%
General Expenses	75%	25%

(v) Plant and Machinery is depreciated at 20% on the reducing balance method
(vi) Due to relocation all Fixed Assets were acquired new at the start of YEAR 1 and there were no purchases or sales of Fixed Assets during YEAR 2
(vii) Vehicles are depreciated at 20% straight line
(viii) 95% of the Plant and Machinery is used in Manufacturing and the remainder in the Administration Office
(ix) All Vehicles are used by Sales staff
(x) Allow for Corporation Tax at 25%
(xi) The directors will recommend a final Ordinary Share Dividend of 5p per share
(xii) Debentures of £50,000 are to be redeemed in YEAR 3
(xiii) Premises were revalued during YEAR 2, by creating a Revaluation Reserve in the amount of £200,000.

(*a*) Prepare the Final Accounts of Hydroparts plc for the year ended 31 December YEAR 2 in a form suitable for publication, together with a Balance Sheet at that date. **46**

(*b*) Calculate the Earnings per Ordinary Share to the nearest 1p. **4**

(50)

[Turn over

2. Dalriada Industries plc has provided the following financial information for the year ended 31 March YEAR 2.

1 **Changes in Fixed Assets (£000s)**

	Premises	Machinery	Vehicles
Acquisitions and Sales at Cost			
During the year:			
Purchases	200	100	30
Disposals	(100)	(100)	(50)
Provisions for Depreciation			
During the year:			
Written off to Profit and Loss	—	90	15
On Disposals		(40)	(20)
Revaluation of Assets			
Increase in Value	200	—	—

2 **Sales of Fixed Assets realised:**

Premises	£220,000
Plant and Machinery	£20,000
Vehicles	£30,000

3 **The Profit and Loss Account for the year ended 31 March YEAR 2 allowed for:**

Debenture Interest Payable	£14,000
Ordinary Dividends	£20,000
Corporation Tax	£25,000

4 Unappropriated profit for the year ended 31 March YEAR 2 was £80,000.

5 Analysis of the Balance Sheets as at 31 March YEAR 1 and YEAR 2 identified the following:

	At 31 March YEAR 1	At 31 March YEAR 2
Dividends Owing	£20,000	£15,000
Corporation Tax Owing	£20,000	£30,000
Debenture Interest Owing	£14,000	£14,000

6 Long term financing did not change during the year ended 31 March YEAR 2.

Changes in Current Assets/Liabilities

Stocks	£10,000 increase
Debtors	£20,000 decrease
Creditors	£20,000 increase

Marks

2. (continued)

(*a*) **On the worksheet provided,** prepare the necessary statements in accordance with FRS 1 to show for the year ended 31 March YEAR 2:

(i) Net Cash Inflow from Operating Activities

(ii) Increase/Decrease in Bank balance **36**

Dalriada Industries plc's bank account was overdrawn by £60,000 at 31 March YEAR 1.

The directors wish to issue £1 Ordinary Shares to fund an expansion costing £600,000 and increase the bank balance to £120,000. The Memorandum of Association limits further issues to 500,000 shares.

(*b*) Calculate the premium Dalriada Industries plc would have to attach to the share issue in order to raise the required funds. **4**

(40)

[Turn over

Marks

3. D P Waters is a local wholesaler who has not kept formal accounting records since starting business on 1 January YEAR 1. In March YEAR 2 Waters had a fire in a storeroom, which destroyed some of his stock.

Waters has provided the following data for the quarter ended 31 March YEAR 2.

	At 1 January YEAR 2	**At 31 March YEAR 2**
Amounts owing by Debtors	£10,200	£9,000
Amounts owing to Suppliers	£8,600	£6,800
Stocks held at Cost	£25,000	£12,600
Wages owing	£1,200	£1,350
General Expenses prepaid	£900	—
General Expenses owing	—	£800

During the quarter:

Cash Received from Debtors	£95,160
Cash Paid to Creditors	£61,000
Sales to Staff	£2,750
Sales Returns	£1,200
Discounts Allowed	£1,540
Discounts Received	£1,000
Bad Debts	£200
Wages	£5,650
Other General Expenses	£4,300

NOTES

(1) Staff Sales are at cost plus 10%.

(2) Normal sales to debtors are at cost plus 50%, but some stock sold to debtors for £3,450 were non-returnable at a mark up of 15%.

(*a*) Calculate for the quarter to 31 March YEAR 2:

(i) Purchases;

(ii) Total Sales. **15**

(*b*) Prepare the Trading Account for the quarter to 31 March YEAR 2. **6**

(*c*) Starting with your answer to (*a*) (ii), calculate Net Sales at Cost Price for the quarter to 31 March YEAR 2. **8**

(*d*) Assuming no other stock losses occurred during the quarter, calculate:

(i) the value of the stock destroyed by the fire in March;

(ii) the Net Profit or Loss of D P Waters for the quarter ended 31 March YEAR 2, adjusted for an insurance settlement for 90% of the stock lost in the fire. **11**

(40)

Marks

4. "The methods used to raise long term finance have implications for the capital gearing of a company and the returns to equity holders."

(*a*) Discuss the above statement with reference to at least **3** methods of raising long term finance. **12**

(*b*) Explain the meaning of each of the following and their role in the acquisition of additional working capital.

(i) Rights Issue

(ii) Bonus Issue **8**

(*c*) Discuss the circumstances which may make internal sources of finance available to a firm. Your answer should refer to and define at least **4** such sources. **10**

(30)

5. (*a*) Discuss the need for an external audit of the accounts of limited liability companies and explain the circumstances under which external audits are compulsory. **15**

(*b*) Explain the duties and responsibilities of each of the following in respect of the preparation and audit of limited liability company accounts.

(i) The directors of the company

(ii) The external auditors **15**

(30)

[*END OF SECTION A*]

[Turn over

Marks

SECTION B

You should attempt 3 questions from this section:

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

6. Abercol plc manufacture and sell a single product.

They have collected the following information with a view to preparing the budgets for the next financial year which commences 1 January YEAR 2.

(1) Estimated unit sales for the first 4 months of YEAR 2 are as follows.

January	4,000
February	5,500
March	6,000
April	7,000

(2) The cost of production per unit is as follows.

Direct materials	2 kg at £7·50 per kg
Direct labour	5 hours at £6 per hour
Production overheads	5 hours at £3 per hour

(3) Abercol plc's profit margin is 20% on selling price. However, in March the selling price will be reduced by £5.

(4) Stocks of finished goods are maintained at the level of 25% of the next month's sales.

(5) Stocks of raw materials at the end of each month are expected to be:

December YEAR 1	2,070 kg
January YEAR 2	2,560 kg
February YEAR 2	2,780 kg
March YEAR 2	2,820 kg

(6) There will be no stocks of work-in-progress.

(7) Stocks of finished goods are valued at marginal cost per unit.

(*a*) Prepare the following budgets for the 3 months ending 31 March YEAR 2.

(i) Sales Budget

(ii) Production Budget

(iii) Production Cost Budget

(iv) Material Purchases Budget **35**

(*b*) **Prepare:**

(i) the Budgeted Manufacturing Account for the 3 months ended 31 March YEAR 2;

(ii) the Budgeted Trading Account for the 3 months ended 31 March YEAR 2. **15**

(50)

7. Bridgers plc incurred the following costs in Process 1 during the month of April YEAR 1.

2,000 units of material costing £5·78 per unit
Wages were paid for 1,800 hours at the rate of £8 per hour
Overheads were absorbed into process costs by a labour hour rate of £7.

The following were the results of the process for the month.

Output 1,200 units

Normal loss was 10% of input and is considered to be waste

Work-in-progress at the end of the month consisted of 500 units

The degree of completion of the work-in-progress was as follows.

Material	80%
Labour	60%
Overheads	20%

(*a*) (i) Prepare a statement of equivalent production for April. **11**

(ii) Calculate the cost per equivalent unit for each element of cost. **6**

(*b*) Prepare the Process 1 Account for April YEAR 1. **14**

Bridgers plc wish to further process the above output.

Currently, output can be sold for £30 per unit. If the units are further processed the selling price could be raised by 20%. The costs of this process would be £5,040.

(*c*) Advise Bridgers plc whether this would be more profitable than selling the output without further processing. (Support your advice with workings.) **9**

(40)

[Turn over

Marks

8. Bell plc currently absorb factory overheads using a single machine hour rate. The factory produces four products and details for Period 6 of YEAR 1 are as follows.

Product	J	K	L	M
Production (units)	1,500	1,200	1,000	1,400
Machine hours per unit	5	4	3	4

The following are its expected overhead costs for Period 6.

	£
Set-up costs	12,240
Material receiving costs	2,400
Quality control costs	7,140
Order despatch costs	7,650
	29,430

(*a*) Calculate:

(i) the present factory wide overhead absorption rate (to nearest pence);

(ii) the overhead costs per unit for each product. **10**

Bell plc are considering introducing Activity Based Costing (ABC) as an alternative means of absorbing overheads.

The cost drivers which have been identified for these activities are as follows.

Set-up	Number of production runs
Material receiving	Number of requisitions
Quality control	Number of production runs
Order despatch	Number of batches sold

All four products are produced in production runs of 25 and sold in batches of 10.

The total number of requisitions for **each** product is 15.

(*b*) If an ABC system is introduced:

(i) calculate an absorption rate for each cost driver;

(ii) calculate the overhead cost per unit for each product. **30**

(40)

Marks

9. (*a*) Profit Statements based on either Absorption or Marginal costing can be useful for management reporting.

Explain:

(i) the difference between the costing techniques referred to in the above statement;

(ii) how the choice of techniques will affect the level of profit disclosed. **22**

(*b*) Suggest **2** arguments to support each of the following.

(i) Absorption costing

(ii) Marginal costing **8**

(30)

10. (*a*) List **4** assumptions required for break-even analysis to take place. **8**

(*b*) "The important factor in decision-making is contribution not profit."

Explain how profit is maximised in the following decision-making situations.

(i) Limiting factor

(ii) Make or buy **14**

(*c*) What difficulties occur when trying to calculate break-even point in a multi-product business and how are they resolved? **8**

(30)

[*END OF QUESTION PAPER*]

FOR OFFICIAL USE

X209/702

NATIONAL QUALIFICATIONS 2007

FRIDAY, 18 MAY
1.00 PM – 4.00 PM

ACCOUNTING
ADVANCED HIGHER
Worksheet for
Question 2(*a*)

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 Worksheet for Question 2(*a*) need only be completed if the question is attempted.

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

Worksheet for Question 2 (*a*)

Question 2 (*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 operating activities		

Worksheet for Question 2 (*a*) (continued)

(ii) CASH FLOW STATEMENT FOR YEAR ENDED ________________________________

	£	£
Net cash inflow (outflow) from operating activities (from 2*a*(i))		
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		

36

[*END OF WORKSHEET*]

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