X209/301

NATIONAL
QUALIFICATIONS
2007

FRIDAY, 18 MAY
1.00 PM – 3.30 PM

ACCOUNTING
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.

SECTION A

You should attempt 3 questions from this section:
Question 1, AND Question 2 OR 3 AND Question 4 OR 5.

Any incorrect figure not supported by adequate working will receive no marks.

1. The following relates to the Gala Social Club for the year ended 31 December Year 2.

Receipts	**£**
Subscriptions	6,500
Entrance Fees (to be capitalised)	1,000
Sale of Refreshments	12,000
Sale of Annual Dance Tickets	3,000
Sale of Raffle Tickets	2,500
Gaming Machines Takings	8,750
Payments	
Creditors for Refreshments	8,400
Annual Dance Expenses	380
Rent of Club Premises	6,000
Raffle Expenses	1,800
Gaming Machines Rental	3,000
Purchase of New Fittings	4,500
Light and Heat	1,850
Staff Wages (Refreshments)	4,000
Insurance	300
General Expenses	1,500

The following additional information is also available:

	1 January Year 2	**31 December Year 2**
Fittings (NBV)	£6,000	£9,000
Subscriptions in Advance	£150	£200
Subscriptions in Arrears	£180	£100
Creditors for Refreshments	£350	£420
Staff Wages Accrued	£120	£150
General Expenses Prepaid	£60	£30
Stock of Refreshments	£300	£280
Cash/Bank	£200	?
Accumulated Funds	?	?

(*a*) **Calculate** the Profit/Loss from the:

(i) Sale of Refreshments;

(ii) Annual Dance;

(iii) Raffle;

(iv) Gaming Machines. **15**

(*b*) **Prepare** the Income and Expenditure Account for the year ended 31 December Year 2 and a Balance Sheet as at that date. **35**

(50)

[Turn over for Question 2 on *Page four*

Any incorrect figure not supported by adequate working will receive no marks.

2. The following is the Trial Balance of the manufacturing firm Glenburn Plc at 31 December Year 2.

	£000	*£000*
Stocks at 1 January Year 2		
Raw Materials	40	
Work-in-Progress	30	
Finished Goods	20	
Purchases of Raw Materials	300	
Carriage on Raw Materials	10	
Manufacturing Wages	260	
Indirect Factory Wages	34	
Factory Insurance	10	
Electricity	34	
Office and Selling Expenses	28	
Royalties	24	
Warehouse Expenses	5	
Interim Dividend on Preference Shares	2	
Sales		900
Buildings at Cost	419	
Factory Machinery at Cost	50	
Provision for Depreciation of Machinery at 1 January Year 2		20
Debtors	80	
Provision for Doubtful Debts at 1 January Year 2		3
Bank		8
Creditors		60
Ordinary Shares of 50p each		200
8% Preference Shares of £1 each		100
Share Premium		50
Profit and Loss Account Balance at 1 January Year 2		5
	£1346	£1346

2. (continued)

NOTES: At 31 December Year 2 the following had to be taken into account:

(1)	Stocks:	*£000*
	Raw Materials	15
	Work-in-Progress	27
	Finished Goods	32
(2)	Accrued:	
	Electricity	2
	Manufacturing Wages	5
	Interest on Overdraft	1
	Prepaid:	
	Factory Insurance	1

(3) Electricity is to be apportioned between Factory and Office in the ratio of 2:1.

(4) Factory Machinery is to be depreciated by 10% on the diminishing balance.

(5) The Provision for Doubtful Debts is to be adjusted to 5% of Debtors.

(6) The market value of the goods manufactured is £690,000.

(7) Corporation Tax is to be provided for at 25% of Net Profit.

(8) The Directors propose to:

(i) pay the Preference Dividend;

(ii) pay a dividend of 8p **per share** on the Ordinary Shares.

You are required to prepare, from the Trial Balance and Notes, for the year ended 31 December Year 2:

(i) Manufacturing Account, to show the Profit/Loss on manufacture; **20**

(ii) Trading and Profit and Loss Accounts to include appropriation of the available profits. **20**

NB A Balance Sheet is NOT required.

(40)

[Turn over

Any incorrect figure not supported by adequate working will receive no marks.

3. The Balance Sheet of Yang Enterprises as at 31 December Year 2 is as follows.

	£000	*£000*
Fixed Assets at net book value		160
Current Assets		
Stock	38	
Debtors	35	
Bank	45	
	118	
LESS:		
Current Liabilities		
Proposed Ordinary Dividend	28	
Creditors	27	
VAT	12	
Corporation Tax	11	
	78	
Net Current Assets		40
		£200
Issued Share Capital		
Ordinary Shares of £1 each		170
Reserves		
Share Premium	5	
Profit and Loss Account Balance	25	30
		£200

Additional information for year ended 31 December Year 2

	£000
Sales	£300
Purchases (80% on credit)	£250
Expenses	£16
Net Profit for the year **after** Corporation Tax at 25%	£33

3. (continued) *Marks*

(*a*) **Calculate** the following amounts for Year 2.

(i) Net Profit before Tax

(ii) Gross Profit

(iii) Credit Purchases

(iv) Working Capital **7**

An analysis of the performance of the firm in Year 1 showed the following ratios:

(1)	Mark-up	33·33%
(2)	Expense	7·22%
(3)	Net Profit (before tax)	17·78%
(4)	Stock Turnover	8·75 times
(5)	Acid Test	0·85:1
(6)	Creditor's Payment Period	18·25 days
(7)	Return on Capital Employed	27·75%

NOTE: Stock and Creditors at the start of Year 2 were £28,000 and £13,000 respectively.

(*b*) **Calculate** each of the above ratios (correct to 2 decimal places) for Year 2. **17**

(*c*) **Compare** 4 of the above ratios for Year 1 and Year 2 and **give** one reason for the difference between each year. **4**

(*d*) **State** which year you consider to have been the more successful and **select** 2 ratios which support your choice. **2**

An audit of the figures for Year 2 revealed the following errors.

(1) A sales invoice for £234 had been wrongly entered as £324.

(2) Purchases Returned had been overadded by £100.

(3) Discount Allowed of £60 had been entered as Discount Received.

(4) Wages had been underadded by £300

(5) Stock valued at £1,200 had been omitted from the closing stock.

(6) Payment of £200 by cheque to a creditor had been treated as £200 received from a debtor.

(*e*) **Calculate** the new figures for Gross Profit and Net Profit before Tax for Year 2 following the correction of the above errors. **10**

(40)

4. (*a*) **Name 4** groups of stakeholders who would have an interest in the financial performance of a plc. **4**

(*b*) **Explain** the meaning of any **2** of the following.

(i) Factoring

(ii) Statement of Principles

(iii) Debentures **6**

(10)

5. (*a*) **State 4** financial considerations that should be written into a partnership agreement. **4**

(*b*) **Give 2** items that would be recorded on the **credit** side of a partner's current account. **2**

(*c*) **Explain** the financial procedures to be followed prior to the introduction of a new partner. **4**

(10)

 [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.

Any incorrect figure not supported by adequate working will receive no marks.

6. The following is the Sales Budget of Crownpoint Ltd for the 6 month period July to December Year 2.

Sales (units)	**July**	**August**	**September**	**October**	**November**	**December**
Retail Cash Sales	1,300	1,400	1,500	1,600	1,700	1,800
Wholesale Credit Sales	6,500	7,400	8,300	5,600	4,800	7,500

The closing stock for each month is maintained at 20% of the cash sales of the following month.

Cash Sales for January Year 3 are estimated at 2,000 units.

(*a*) **Prepare** the Production Budget for 6 months July–December Year 2. **8**

The following information is also available.

(1) Retail Selling Price per unit: £40 (no discount). Wholesale terms: 10% cash discount—1 month.

(2) It is estimated that 80% of debtors will receive the cash discount by paying in the month following the sale. Of the remaining debtors 95% will pay 2 months after sale and the rest will be written off as bad debt.

(3) Material costs £12 per unit—25% payable in the month of production and the remainder in the month after production.

(4) Labour costs £8 per unit—payable in the month of production.

(5) A bonus of £2 per unit for each unit produced over 8000 units (normal production) is paid in the month following production.

(6) Variable Overhead costs £6 per unit—payable in the month of production.

(7) Fixed Costs of £32,000 (including Depreciation of £3,200) are paid monthly.

(8) Selling expenses of £2 per unit on Credit Sales are payable 2 months after sales.

(9) The firm plans to purchase new machinery costing £120,000. An initial deposit of 25% is payable in November and the remainder is payable in equal monthly instalments of £22,500 starting in December.

(10) 20,000 £1 shares are to be issued in June at a premium of 50p per share. Full payment for this issue is to be received in October.

(11) In December a dividend of 5% will be paid to the new shareholders while existing shareholders, with equity of £150,000, will receive a dividend of 10%.

(*b*) **Prepare** the Cash Budget for the 3 months October to December Year 2. It is estimated that there will be a bank overdraft of £40,000 by the end of September. **42**

(50)

Any incorrect figure not supported by adequate working will receive no marks. *Marks*

7. Wylie Ltd has 4 departments for which the following **estimates** have been made for June.

	Dept 1	**Dept 2**	**Dept 3**	**Dept 4**
Overheads Apportioned	£20,000	£33,200	£10,000	£8,000
Machine Hours	40,000	5,000	1,000	–
Labour Hours	3,000	7,000	10,000	5,000
Materials	£30,000	£18,000	£2,000	–

(*a*) **Re-apportion** the overheads of Department 4 to the other Departments on the basis of their labour hours. **4**

(*b*) **Calculate** the overhead recovery rate for each Department as follows.

Dept 1 — Machine Hours

Dept 2 — Percentage Material Costs

Dept 3 — Labour Hours **6**

At the end of June the **actual** figures for each Department were as follows.

Dept 1 — 38,000 Machine Hours

Dept 2 — £20,000 Material Cost

Dept 3 — 12,000 Labour Hours

(*c*) **Calculate** for each Department the amount of overheads over-absorbed or under-absorbed, clearly indicating which. **6**

During June the firm was asked to quote a price for a Job (No 456) with the following data.

	Dept 1	**Dept 2**	**Dept 3**
Materials	£40	£20	£2
Labour Hours	3	6	5
Labour Rate per Hour	£8	£7	£6
Machine Hours	100	4	1
Overheads	?	?	?

(*d*) **Calculate** the cost of Job 456 and the selling price if Wylie has a profit margin of 20% of the selling price. **10**

Wylie Ltd uses the AVCO Pricing System when issuing materials from stores. The following details are taken from the stock ledger card of Material X which had a balance of 200 units @ £6 per unit at the start of June.

Receipts	**Issues**
June 3 — 400 units @ £6·12	June 5 — 500 units
June 10 — 200 units @ £6·20	June 12 — 200 units
	June 15 — returned 50 of the units purchased on June 3
June 22 — 550 units @ £6·08	June 27 — 400 units

(*e*) **Prepare** the Stock Ledger card of Material X for June. **14**

(40)

Any incorrect figure not supported by adequate working will receive no marks.

8. Itsno White runs 2 laundrettes: Gourock and Greenock. She has made the following estimates for the Gourock laundrette for the year to 31 December Year 2.

Washing Materials	94p per wash	Rent of Premises	£1,250 per quarter
Electricity & Maintenance	50p per wash	Holiday Bonus	£500 per worker
Wages	£1·56 per wash	Annual Insurance	£1,200
		Annual Lease of Machines	£7,800

The laundrette has 6 machines and is open from 8 am to 8 pm, 5 days a week, and 50 weeks in the year. The washing cycle takes 1 machine hour and each day, on average, each machine is idle for 2 hours. The firm employs 2 workers.

(*a*) **Calculate** for the year to 31 December Year 2, the:

(i) total number of washes;
(ii) total variable operating cost;
(iii) total operating cost;
(iv) cost per wash;
(v) charge per wash to customers to give a profit margin of 20%;
(vi) total profit for year. **16**

Ms White requires a break-even analysis of the Gourock laundrette.

(*b*) **Calculate** the:
(i) contribution per wash;
(ii) number of washes at break-even point;
(iii) Profit/Loss from 8,000 washes;
(iv) Profit/Volume (P/V) Ratio;
(v) Margin of Safety at 10,000 washes. **14**

A similar analysis, made for the Greenock laundrette, shows a P/V Ratio of 20% with Fixed Costs of £24,000.

(*c*) **Calculate**, for the Greenock laundrette:

(i) the break-even point in sales value;
(ii) the sales required to make a profit of £12,000 after tax, if tax is 25%. **10**

(40)

Marks

9. (*a*) **Explain**, with an example of each, the difference between an "apportionment" of overheads and an "allocation" of overheads. **4**

(*b*) **Explain** the meaning of any **2** of the following.

(i) Cost Centre

(ii) Bonus Schemes

(iii) Limiting Factor **6**

(10)

10. **Explain** Process Costing and **outline** the factors that can have an effect on the calculation of the unit cost in a process. **(10)**

[*END OF QUESTION PAPER*]