X209/12/01

NATIONAL QUALIFICATIONS 2012

FRIDAY, 11 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.

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 is the Trial Balance of Carluke plc as at 31 December Year 3 **after** the preparation of the Trading Account.

	£000	*£000*
200,000 8 % Preference Shares of £1 each		200
300,000 Ordinary Shares of 50p each		150
10 % Debentures		100
Gross Profit		142
Stock at 31 December Year 3	13	
Office Expenses	60	
Discounts	6	
Advertising	10	
Provision for Doubtful Debts at 1 January Year 3		1
Debtors	22	
Creditors		21
Bank		51
Interim Preference Dividend paid	8	
Interim Ordinary Dividend paid	10	
Share Premium		75
Long Term Investments	150	
VAT	14	
Profit and Loss Account Balance at 1 January Year 3		25
Premises (at cost)	280	
Fixtures and Equipment (at cost)	150	
Vehicles (at cost)	90	
Provisions for Depreciation at 1 January Year 3:		
Fixtures and Equipment		70
Vehicles		18
Goodwill	10	
Preliminary Expenses	30	
	£853	£853

1. (continued) *Marks*

NOTES at 31 December Year 3

(1) The market value of the Closing Stock is £15,000.

(2) Office Salaries accrued are £2,000.

(3) The figure for Advertising includes the payment for the first quarter of Year 4.

(4) The Provision for Doubtful Debts is to be increased by £2,000.

(5) Provide for Depreciation per annum as follows:
- (i) Fixtures and Equipment—20% of the reduced balance.
- (ii) Vehicles—10% on cost.

(6) Provide for Corporation Tax at 25%.

(7) Write off the Preliminary Expenses by transfer from the Share Premium Account.

(8) Premises were professionally revalued at £295,000 with the surplus on revaluation being transferred **directly** to a Reserve Account.

(9) The Directors propose to:
- (i) pay a final Ordinary Dividend of 10%;
- (ii) pay the Preference Dividend in full;
- (iii) write off the Goodwill in full.

(10) Dividends of 10% are due on the Long Term Investments.

(11) A bonus issue of 50,000 Ordinary Shares was made during the year. These shares do not qualify for a dividend in Year 3. The bonus issue is to be written off against the Share Premium. This has yet to be recorded in the accounts.

You are required to prepare, for internal use, from the Trial Balance and Notes:

(i) the Profit and Loss Account (including the appropriation of available profits) for the year ended 31 December Year 3; **24**

(ii) a Balance Sheet as at the above date. **26**

(50)

[Turn over

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

2. The assets and liabilities of the Law Amateur Dramatic Society at 1 January Year 5 are shown below.

	£000
Premises	50
Sound and Lighting Equipment at cost	10
Provision for Depreciation on Sound and Lighting Equipment	2
Stock of Refreshments	4
Subscriptions in Advance	3
Subscriptions in Arrears	4
Bank	15
Creditors for Refreshments	2

(*a*) **Calculate** the Accumulated Fund at 1 January Year 5. **5**

The following information relates to the year ended 31 December Year 5:

Receipts	*£000*
Subscriptions	12
Ticket Sales	30
Sales of Refreshments	13
Sales of Raffle Tickets and Programmes	4
Fund Raising Events	6
Sale of Sound and Lighting Equipment	3
Payments	
Printing of Raffle Tickets and Programmes	2
Raffle Prizes	1
Creditors (Refreshments)	11
Hire of Scenery and Costumes	12
Secretary's Honorarium	3
Purchase of Sound and Lighting Equipment	10
Advertising	3
Insurance	2
Repairs to Premises	8
Fund Raising Expenses	1

Notes at 31 December Year 5:

(1) Stock of Refreshments £2,000

(2) Creditors for Refreshments £4,000

(3) Subscriptions in Advance £2,000

(4) Subscriptions in Arrears £1,000

(5) Advertising due but not yet paid £1,000

(6) Insurance Prepaid £1,000

(7) The Sound and Lighting Equipment sold had been purchased on 1 January Year 4 at a cost of £5,000. No depreciation is charged in the year of sale.

(8) Sound and Lighting Equipment is to be depreciated by 20 % per annum on cost.

(*b*) **Prepare** the Trading Account for Refreshments. **5**

(*c*) **Prepare** the Income and Expenditure Account for the year ending 31 December Year 5. **22**

2. (continued) *Marks*

The following information relating to Year 5 became available after completion of the Income and Expenditure Account.

(1) Some of the scenery which was hired had been damaged in transit and had been returned. A refund of £1,000 has now been received in respect of this.

(2) Flood damage to the store room made further repairs to the premises necessary and an invoice for £2,000 has been received.

(3) The flood damage to the store room resulted in the loss of the entire closing stock of refreshments.

(4) A further £4,000 has been banked for ticket sales.

(*d*) Using the information above, **calculate** the amended Surplus/Deficit figure for Year 5. **4**

(*e*) **Calculate** the closing Bank Balance. **4**

(40)

[Turn over

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

3. Anne and Robert are in partnership sharing profits and losses in the ratio of capital invested. The following information shows their Capital Account and Current Account balances at 1 January Year 3:

	Anne	**Robert**
Capital Account Balances	£60,000	£20,000
Current Account Balances	£1,200 (Dr)	£800 (Cr)

Anne loaned £20,000 to the partnership in June Year 2.

Their partnership agreement further states that:

(1) interest on Capital will be paid at 10 % per annum;

(2) drawings are limited to a maximum of 50 % per annum of each partner's capital;

(3) interest on Drawings is charged at 5 %;

(4) a partnership salary of £1,250 per month is to be paid to Anne;

(5) all loans to the partnership will receive interest of 10 % per annum.

The Net Profit for the year ended 31 December Year 3 was £54,000. Each partner had taken their maximum drawings.

You are required to prepare for the year ended 31 December Year 3:

(*a*) (i) the Appropriation Account for the partnership;

(ii) Anne's Current Account. **17**

On 1 January Year 4, Anne and Robert decided to admit Sylvia as a new partner under the following conditions.

(1) Before Sylvia is admitted as a partner, the assets are revalued resulting in a surplus of £3,600.

(2) Sylvia will contribute £30,000 to the partnership. This includes a premium of £6,000 for Goodwill.

(3) Goodwill is to be written off against the Capital Accounts of the new partnership as a Goodwill Account is not to be kept.

(4) Sylvia is to receive ⅓ share of profits with Anne and Robert continuing to share in the same proportions as before.

(*b*) **Calculate**:

(i) the new profit sharing ratio;

(ii) the new opening Capital Account balances for each partner. **11**

3. (continued) *Marks*

(*c*) The following information relates to the assets owned by the partnership.

Fittings were purchased on 1 July Year 2 at a cost of £20,000 and are depreciated at 20 % per annum using the reduced balance method.

A Delivery Van was purchased on 1 October Year 2 at a cost of £50,000 and is depreciated at 25 % per annum on cost. The Delivery Van was sold on 30 June Year 4 for £24,000.

Depreciation is to be charged for each month the asset is owned.

Calculate:

(i) the Net Book Value of the Fittings at 31 December Year 4;

(ii) the profit or loss on the sale of the Delivery Van;

(iii) the total depreciation charged to the Profit and Loss Account for the year ending 31 December Year 4. **12**

(40)

[Turn over

Marks

4. **Explain** the meaning of each of the following terms.

(i) Royalties

(ii) Manufacturing Profit

(iii) Work-In-Progress

(iv) Warehouse Expenses

(v) Factory Overheads **(10)**

5. (*a*) **State** the limitations of Ratio Analysis. **6**

(*b*) **Explain** the meaning of the following ratios.

(i) Current Ratio

(ii) Mark-up Ratio **4**

(10)

[Turn over for SECTION B on *Page ten*

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. PART A

The Real Ale Company produces beer in 2 stages; brewing and bottling.

	June	**July**	**August**	**September**
Sales	4,300	5,800	6,500	7,000

The above figures are the estimates for the number of cases of beer which Real Ale hopes to sell. The closing stock at the end of each month is maintained at 10% of the estimated sales for the following month.

Prepare the estimated Production Budget for the 3 months June–August. **5**

PART B

The following data relates to the brewing process for the month of May.

Opening Work-in-Progress	4,000 litres @ £2·50 per litre
Materials	50,000 litres @ £2 per litre
Labour	4,000 hours @ £7 per hour
Variable Overheads	£3 per labour hour
Fixed Overheads	10% of material cost
Finished Production	46,800 litres
Closing Work-in-Progress	6,500 litres valued at £9,620

Normal loss is 1% of input quantity. All losses have a saleable value of 20p per litre.

Prepare the Brewing Process Account and the Abnormal Loss Account for May. **16**

6. (continued) *Marks*

PART C

The Real Ale Company provides a canteen for its 80 employees. The canteen is open every day, for 52 weeks per year, and its facilities are used by each employee on average 5 times per week.

The cost of running the canteen is based on a period of **4 weeks** using the following information.

(1) Foodstuffs—£4 per employee per day used.

(2) Labour—1 chef's annual salary: £26,000; 2 servers: hourly wage £6—hours worked 4 per day, Monday to Friday. In addition, the servers each work 4 hours on Saturdays and Sundays at an overtime rate of time and a half.

(3) Overheads—the canteen's share of the total annual overheads is £7,280.

(4) New kitchen equipment has just been installed at a cost of £49,672. It is expected to last 6 years and will be sold for scrap estimated at £1,000.

(5) Furniture (tables/chairs) originally bought for £7,800 is depreciated annually at 10 % on cost.

(6) Theft/breakages of cutlery and dishware cost £260 per annum.

(*a*) **Prepare** an operating cost statement to show the cost of running the canteen for a 4 week period. **23**

(*b*) **Calculate** the average cost per meal. **3**

Real Ale wishes a profit margin of 20 % per meal.

(*c*) **Calculate** the average selling price per meal. **3**

(50)

[Turn over

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

7. Liz Boyce Enterprises has 3 Departments, each producing different products. The following details are the estimates for Year 8.

Unit Data	**Product A**	**Product B**	**Product C**
Selling Price	£49	£42	£36
Material Cost	£5	£8	£3
Labour Cost	£32	£16	£16
Variable Overheads	£2	£5	£1
Labour hours	2	2	4
Unit Sales	6,000	8,000	5,000

Fixed Costs of £96,000 are recovered on the basis of total labour hours.

(*a*) Using the above information, **calculate** the estimated:

(i) profit/loss per unit of each product;

(ii) total profit/loss for Year 8. **12**

Given these estimated profit figures, Liz is considering halting the production of the product showing the least profit and thereby reducing Fixed Costs by £6,000. Sales of remaining products will be unchanged.

(*b*) **Calculate** the effect this would have on the total profit for Year 8 and **advise** whether or not to halt its production. **Give** a reason for your answer. **8**

For Year 9 it is estimated that demand for each product will remain high and labour hours can be increased by 2,000 hours. All costs remain unchanged from Year 8 and profits are to be maximised.

(*c*) Assuming all 3 products are being made/sold, **identify** which product should increase production and by how many units. **6**

(*d*) **Calculate** the estimated profit for Year 9. **2**

Market research has now shown that demand for Product C in Year 9 is such that a minimum of 6,500 units will have to be made.

(*e*) **Calculate** the effect this increase in production of Product C would have on the estimated profit for Year 9. **6**

During Year 9 the business will be working at full capacity. If the business is approached by a customer to produce 50 units of Product C at a special price of £30 per unit with an estimated unit variable cost of £26:

(*f*) **advise** whether or not to accept this special order and **give** a reason for your answer. **6**

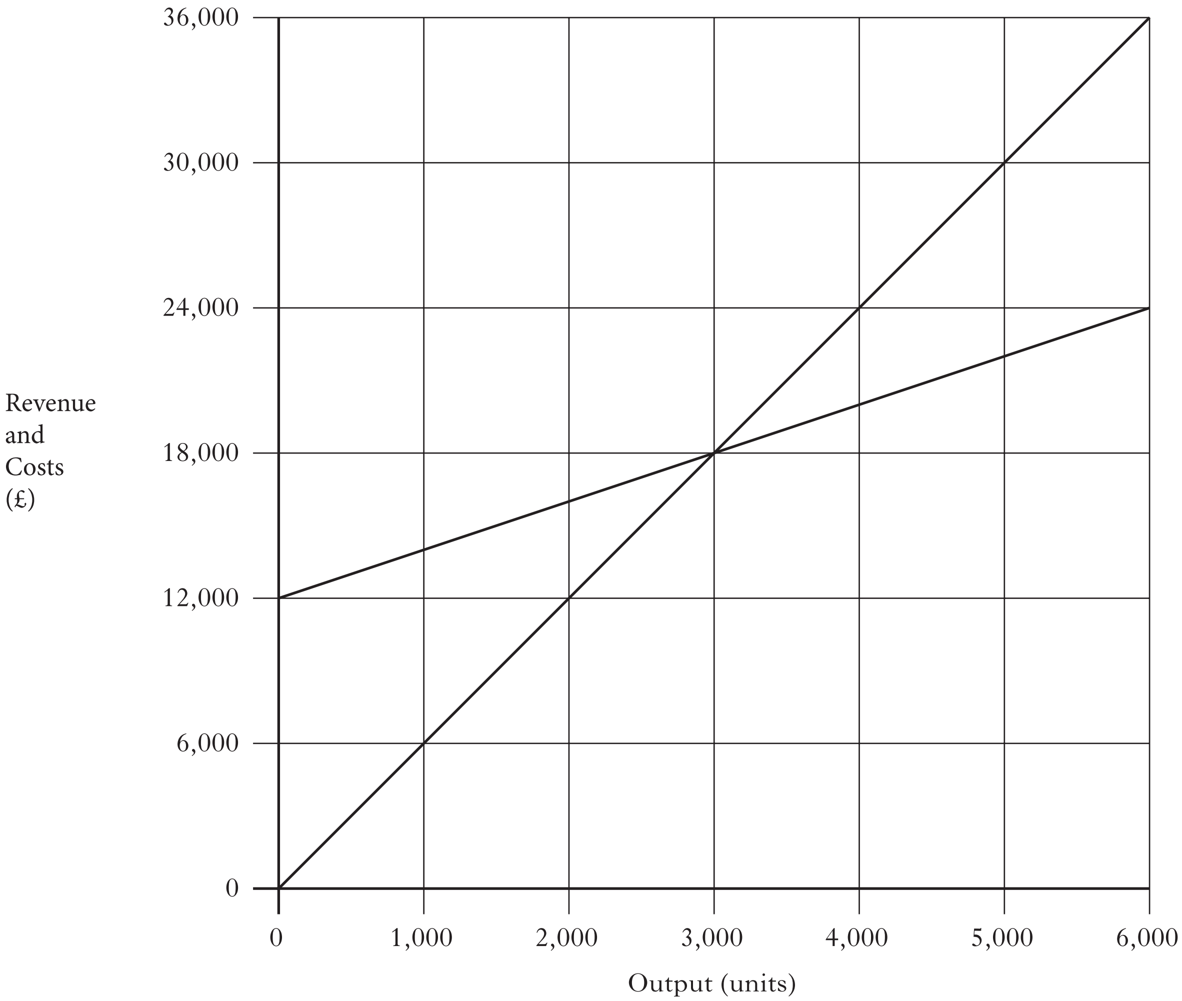
(40)

[Turn over for Question 8 on *Page fourteen*

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

8. PART A

The following chart shows the June sales revenue and costs of Wanode plc for Product Z at maximum production with all units sold.



(*a*) **State** the following.

(i) Break-even in units and sales revenue

(ii) Fixed Costs

(iii) Total Costs at sales of 6,000 units **4**

(*b*) **Calculate** the following.

(i) Selling Price per unit

(ii) Variable Cost per unit

(iii) Contribution per unit

(iv) P/V Ratio

(v) Margin of Safety in units and sales revenue from sales of 6,000 units

(vi) Profit or Loss on sales of 5,000 units

(vii) The increase in output/sales required to make a profit of £12,000 after tax of 20% **16**

PART B

Highglen Ltd has two production departments—Machining and Assembling—and one service department—Maintenance.

The following are the estimated overheads for Year 10.

Indirect Labour	£8,000
Administration	£10,000
Light and Heat	£2,100
Machine Insurance	£1,250
Power	£4,000
Rent	£12,000
Supervision	£5,000
	£42,350

The following formation is also available.

	Machining	**Assembling**	**Maintenance**	**TOTAL**
Area (sq. metres)	1,500	1,000	500	3,000
Kilowatt hours	4,000	3,000	1,000	8,000
Machine hours	6,000	4,000	–	10,000
Number of workers	10	8	2	20
Value of Machinery	£6,500	£5,000	£1,000	£12,500
Direct Material	£60,875	£39,125	–	£100,000
Indirect Labour	£2,080	£1,920	£4,000	£8,000

(*a*) **Prepare** an Overhead Analysis Sheet. **7**

(*b*) **Re-apportion** the Maintenance Department total to the other 2 departments on the basis of their machine hours. **2**

(*c*) **Calculate** the Overhead Recovery Rate for the production departments on the following bases:

Machining—percentage of direct materials
Assembly—no of machine hours **4**

Actual figures for the production departments were as follows.

	Machining	**Assembling**
Direct Materials	£64,000	–
Machine Hours	–	3,500
Overheads	£24,000	£17,000

(*d*) **Calculate** the amount of overheads over-absorbed or under-absorbed in each department, clearly stating which. **7**

(40)

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

Marks

9. (*a*) **Name** 3 methods of pricing stores issues and describe one method. State one advantage and one disadvantage of the method. **5**

(*b*) **Name** 3 systems of calculating wages and describe one system. State one advantage and one disadvantage of the system. **5**

(10)

10. (*a*) **Describe** a Cash Budget and **give** 3 reasons for preparing a Cash Budget. **5**

(*b*) **State** the advantages of using spreadsheets to prepare a Cash Budget. **5**

(10)

[*END OF QUESTION PAPER*]