X209/301

NATIONAL QUALIFICATIONS 2010

WEDNESDAY, 2 JUNE
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. Wallace and Bruce are in partnership sharing profits and losses in the ratio of capital invested. The following is their Trial Balance as at 31 December Year 2 **after** the preparation of the Trading Account.

	£000	*£000*
Gross Profit		90
Stock at 31 December Year 2	9	
Rates	6	
Advertising	7	
Buildings (at cost)	100	
Equipment (at cost)	50	
Delivery Vans (at cost)	20	
Provisions for Depreciation at 1 January Year 2:		
Equipment		10
Delivery Vans		4
Bank	49	
Debtors	26	
Creditors		15
Provision for Bad Debts at 1 January Year 2		4
VAT	12	
Discounts		3
Capital Accounts:		
Wallace		120
Bruce		40
Current Accounts at 1 January Year 2:		
Wallace		7
Bruce	4	
Drawings:		
Wallace	30	
Bruce	20	
Loan – Wallace		40
	£333	£333

1. (continued)

NOTES at 31 December Year 2

(1) The partnership agreement of Wallace and Bruce states:
  (i) interest on capital will be paid at 20% per annum;
  (ii) interest on drawings will be charged at 10% per annum;
  (iii) a partnership salary of £17,000 will be paid to Bruce;
  (iv) interest on loans from partners will be paid at 10% per annum.

(2) Advertising paid in advance – £1,000.

(3) The rates payment for the final quarter of the year is still outstanding.

(4) Equipment which had been purchased on 31 May Year 1 and had cost £15,000 was sold on 31 October Year 2 for £7,000 by cheque. It is the policy of the firm to charge a full year's depreciation in the year of purchase and none in the year of sale. No entries have been made in respect of this sale.

(5) Provide for depreciation per annum as follows:
  (i) Equipment – 20% on cost;
  (ii) Delivery Vans – 25% of the reduced balance.

(6) The Provision for Bad Debts is to be adjusted to £3,000.

(7) Buildings were professionally revalued during the year at £110,000. The surplus on revaluation is to be transferred **directly** to a Revaluation Reserve Account.

(8) Stock at 31 December Year 2 had a market value of £11,000.

From the Trial Balance and Notes **you are required to prepare**:

  (i) the Profit and Loss and Appropriation Account for the year ended 31 December Year 2;
  (ii) the updated Current Accounts;
  (iii) a Balance Sheet as at 31 December Year 2. **(50)**

[Turn over

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

2. The following information was extracted from the books of Valley Manufacturing plc for the year ended 31 December Year 2.

	£000
Stocks—1 January Year 2:	
Raw Materials	21
Work-In-Progress	30
Finished Goods	15
Purchases:	
Raw Materials	155
Finished Goods	70
Purchases Returns—Raw Materials	15
Carriage In on Finished Goods	2
Wages:	
Manufacturing	95
Warehouse	30
Direct Factory Power	10
Factory Repairs	12
Factory Rates	8
Royalties	62
Advertising	8
Salaries	44
General Expenses	12
Lighting and Heating	25
Insurance	17
Factory Machinery (at cost)	100
Vehicles (at cost)	50
Provision for Depreciation at 1 January Year 2:	
Factory Machinery	20
Vehicles	10
Debtors	22
Bad Debts	5
Sales of Finished Goods	640
Sales Returns of Finished Goods	20
Selling Expenses	1
Stocks—31 December Year 2:	
Raw Materials	19
Work-In-Progress	25
Finished Goods	19

NOTES at 31 December Year 2

(1) Manufacturing wages owing—£5,000.

(2) Lighting and Heating and Insurance are to be apportioned between the Factory and the Office in the ratio of 4:1 after taking into account prepaid Insurance of £2,000.

(3) The salaries are to be apportioned between the Factory and the Office in the ratio of 3:1.

(4) The Factory is to be charged with 75% of the General Expenses with the remainder being charged to the Warehouse.

(5) Depreciation per annum is to be provided for as follows:
Factory Machinery—20% diminishing balance
Vehicles—10% on cost. The vehicles are used 80% for distribution and 20% in the factory.

(6) Production of finished goods for the year amounted to 100,000 units. These are to be transferred to the warehouse at their market value of £4·50 per unit.

2. (continued)

You are required to:

(*a*) **prepare** the **Manufacturing Account** for the year ended 31 December Year 2, clearly labelling:

- (i) Cost of Raw Materials Consumed;
- (ii) Prime Cost of Production;
- (iii) Factory Cost of Production; **27**

(*b*) **calculate** the unit cost of production; **2**

(*c*) prepare the **Trading Account** for the year ended 31 December Year 2. **11**

(40)

[Turn over

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

3. Noreen is a sole trader and the following are the results for her second year of trading.

Trading and Profit and Loss Account of Noreen for the year ended 31 December Year 2

		£
	Sales	180,000
Less	Cost of Sales	120,000
	GROSS PROFIT	60,000
Less	Expenses	29,000
	NET PROFIT	£31,000

- 90% of Sales are on credit
- **All** Purchases are on credit

Balance Sheet of Noreen as at 31 December Year 2

		£	£
	Fixed Assets		80,000
Add	Current Assets		
	Stock	12,000	
	Debtors	5,000	
	Bank	76,000	
		93,000	
Less	Current Liabilities		
	Creditors	14,000	79,000
			£159,000
	Financed By		
	Capital		138,000
Add	Net Profit		31,000
			169,000
Less	Drawings		10,000
			£159,000

A comparison with Year 1 shows that:

- Stock had increased by £2,000
- Debtors had decreased by £10,000
- Creditors had increased by £2,000.

3. (continued)

The following information relates to Noreen's first year of trading.

(1)	Gross Profit Percentage	28·57%
(2)	Net Profit Percentage	11·43%
(3)	Rate of Stock Turnover	8 times
(4)	Mark-up Ratio	40%
(5)	Return on Capital Employed	12·3%
(6)	Debtors' Collection Period	43·45 days
(7)	Creditors' Payment Period	39·82 days
(8)	Acid Test Ratio	3·4:1
(9)	Fixed Asset Turnover	2:1

(*a*) **You are required** to calculate each of the above ratios for Year 2. **24**

(*b*) Give a reason for the difference between Year 1 and Year 2 for each of the following ratios.
- (i) The Gross Profit Percentage
- (ii) The Debtors' Collection Period
- (iii) Rate of Stock Turnover
- (iv) Return on Capital Employed **4**

(*c*) In which year is Noreen in a better position to meet short-term debts? Give a reason for your answer. **2**

At the end of Year 2 the following errors were discovered by the auditor.

(1) The Advertising figure had not been adjusted for a prepayment of £500.
(2) A sales invoice for £650 had been entered in error as £560.
(3) Expenditure of £750 on a new computer for the office had been entered in the Profit and Loss Account.
(4) Closing Stock had been overvalued by £450.
(5) A payment of £210 from a debtor had been omitted from her account.
(6) Discount Received of £360 had been entered as Discount Allowed.

(*d*) Prepare a statement to show the corrected figures for Gross Profit and Net Profit after correction of the above errors. **10**

(40)

[Turn over

Marks

4. **Read** the following passage and **state** the meaning of **5** of the terms which are underlined.

MIA plc is a <u>public limited company</u> which has an Authorised Share Capital of 750,000 8% <u>Preference Shares</u> of £1 and 1,000,000 <u>Ordinary Shares</u> of £1, while their <u>Issued Share Capital</u> consists of 500,000 8% Preference Shares of £1 and 800,000 Ordinary Shares of £1. It has also issued 5% <u>Debentures</u> of £250,000. The Balance Sheet also shows reserves which include an <u>Unappropriated Profit</u> of £50,000 and a <u>Share Premium</u> of £400,000. **(10)**

5. (*a*) **Explain** the term Life Membership Fees and **state 2** ways they might be treated in the Final Accounts of a Club. **6**

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

(i) Accumulated Fund

(ii) Secretary's Honorarium **4**

(10)

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. High-Hopes Ltd has 3 production departments: X, Y and Z each of which makes and sells a different product using the same raw materials. The following projected data is provided for Year 6.

	Dept X	Dept Y	Dept Z
Production and Sales (units)	4000	5000	6000
Materials per unit at £5 per kg	2 kgs	5 kgs	5 kgs
Labour per unit at £8 per hour	3 hrs	2 hrs	1 hr
Variable overheads at £2 per labour hour			

Fixed Overheads—£45,000 are recovered on the basis of projected total units produced.

	Dept X	Dept Y	Dept Z
All units produced will be sold at the following prices	£50	£60	£80

(*a*) From the above **calculate** for each department the:

(i) variable cost per unit;

(ii) total cost per unit;

(iii) contribution per unit. **8**

(*b*) **Calculate** the estimated profit/loss for each department and in total for Year 6. **7**

(*c*) **Calculate** for Dept Z only the:

(i) Break-even Point in units and sales value at projected output;

(ii) Margin of Safety in units and sales value at projected output;

(iii) Profit or Loss on sales of 2,500 units;

(iv) Sales value required to make a profit of £40,500 after tax of 25%;

(v) P/V Ratio. **17**

The Production Manager is considering closing the department showing the least profit in your answer to (*b*) with a consequential reduction in fixed overheads of 20%.

(*d*) **Calculate** the effect of this closure on the estimated profit for Year 6 and **advise** the manager whether or not to close. **8**

(*e*) All departments are to operate in Year 7, with projected production and sales data per unit unchanged from Year 6. Allowing for a reduction of 7,000 kgs in raw materials available and assuming profits are to be maximised:

(i) **identify** which department would have to reduce its production and by how many units;

(ii) **calculate** the effect of this reduction on the estimated profit for Year 6 found in (*b*). **10**

(50)

[Turn over

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

7. Ben Turpin Ltd operates a factory which has two workshops: Machining and Finishing, and a Warehouse for storage of materials.

Warehouse overheads are currently re-apportioned to the workshops as a percentage of total Direct Material Cost. Workshop overheads are recovered using a factory-wide rate as a percentage of Direct Material Cost.

The following **estimates** relate to January of Year 10 before the re-apportionment of the Warehouse overheads.

	Machining	**Finishing**	**Warehouse**
Total Overheads	£50,000	£40,000	£20,000
Direct Material Cost	£170,000	£30,000	–
Direct Machine Hours	10,000	–	–
Direct Labour Hours	–	4,000	–

(*a*) **Re-apportion** the Warehouse Overheads to the workshops. **2**

(*b*) **Calculate** the workshop overhead recovery rate. **2**

The following information relates to Job No 876.

	Machining	**Finishing**
Material Cost	£150	£30
Machine Hours	10	–
Labour Hours	–	2

Labour is paid at £12 per hour in the Machining Department and £10 per hour in the Finishing Department.

(*c*) **Calculate** the total cost of Job No 876. **6**

It has now been decided to change the recovery of the overheads after the re-apportionment of the Warehouse overheads to a departmental rate for each workshop as follows: Machining—machine hours, Finishing—labour hours.

(*d*) (i) **Calculate** the new recovery rate for each workshop.

(ii) **Re-calculate** the total cost of Job No 876 using these new rates.

(iii) **Calculate** the selling price to be charged for Job No 876, including VAT at 17·5%, with a mark-up of 20%. **10**

The following are the **actual** figures for January of Year 10 after the re-apportionment of the Warehouse overheads.

	Machining	**Finishing**
Total Overheads	£70,000	£39,000
Machine Hours	11,000	–
Labour Hours	–	3,500

(*e*) **Calculate** the amount of overhead over-absorbed or under-absorbed in **each** workshop. **8**

Marks

7. (continued)

The following are the estimated figures for February of Year 10.

Overheads	**Total Cost**	
Indirect Materials	£8,000	(Machining—£6,000, Finishing—£2,000)
Supervision	£20,000	
Power	£5,000	
Rent	£60,000	
Insurance—Machinery	£7,000	
	£100,000	

The following details are also available.

	Machining	**Finishing**	**Warehouse**
Kilowatt Hours	20,000	5,000	–
Number of Workers	30	15	5
Value of Machinery	£120,000	£20,000	–
Area (square metres)	5,000	3,000	2,000

(*f*) **Prepare**, for February of Year 10, an Overhead Analysis Statement. **10**

(*g*) **Re-apportion** the Warehouse overheads on the basis of indirect materials. **2**

(40)

[Turn over

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

8. PART A

Easi-move Ltd has a fleet of 6 vans, each of which is hired out with a driver for transporting light goods. Each van costs £16,000 and after 3 years will have an estimated trade-in value of £4,000. It is estimated that each hired van will cover 2,000 miles per week over a 48 week year.

The **annual** expenses are estimated as follows.

(1) Each van requires a service every 30,000 miles at a cost of £150 per van.

(2) Insurance costs £886 per van.

(3) Garage Rental costs £1,455 per quarter.

(4) Each driver normally works a full 8 hour shift for five days a week at an hourly rate of £12 per hour and an extra half-shift on Saturday at an overtime rate of time and a half. Each driver works 48 weeks and receives 4 weeks holiday pay at £480 per week.

(5) Fuel consumption of each van is 10 miles per litre at a cost of £1·10 per litre.

(6) All 4 tyres on each van are replaced every 60,000 miles at a cost of £480 per set.

(*a*) **Prepare** a statement to show the annual cost of operating the fleet.

(*b*) **Calculate** the total annual hiring charge required to give a profit margin of 20%.

(*c*) **Calculate** the average hiring charge **per mile** required to achieve this level of income. **22**

PART B

Luxor Ltd makes fertiliser by mixing two nitrates—A and B—in the ratio of 3:2 respectively.

The following details relate to the month of June.

Nitrate A	6,000 kgs at £2 per kg
Nitrate B	as required at £4 per kg
Direct Labour	7,000 hours at £8 per hour
Variable Overheads	£2 per labour hour
Fixed Overheads	25% of material cost

Normal Loss is estimated at 1% of total input weight and all losses are sold for 80p per kg. At the end of June, work-in-progress is 500 kgs valued at £1,520 and the amount of fertiliser transferred to stores is 9,000 kgs.

(*a*) **Prepare for June**:

(i) the Mixing Process Account;

(ii) the Abnormal Loss Account.

The fertiliser is sold in 1 kg bags at a mark-up of 20% per bag.

(*b*) **Calculate** the selling price of a bag of fertiliser. **18**

(40)

Marks

9. (*a*) What is the purpose of a budget? **1**

(*b*) **Name** and **describe** the contents of 3 budgets. **9**

(10)

10. **Name** and **describe** 2 methods of pricing stores issues and **give** one advantage and one disadvantage of each. **(10)**

[*END OF QUESTION PAPER*]

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