X209/301

NATIONAL QUALIFICATIONS 2011

TUESDAY, 31 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 a summary of the receipts and payments of the Seedhill Tennis Club for the year ending 31 December Year 11.

RECEIPTS	*£000*	*£000*
Restaurant Sales	65	
Raffle Tickets	5	
Annual Dance Tickets	7	
Hire of Lockers	2	
Subscriptions	70	149

PAYMENTS		
Restaurant Purchases	30	
Tennis Equipment	6	
Raffle Prizes	2	
Restaurant Staff Wages	25	
Groundsman's Wages	18	
Insurance	2	
General Expenses	4	
Secretary's Honorarium	3	
Electricity	7	
Loan Repayment	20	
Loan Interest	5	
Annual Dance Expenses	9	131

Other Assets and Liabilities are as follows.

	1 Jan Year 11 *£000*	31 Dec Year 11 *£000*
Accumulated Fund	?	?
Cash at Bank	5 (Dr)	?
Clubhouse	100	100
Clubhouse Fittings (NBV)	30	?
Electricity prepaid	1	2
Loan from Building Society	80	?
Loan Interest due	3	2
Restaurant Purchases Creditors	5	4
Restaurant Stocks	12	10
Restaurant Fittings (NBV)	10	?
Subscriptions in Advance	3	4
Subscriptions in Arrears	2	5
Tennis Equipment (NBV)	3	7

Marks

1. (continued)

NOTES

(1) 25 % of the Annual Subscriptions are to be capitalised.

(2) Electricity is apportioned between Clubhouse and Restaurant in the ratio of 2:1.

(3) All Fittings are to be depreciated by 10 % on Net Book Value (NBV).

Prepare, for the year ending 31 December Year 11, the:

(i) Restaurant Trading and Profit and Loss Account; **9**

(ii) Income and Expenditure Account; **22**

(iii) Balance Sheet as at that date. **19**

(50)

[Turn over

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

2. Evans and Jones are in partnership as a manufacturing firm. Their Partnership Agreement states:

(1) Interest on Capital is payable at 5% per annum;

(2) Interest on Drawings is charged at 10% per annum;

(3) Evans is due a Partnership Salary of £8,000;

(4) Residual profits are to be shared on the basis of Capital invested.

The following data relate to the year ending 31 December Year 2.

	£000
Stocks at 1 January Year 2:	
Raw Materials	30
Work-In-Progress	10
Finished Goods	40
Purchases of Raw Materials	200
Carriage on Raw Materials	5
Wages	300
Insurance	12
Electricity	20
Office and Selling Expenses	11
Royalties	30
Warehouse Expenses	6
Sales	700
Factory Machinery (at cost)	60
Provision for Depreciation of Machinery at 1 January Year 2	25
Debtors	60
Provision for Doubtful Debts at 1 January Year 2	2
Bank Overdraft	6
Capital—Evans	40
Capital—Jones	60
Current Account—Evans	3 (Dr)
Current Account—Jones	5 (Cr)
Drawings Account—Evans	10
Drawings Account—Jones	20
Market Value of Goods Manufactured	552

2. (continued)

NOTES

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

			£000
(1)	Stocks:	Raw Materials	35
		Work-in-Progress	15
		Finished Goods	45
(2)	Prepaid:	Insurance	3
(3)	Accrued:	Electricity	4
		Interest on Overdraft	2
(4)	Wages to be divided as follows:		
		Direct Factory	50%
		Indirect Factory	30%
		Office/Selling	20%

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

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

(7) Factory Machinery is to be depreciated by 20% on the diminishing balance.

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

Prepare separately, from the above information, for the year ending 31 December Year 2 the:

(i) Manufacturing Account; **18**

(ii) Trading, Profit and Loss and Appropriation Accounts. **22**

(40)

NB A Balance Sheet is NOT required.

[Turn over

Marks

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

3. PART A

The following information has been extracted from the accounts of Claire Gomez at the end of her first year in business.

	£000
Sales (75 % credit)	80
Stock at end	11
Expenses	16
Debtors	6
Capital	50

The figures for Stock and Debtors are the average for Year 1 in which Claire made a Net Profit on Sales of 25 %.

(*a*) **Calculate** the following.

(i) Net Profit

(ii) Gross Profit Ratio

(iii) Mark-up Ratio

(iv) Rate of Stock Turnover

(v) Expenses Ratio

(vi) Debtors Collection Period (in days)

(vii) Return on Capital Employed. **14**

To improve her performance in Year 2, Claire decides to make the following changes.

(1) Achieve an Average Stock of £15,000 to increase the Rate of Stock Turnover to 6 times.

(2) Reduce Gross Profit Ratio and Expenses Ratio to 40 % and 18 % respectively.

(*b*) **Calculate** the following for Year 2.

(i) Cost of Goods Sold

(ii) Sales

(iii) Gross Profit

(iv) Purchases

(v) Net Profit. **11**

(*c*) **State** how Claire could reduce the Gross Profit Ratio. **2**

3. (continued)

PART B

The following relates to the firm of Alejandro plc whose financial year runs from 1 January to 31 December.

Fixed Asset	**Date of Purchase**	**Purchase Price**	**Date of Sale**	**Selling Price**
Motor Vehicles	1 April Year 1	£15,000	30 June Year 3	£7,000
Plant/Machinery	1 July Year 2	£20,000	30 September Year 3	£15,000

Depreciation is calculated on each asset as follows:

Motor Vehicles — 20% fixed instalment method per annum
Plant/Machinery — 10% reducing balance method per annum

Depreciation is charged for every month the asset is owned.

(*a*) **Calculate** the total depreciation charged on **each** asset at the date of its sale. **9**

(*b*) **Calculate** the Profit/Loss on the sale of Motor Vehicles. **4**

(40)

[Turn over

Marks

4. (*a*) **Explain** the differences between:

(i) Preference Shares and Ordinary Shares **4**

(ii) Bonus Issue and Rights Issue of Shares. **4**

(*b*) **State** one example of Capital Expenditure and one of Revenue Expenditure. **2**

(10)

5. (*a*) List the steps for the admission of a new partner. **4**

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

(i) Share Premium

(ii) Articles of Association **6**

(10)

[Turn over for SECTION B on *Page ten*

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

Wishaw Umbrellas have provided the following budgeted data for the period January to June Year 3.

	January	**February**	**March**	**April**	**May**	**June**
Production (units)	2,500	2,400	1,800	2,300	1,900	1,600
Sales (units)	2,510	2,460	1,750	2,340	1,930	1,640

The following information is also available.

- The estimated selling price per umbrella is £20.
- Cash customers are allowed a 10% discount on the estimated selling price.
- Credit customers who pay in the month following the month of sale are allowed a discount of 5% on the estimated selling price. Credit customers who pay after this time do not qualify for this discount.

Other budgeted information for the 6 months is as follows.

(1) Cash Sales represent 40% of the total sales for each month.

(2) It is estimated that 50% of credit customers will receive the discount and the remainder will pay within 2 months of the month of sale.

(3) Material costs £4 per unit—payable in the month **before** production.

(4) Labour costs £5 per unit—payable in the same month as production.

(5) Variable Overhead costs of £4 per unit are payable as follows:

¼ in the same month as production;

¾ the month following production.

(6) A labour bonus of £2 per unit is payable on production in excess of 2,000 units in the month following production.

(7) Fixed Costs, excluding depreciation of £2,000, are payable in the same month as production.

- £20,000 on production of up to and including 2,000 units
- £25,000 on production over 2,000 units

(8) The company will issue 40,000 Ordinary Shares of 50p each in March at a premium of 25p.

(9) The Company will receive a bank loan of £60,000 in April to help finance the purchase of new equipment costing £80,000. This equipment will be paid for in May. The bank loan, including interest of 5%, will be repaid in 12 equal instalments also starting in May.

Prepare the Cash Budget for the 3 months March to May Year 3, given that the Bank Balance at the beginning of March is £50,000. **39**

Marks

6. (continued)

PART B

EK Manufacturing Ltd has a balance of 500 units of Component J with a unit cost of £4 per unit at the beginning of May, Year 2. The following shows the receipts and issues of Component J during the month of May.

Receipts	**Issues**
May 3—500 units @ £4·20	May 8—600 units
May 12—400 units @ £4·40	May 15—half of the units purchased on May 12 were returned as they were faulty
May 20—1,000 units @ £4·14	May 18—400 units

Prepare the Stock Record Card for Component J for the month of May using the AVCO Pricing System **showing the Quantity, Price, and Value of units received, issued and in stock**. **11**

(50)

[Turn over

Marks

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

7. PART A

Gracie plc manufactures Product X. The following information relates to Product X for the month of January Year 2.

Variable Costs per unit:	£
Material	5.00
Labour	7.00
Overheads	8.00
Contribution per unit	10.00
Break-Even Point	6,000 units

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

(i) the selling price per unit;

(ii) the total fixed costs;

(iii) the number of units to be sold to make a profit of £20,000 after tax, if profits are taxed at 20%;

(iv) the P/V ratio. **11**

(*b*) In February the cost of materials will increase by £2 per unit and the fixed costs will increase by 10%. **Calculate**:

(i) the new break-even point;

(ii) the margin of safety in units and sales value if sales are 9,000 units;

(iii) the profit or loss on sales of 5,000 units. **9**

PART B

Coltness Chemicals manufacture Product B in 3 separate processes. The details for Process 3 for the month of April are as follows.

Transfer from Process 2	2,000 kgs @ £5 per kg
Materials	2,000 kgs @ £3 per kg
Labour	500 hours
Variable Overheads	£950
Completed Units transferred to stores	3,250 kgs
Closing Work-In-Progress	250 kgs worth £625
Labour Rate	£6 per hour
Fixed Overhead Absorption Rate	£2 per direct labour hour
Normal Loss	5% of total input quantity

All losses are sold for £4 per kg.

(*a*) Using the information shown above, **prepare**:

(i) the account for Process 3 for the month of April showing quantities, cost and values;

(ii) the Abnormal Loss Account for the month of April. **16**

(*b*) Coltness Chemicals have received an order for 30 kgs of Product B. **Calculate** the total selling price to give a profit margin of 25%. **4**

(40)

Marks

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

8. Lanark Enterprises plc uses the same basic raw material to produce 2 different products—Y and Z. They currently operate at 75 % capacity. The following information is available for the year ended 31 December Year 1.

PER UNIT	**Product Y**	**Product Z**
Selling price	£50	£70
Variable Cost		
Material	£10	£6
Labour	£20	£40
Machine Hours	2	4
Sales (units)	6,000	4,500

Variable Overheads are recovered at £3 per machine hour.

Fixed Costs per annum are £50,000

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

(i) the total machine hours being used at the current production level;

(ii) the total profit earned at the current level of production. **10**

Market research has indicated that in Year 2 the maximum demand for each product will be as follows:

Product Y 8,000 units
Product Z 7,000 units

In an attempt to meet this demand and maximise profits, Lanark Enterprises plc will have to work at full machine capacity.

(*b*) **Calculate for Year 2:**

(i) the number of machine hours available at full capacity;

(ii) the quantity of each product to be produced at full capacity in order to maximise profit;

(iii) total contribution;

(iv) total profit if fixed costs rise by 20 %. **15**

In Year 3 Lanark Enterprises plc proposes to introduce a new product A. In order to meet this proposal, machine capacity will have to increase by 40 % on the Year 2 figure. This will require the purchase of new machinery.

Unit Data for Product A

Selling Price	£60
Variable Costs	
Materials	£6
Labour	£30
Machine Hours	3

Variable Overheads will continue to be recovered at the same rate as Years 1 and 2.

Maximum Demand 7,000 units

Demand for products Y and Z will remain at the Year 2 levels and fixed costs will rise by a further £30,000.

(*c*) **Calculate** the maximum profit for Year 3 if Lanark Enterprises plc decide to go ahead with the above proposal. **15**

(40)

[Turn over

Marks

9. An Overhead Analysis Statement shows the allocation and apportionment of overheads to each cost centre. The overheads for each cost centre are totalled and an overhead absorption rate for each cost centre is calculated.

(*a*) **Explain** the meaning of each of the underlined terms. **6**

(*b*) **State** 2 methods of calculating overhead absorption rates and give the formula for each. **4**

(10)

10. (*a*) **State** 4 advantages of using spreadsheets for management accounting. **4**

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

(i) Opportunity Cost

(ii) Semi-Variable Cost **6**

(10)

[*END OF QUESTION PAPER*]