X209/201

NATIONAL QUALIFICATIONS 2008

MONDAY, 26 MAY
1.00 PM – 3.00 PM

ACCOUNTING
INTERMEDIATE 2

Candidates should attempt **four** questions as follows:

Question 1 and **one** other from Section A

plus

Question 4 and **one** other from Section B

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. Attention is drawn to the note at the start of each question requiring calculations—candidates using calculators should pay particular heed.

Marks will be deducted for untidy and badly arranged work.

Marks

SECTION A

You should attempt Question 1 and ONE other question from this Section.

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

1. The following information was extracted from the records of the Blairbeth Bowling Club for the year ending 31 December Year 2.

The following receipts and payments arose during the year.

Receipts	**£**
Subscriptions	4,200
Raffle Ticket Sales	1,300
Competition Entry Fees	3,400
Donations	1,000
	9,900

Payments	**£**
Competition Prizes/Trophies	800
Electricity	600
Raffle Prizes	400
Raffle Ticket Printing	100
Greenkeeper's Wages	1,400
Purchase of new Bowling Equipment	1,000
General Expenses	400
	4,700

The accounts showed the following balances at the start and the end of Year 2.

	January 1	**December 31**
Clubhouse	£25,000	£25,000
Bank	£5,400	?
Subscriptions paid in advance	—	£400
Subscriptions owing	—	£200
Equipment (original cost–£6,000)	£4,000	?
Electricity owing	—	£250

NOTE

- Depreciation is to be charged on ALL Equipment at 10% on cost per annum.

(*a*) Calculate the Accumulated Fund of the Club at 1 January Year 2. **3**

(*b*) Calculate the closing Bank Balance of the Club at 31 December Year 2. **3**

(*c*) Prepare a Statement to show the Profit or Loss made on the Raffle. **3**

(*d*) Prepare the Income and Expenditure Account of the Club for the year ending 31 December Year 2. **14**

(*e*) Prepare the Balance Sheet of the Club as at 31 December Year 2. **9**

(*f*) (i) Name the account which would be opened when a Trial Balance fails to agree. **2**

(ii) State **3** types of error which would not be revealed by the Trial Balance. **6**

(40)

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

2. Part A

Antonio Tiero, a sole trader, has calculated that he should have £450 in his business Bank Account at 31 December Year 2. However, the closing balance in his Bank Statement is £456.

When he compares the 2 documents he discovers the following.

(1) Cheques recently received by the business to the value of £300 have been entered in Tiero's Bank Account but do not appear in the Bank Statement.

(2) The following items do not appear in the Bank Account

- Bank Charges of £45
- A Standing Order paid to IBA Insurance for £80
- Dividends received from Investments for £100

(3) A cheque received from Andrew Ford for £112 had been entered in the Bank Account as £121.

(4) Cheques recently issued by Tiero to the value of £400 do not appear in the Bank Statement.

(5) A cheque received from D Sinclair for £60 and entered in the Bank Account had been returned by the Bank as the customer had insufficient funds.

(*a*) Update Tiero's Bank Account at 31 December Year 2. **11**

(*b*) Prepare a Bank Reconciliation Statement as at 31 December Year 2. **7**

Part B

Gerald and Andrew Killin entered into partnership on 1 January Year 1.

The Partnership Agreement states:

- Capital invested: Gerald–£30,000; Andrew–£20,000.
- Interest on this Capital is paid at 10% per annum.
- Andrew Killin receives a salary of £7,000 per annum.
- Profits and Losses are shared in the business in the ratio of Capital invested.
- Each partner takes Drawings of 20% of his Capital invested per annum.

The Partnership Net Profit for Year 1 was £32,000.

(*a*) Prepare the Profit and Loss Appropriation Account for the year ending 31 December Year 1. **10**

(*b*) Prepare the Current Account of Andrew Killin for the year. **6**

(*c*) The partners are considering taking on a new partner—state **2** advantages and **one** disadvantage of this action. **6**

(40)

[Turn over

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

3. The following information is taken from the books of Burnside & Sons, a manufacturing company, at 31 December Year 2.

List of Balances at 31 December Year 2	£000s
Sales of Finished Goods	3,600
Stocks at 1 January Year 2:	
Raw Materials	36
Work-in-Progress	45
Finished Goods	400
Purchase of Raw Materials	1,320
Machinery	400
Provision for Depreciation on Machinery (at 1 January Year 2)	60
Premises (at cost)	120
Bank and Cash	9
Production Wages	450
Selling and Distribution Expenses	36
Indirect Factory Expenses	28
Rent and Rates	100
Heating and Lighting	90
Indirect Factory Power	61
Indirect Factory Labour	36
Direct Factory Expenses	30
Factory Insurance	25
Bad Debts	10
Debtors	20
Creditors	15

NOTES AT 31 DECEMBER YEAR 2

(1) Stocks are valued as follows.

	£000s
Raw Materials	30
Work-in-Progress	39
Finished Goods	350

(2) Production Wages accrued—£12,000.

(3) Indirect Factory Power prepaid—£2,000.

(4) Rent and Rates to be apportioned between the Factory and the Office in the ratio 4:1, and Heating and Lighting in the ratio 2:1.

(5) Depreciation is to be provided on Machinery at a rate of 25% per annum on cost.

Marks

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

3. (continued)

(*a*) You are required to **select** the items required and prepare the Manufacturing Account ONLY for the year ended 31 December Year 2. Your answer should show, clearly labelled, the following figures:

(i) Cost of Raw Materials Consumed;

(ii) Prime Cost;

(iii) Factory Cost of Production. **22**

Note: A Trading Account and a Profit and Loss Account are not required.

(*b*) At the end of the year the following figures were extracted.

	£000
Turnover	3,600
Cost of Sales	2,700
Total Expenses	540
Current Assets	440
Current Liabilities	220

Calculate:

(i) Gross Profit Ratio;

(ii) Net Profit Ratio;

(iii) Current Ratio. **12**

(*c*) Name **one** other financial ratio and state the formula. **2**

(*d*) State **2** reasons why a business calculates accounting ratios. **4**

(40)

[*END OF SECTION A*]

[Turn over for Section B

SECTION B

You should attempt Question 4 and ONE other question from this Section.

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

4. Frances Lowery plans to start up in business on 1 July Year 1 with £10,000 in her business bank account.

The following estimates relate to the first 3 months of her business from July to September.

(1) Sales (in units)

July	**August**	**September**
2,000	2,400	3,000

The selling price per unit for credit sales will be £20—cash sales will receive a discount of 5% on the selling price. 60% of total monthly sales will be paid by cash and 40% will be sold on one month's credit.

(2) Production in July will be 3,000 units and will rise by 500 units every month.

(3) Material costs will be £8 per unit—these will be purchased in the same month as production and paid one month later.

(4) Labour costs will be £3 per unit and will be paid in the same month as production.

(5) Variable overheads will total £2 per unit payable the month after production.

(6) Fixed overheads will be £3,000 per month.

(7) Frances will receive a Loan of £5,000 in August.

(8) A van will be purchased in July for £10,000—this will be paid in 4 equal instalments starting in September.

(9) A commission of £2 per unit will be paid on all Sales in the month of sale.

(*a*) Prepare a Cash Budget for the 3 months July to September showing clearly opening and closing bank balances for each month. **32**

(*b*) State **2** reasons why Cash Budgets are prepared. **4**

(*c*) State **2** advantages to a business of producing budgets electronically. **4**

(40)

Marks

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

5. Part A

In Year 1 Eastglen Metals produces 2 products—5,000 units of X and 5,000 units of Y.

All production is sold.

Unit Data

	X	**Y**
Selling Price	£40	£49
Direct Materials	2 kgs	3 kgs
Direct Labour	2 hours	3 hours
Variable overheads	£2	£4

- Material is charged at £5 per kilogram
- Direct Labour rate is £4 per hour
- Annual Fixed Overheads total £150,000

(*a*) Calculate, for **each** product:

(i) the total variable cost; **6**

(ii) the contribution per unit; **2**

(iii) the contribution per labour hour. **2**

(*b*) Calculate the total profit for the year. **3**

In Year 2, due to a shortage of skilled labour, there will only be 22,000 labour hours available.

(*c*) Advise the business of the order of production to maximise profit. State a reason for your answer. **2**

(*d*) Calculate:

(i) the labour hours to be allocated to each product;

(ii) the units to be produced. **3**

(*e*) Calculate the change in profit from Year 1 to Year 2. **4**

Part B

Richmond plc is considering producing Product K which they propose to sell for £30 per unit. Estimated production costs per unit will be:

Materials—£6; Labour—£5; Variable overheads—£9.

Fixed Costs allocated to the production of Product K are expected to be £30,000.

(*a*) Calculate:

(i) the Break-Even Point for Product K in units and sales value;

(ii) the profit or loss to be made if 4,000 units were produced;

(iii) the new Break-Even Point in units and sales value if the Selling Price was reduced by £4. **12**

(*b*) (i) Explain the term "Break-Even Point".

(ii) Explain the term "Fixed Cost" and give **2** examples. **6**

(40)

[Turn over for Question 6 on *Page eight*

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

6. Part A

The following estimates apply to Job 245A.

(1) **Material Costs**

30 metres of Material X at £20 per metre
10 metres of Material Y at £10 per metre
Miscellaneous Materials —£200

(2) **Labour**

Labour is paid at a basic rate of £10 per hour and time and a half for overtime. Any hours worked on this job in excess of 30 hours are charged at the overtime rate. It is estimated that 3 employees will work on this job and spend the following time:

Employee A—12 hours   Employee B—14 hours   Employee C—16 hours

(3) Other Direct Expenses incurred for this job are estimated at £380.

(4) Overheads are absorbed as follows.

£10 per direct labour hour.

(5) The mark-up is 20%.

(6) VAT at 17·5% should be charged.

(*a*) Calculate:

(i) the total cost of Job 245A; **12**

(ii) the price to be quoted. **4**

Part B

The following details relate to the purchase and issue of materials for the month of March Year 1.

	Purchases		**Issues**
	Quantity	Unit Price	Quantity
1 March	100	£4·00	
4 March			60 – Job 231
8 March	200	£4·20	
12 March			100 – Job 236
18 March			120 – Job 247
23 March	200	£4·50	

(*a*) Prepare a Stock Record Card for the period using Last-In-First-Out. **14**

(*b*) Calculate the value of Closing Stock using First-In-First-Out. **4**

(*c*) State **3** bases of apportioning overheads among cost centres. **6**

(40)

[*END OF SECTION B*]

[*END OF QUESTION PAPER*]