

X209/301

NATIONAL
QUALIFICATIONS
2008

MONDAY, 26 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 is the Trial Balance of Cluney Manufacturing plc as at 31 December Year 2 **after** the draft Manufacturing Account for the year has been prepared.

	£000	£000
Sales		500
Stock of Finished Goods at 1 January Year 2	50	
Factory Cost of Finished Goods (50,000 units)	300	
Stock of Raw Materials at 31 December Year 2	20	
Stock of Work in Progress at 31 December Year 2	30	
Purchases of Finished Goods	40	
Purchases Returned of Finished Goods		5
Factory Expenses accrued		3
Factory Insurance prepaid	4	
Warehouse Expenses	30	
Office Expenses	16	
Selling Expenses	20	
Preliminary Expenses	6	
Bad Debts	2	
Debenture Interest	3	
Interim Ordinary Dividend	8	
Investments (Market Value £30,000)	28	
Buildings at cost	110	
Factory Machinery at cost	70	
Delivery Vehicles at cost	50	
Provision for Depreciation of Factory Machinery 31 December Year 2		10
Provision for Depreciation of Delivery Vehicles 1 January Year 2		20
200,000 Ordinary Shares of 50p each		100
50,000 8% Preference Shares of £1 each		50
10% Debentures		60
Unappropriated Profit at 1 January Year 2		20
Share Premium		15
Creditors		25
VAT		43
Debtors	60	
Provision for Doubtful Debts at 1 January Year 2		4
Bank	8	
	<u>£855</u>	<u>£855</u>

1. (continued)

NOTES:

- (1) It has now been established that the number of units produced could have been purchased at a market value of £5.50 per unit.

	£000
(2) Stock of Finished Goods at 31 December Year 2	40
(3) Provision for Doubtful Debts is to be adjusted to 5% of Debtors.	
(4) Dividend due from investment	4
(5) Selling Expenses due and unpaid	5
(6) Office Expenses prepaid	2
(7) Buildings are revalued at £160,000.	
(8) Delivery vehicles are to be depreciated 10% per annum by the Diminishing Balance method	
(9) The Debentures were issued in Year 1.	
(10) Write off the Preliminary Expenses by transfer from the Share Premium Account.	
(11) Provide for Corporation Tax at 25% of Net Profit.	
(12) The Directors propose to:	
(i) declare an Ordinary Share Dividend of 10p per share;	
(ii) pay the Preference Share Dividend in full.	

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

- | | |
|---|-------------|
| (a) Trading and Profit and Loss Accounts (including the appropriation of available profits) for the year ending 31 December Year 2; | 25 |
| (b) Balance Sheet as at the above date. | 25 |
| | (50) |

[Turn over

2. Brigid Jones is unhappy with the profitability of her firm at the end of Year 2. An analysis of her results shows the following.

Sales (80% credit)	£120,000
Gross Profit Ratio	30%
Return on Capital of £30,000	20%
Stock at 31 December Year 2	£14,000 (an increase of £4,000 over the year)
Average Debtors	£10,000

(a) **Calculate:**

- (i) Gross Profit;
- (ii) Cost of Goods Sold;
- (iii) Net Profit;
- (iv) Expenses.

4

(b) **Calculate** (to one decimal place) the following ratios.

- (i) Mark-up
- (ii) Net Profit
- (iii) Expenses
- (iv) Rate of Stock Turnover
- (v) Debtors Collection Period (days)

7

To improve the performance of the firm in Year 3, Brigid decides to form a partnership with Zeta Lewis, sharing profits/losses in the ratio of 3:2 respectively. Zeta will contribute Capital of £24,000.

The following items are revalued.

	EFFECT OF REVALUATION	AMOUNT
Fixed Assets	Increase	£10,000
Stock	Decrease	£3,000
Bad Debt Provision	Increase	£600

Revaluation expenses amount to £400.

Goodwill is valued at £10,000. As a Goodwill Account is not to be kept, goodwill is to be written off against the Capital Accounts of the new partnership.

2. (continued)

- (c) **Calculate** the Capital of each partner. 8

The Partnership Agreement also states:

- (1) Drawings will be 20% of Capital
- (2) Interest on Drawings will be charged at 15%
- (3) Interest on Capital will be paid at 10%
- (4) Zeta will receive a partnership salary of £3,000.

The following targets are set for Year 3.

- (1) Reduce Average Stock by 25%
- (2) Increase Gross Profit Ratio to $33\frac{1}{3}\%$
- (3) Reduce Expenses by £6,000
- (4) Rate of Stock Turnover to be 12 times

- (d) **Prepare:**

- | | |
|---|----|
| (i) Profit Statement for Year 3 assuming the targets for the year are achieved; | 5 |
| (ii) Appropriation Account of the Partnership; | 10 |
| (iii) Current Account of Zeta. | 2 |

Had Brigid remained a sole trader her estimated profit for Year 3 would have been £14,000.

- (e) **Calculate** and **state** if the formation of the partnership has been of financial benefit to Brigid. 4

(40)

[Turn over

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

3. PART A

The Sparta Sports Club has two sections: football and rugby. The members of each section share the Clubhouse facilities which include a bar. The following are the Club's assets and liabilities.

	1 January Year 2	31 December Year 2
	£	£
Clubhouse	250,000	300,000
Fittings	20,000	24,000
Equipment: Football	1,500	1,200
Rugby	2,000	1,600
Bar Stocks	5,000	6,000
Subscriptions in Arrears: Football	500	800
Bank	4,500	40,300
Subscriptions in Advance: Rugby	400	600
Creditors for Bar Purchases	1,800	2,000

The Receipts and Payments for the year ended 31 December Year 2 are:

Receipts	£
Subscriptions:	
Football	20,000
Rugby	10,000
Bar Sales	80,000
Gaming Machines Takings	12,000
Social Functions	4,500
Loan from Sports Association	40,000
Payments	
Clubhouse Extension	50,000
Electricity	1,200
Repairs to Equipment:	
Football	500
Rugby	800
Purchase of Fittings	5,000
Bar Purchases	35,000
Bar Staff Wages	7,000
Coaching Fees:	
Football	6,000
Rugby	4,000
Social Functions Expenses	2,000
Ground Maintenance:	
Football	3,000
Rugby	6,500
Gaming Machine Rental	9,000
Insurance	700

3. (continued)

NOTES:

- (1) The Loan from the Sports Association was received on 1 April and interest is payable at 8% per annum.
- (2) 20% of Electricity is attributable to the Bar.

Prepare for the year ended 31 December Year 2:

- (a) A statement to show Net Profit/Loss on Bar. 8
- (b) Statements to show the surplus/deficit for:
- (i) the football section;
 - (ii) the rugby section. 13
- (c) An Income and Expenditure Account. 13

NB A Balance Sheet is NOT required.

PART B

The Treasurer of the Club buys 2 new fixed assets.

Gaming machine £12,000

Motorised grass cutter £15,000

Annual Depreciation is calculated as follows.

Gaming machine – 25% straight line

Grass cutter – 20% diminishing balance.

Each asset is kept for 3 years at the end of which the sales value of each is:

Gaming machine £4,000

Grass cutter £7,000

Calculate the Profit/Loss on the sale of **each** asset at the end of 3 years. 6

(40)

4. (a) **Explain** the meaning of any **2** of the following.
- (i) Limited Liability Partnerships Act (2000)
 - (ii) Preliminary and Issue Expenses
 - (iii) Current Ratio 6
- (b) **Explain** the difference between a public company and a private company. 4
- (10)**
5. (a) **State 6** duties of a financial accountant. 6
- (b) **Explain** the difference between revenue and capital expenditure. 4
- (10)**

[Turn over

[Turn over for SECTION B on *Page nine*

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. Fabricators Ltd is starting its first year in business. The following estimates have been made for the 6 months January to June.

Production	80,000 units
Materials	25,000 kgs @ £8 per kg
Labour	40,000 hrs @ £6 per hour
Variable Overheads	£1 per labour hour
Fixed Costs	£20,000 per month (excluding annual Depreciation of £80,000)

(a) Calculate the:

- (i) total cost of production;
- (ii) unit cost of production;
- (iii) selling price per unit to give a margin of 20%;
- (iv) material cost per unit;
- (v) labour cost per unit;
- (vi) variable overhead cost per unit;
- (vii) fixed cost per unit;
- (viii) break-even point in units;
- (ix) P/V ratio (%).

17

The following are the estimated sales for the first 6 months. It is expected that cash sales will be 20% of the monthly total. Opening stock for each month will be 50% of the cash sales of that month.

Sales	Jan	Feb	Mar	Apr	May	Jun
Units	4,000	6,000	10,000	14,000	16,000	29,000

- (b) Prepare the Production Budget in units for the 6 months January to June. Estimated Cash Sales for July – 10,000 units.

9

The following estimates are for May and June.

- (1) Cash Sales – payment in full on sale.
- (2) Credit Sales – 5% trade discount – payable 1 month after sale.
Bad Debt is estimated at 2% of credit sales.
- (3) Purchase of Equipment £120,000 in January – an initial deposit of 20% is payable in January followed by 12 equal monthly instalments.
- (4) Materials costs per unit are paid in the month after production.
- (5) Labour costs per unit are paid in the month of production.
- (6) A production bonus of £2 per unit for units in excess of 15,000 is paid in the month following production.
- (7) 60% of Variable Overhead costs per unit are paid in the month of production and the remainder in the month following.
- (8) Fixed Costs are paid monthly.

- (c) Prepare the Cash Budget for May and June, given that the cash balance at the start of May is £8,000.

24

(50)

7. PART A

SM Ltd produces ReadyMix which combines 3 kgs of sand with 1 kg of cement for use in the building trade.

Data for the mixing process for the month of May Year 3 is as follows.

Sand	60,000 kgs @ 40p per kg
Cement	as required @ £1.50 per kg
Labour	4,000 hours @ £8 per hour
Variable Overheads	£2 per labour hour
Fixed Overheads	10% of material cost
Closing Work in Progress	2,200 kgs worth £1,464
Normal Loss	2% of total input weight – 50% of this has no value and the remainder has a scrap value of 50p per kg
Good Finished Output	76,000 kgs

- (a) **Prepare** the mixing process account for May showing units, quantities and values and any abnormal loss. 14

Finished output of ReadyMix is put into plastic bags each weighing 4 kgs for sale to builders at a mark up of 50%.

- (b) **Calculate** the selling price of a bag of ReadyMix. 4

PART B

Ace Plc currently recovers its monthly fixed overheads of £25,000 on a “factory-wide” basis using the percentage of material cost absorption method.

The total material cost for June has been estimated at £100,000 of which £400 is the estimated material cost of Job 987.

- (a) **Calculate:**

- | | |
|--|---|
| (i) the “factory wide” recovery rate for fixed overheads for June; | 2 |
| (ii) the amount of fixed overheads to be charged to Job 987. | 2 |

As an alternative, fixed overheads for June may be apportioned on a departmental basis as follows.

	Dept 1	Dept 2	Dept 3	Total
Share of Fixed Overheads	£5,000	£8,000	£12,000	£25,000

- (b) **Calculate** the fixed overhead recovery rate for each Department on the following basis.

Dept	Basis	Dept Total	
1	Percentage Prime Cost	£10,000	Prime Cost
2	Machine Hours	16,000	Machine Hours
3	Labour Hours	5,000	Labour Hours
			6

7. (continued)

Marks

The following relates to Job 987 which passes through all 3 departments.

Dept 1	Dept 2	Dept 3
Prime Cost £600	80 Machine Hours	60 Labour Hours

- (c) **Calculate** the amount of fixed overheads to be charged to Job 987 in each Department and in total. 6
- (d) **Name 2** other bases for recovering overheads and state their formulae. (Credit will not be given for those bases already stated). 4
- (e) Justify the use of labour hours as a basis for overhead recovery. 2
- (40)**

[Turn over]

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

8. The following data relate to Year 1 of the firm of Sanjur Ltd which manufactures 3 products – X, Y and Z. The factory is currently working at 80% capacity.

	X	Y	Z
Selling Price per unit	£25	£82	£80
Material Cost per unit	£5	£8	£22
Labour Cost per machine hour	£6	£6	£6
Variable Overheads per unit	£4	£2	£6
Machine Hours per unit	2	6	4
Sales and Production (units)	11,000	5,000	7,000

Annual Fixed Costs are £240,000, recovered on the basis of machine hours.

- (a) **Calculate:**

- (i) total machine hours worked in Year 1; 3
- (ii) fixed overhead recovery rate per machine hour. 2

- (b) **Calculate** for each product:

- (i) unit contribution; 6
- (ii) unit profit or loss. 4

- (c) **Calculate** the total profit for Year 1. 3

The Production Manager has considered halting the production of any product showing a loss in your answer to (b)(ii).

- (d) **Calculate** the effect this would have had on your answer to (c) if he had done so. 2

In Year 2 it is planned that the factory will work at full capacity producing all 3 products. The extra hours are to be used to increase production of the most profitable product. Annual fixed costs will increase by 10%.

- (e) **Calculate:**

- (i) the extra hours of production; 2
- (ii) the increase in profit in Year 2. 9

The production of Z requires a special component which is currently bought for £18. For Year 2 the Production Manager is considering the manufacture of this component. The material cost of the component will be £5 and its production will take 2 machine hours.

- (f) **Calculate** and **advise** whether to make or buy the component. 4

In Year 3 it is estimated that demand for unit sales of each product will continue at the same level as Year 2. However a special order for an additional 1500 units of Y at a reduced price of £64 per unit has been received. All other costs and prices remain unchanged.

- (g) **Calculate** and **advise** whether to accept or reject the special order. 5

(40)

9. (a) **Explain** the meaning of any **2** of the following.
- Service Costing
 - Piece-rate
 - Margin of Safety
- (b) **State** the factors to be taken into account when setting re-order quantities.
10. **Discuss** the costs and benefits to a management accountant of using IT.
- 6**
4
(10)
(10)

[END OF QUESTION PAPER]

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