X209/701

NATIONAL QUALIFICATIONS 2008

MONDAY, 26 MAY
1.00 PM – 4.00 PM

ACCOUNTING
ADVANCED 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.

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SECTION A

Marks

You should attempt 3 questions from this section:

Question 1, AND Question 2 OR 3, AND Question 4 OR 5.

1. PART A

Use the worksheet provided to answer Part A of this question.

In Year 1 Reallot plc issued 200,000 £1 ordinary shares at par, payable as follows.

On application – 15p
On allotment – 25p
At first call – 20p
At second call – 40p

Applications were received for 200,000 shares. **The accounting entries required for the application, allotment and first call are shown on the accompanying worksheet.**

At the second call A Smith failed to pay the balance due for his 5,000 shares. His shares were subsequently declared forfeit.

The directors decided to reissue Smith's shares to W Chalmers at 80p per share.

On the worksheet provided:

(*a*) Make the entries necessary to account for the forfeiture and reissue of the 5,000 shares. **20**

(*b*) State how your answer to (*a*) would have been affected by a premium of 30p per share payable at first call. Explain your answer. **2**

(*c*) State the minimum price at which the 5,000 shares could have been reissued. Explain your answer. **2**

(24)

1. **(continued)**

PART B

In Year 4 Reallot plc produced the following summarised profit and loss accounts and balance sheets.

Profit and Loss Accounts (£000s)

	YEAR 3		YEAR 4	
Turnover		400		700
Gross profit		200		300
Operating Profit		80		210
Interest Charges		–		30
Net Profit before Tax		80		180
Net Profit after Tax		60		135
Dividends: Ordinary	20		30	
Preference	16	36	32	62
Unappropriated Profit		24		73

Balance Sheets (£000s)

	YEAR 3		YEAR 4	
Land and Buildings		290		500
Other Fixed Assets	300		800	
Less Depreciation	30	270	100	700
		560		1,200
Stocks	40		99	
Debtors	80		169	
Liquid Assets	35		–	
	155		268	
Creditors	45		60	
Corporation Tax	20		45	
Bank Overdraft	–		40	
	65	90	145	123
		650		1,323
Debentures		–		200
		650		1,123
Financed by:				
£1 Ordinary Shares		400		600
£1 Preference Shares		200		400
		600		1,000
Unappropriated Profit		50		123
		650		1,123

1. (continued)

Additional data:

	YEAR 3	**YEAR 4**
Gross Profit ratio	50%	42·9%
Net Profit ratio	20%	25·7%

Assume that the balance sheet figures for stocks, debtors and creditors are the averages held throughout each year.

All purchases and sales are on credit.

(*a*) Using the above information analyse:

(i) 3 ratios which measure business efficiency;

(ii) one ratio which measures profitability other than Gross Profit and Net Profit ratios given above;

(iii) one ratio which measures liquidity. **15**

For **each** of the above 5 ratios your analysis should include:

- a calculation of the ratio for **Year 3** and **Year 4**
- an indication of whether there has been an improvement or deterioration
- one possible reason why this may have happened.

The Dividend Yield for **Year 4** has been calculated as 3%.

(*b*) Calculate for **Year 4**:

(i) Market price per share (nearest 1p)

(ii) Earnings per share (nearest 1p)

(iii) Price earnings ratio

(iv) Dividend cover. **7**

(*c*) Compare the change in Gearing Ratios of Reallot plc between **Years 3** and **4** and discuss the effects the change may have on the returns to holders of Ordinary Shares in times of falling profits. **4**

Ignore unappropriated profits for the purpose of this comparison. **(26)**

(50)

Marks

2. On 1 September **Year 1** Large plc acquired 75% of Little plc, paying £1·90 per share.

The finance data from each company's balance sheet immediately after acquisition are summarised as follows.

	LARGE	**LITTLE**
	£	£
Ordinary Shares of £1 each	150,000	20,000
Share Premium	15,000	1,000
Profit and Loss Account Balance	7,600	2,760
	172,600	23,760

(*a*) Calculate the value of goodwill shown in the consolidated balance sheet of the Large & Little Group. **4**

(*b*) Prepare the Financed by section of the consolidated balance sheet of the Large & Little Group upon acquisition. **5**

[Turn over

Marks

2. (continued)

Summarised Balance Sheets as at 31 December Year 3

	LARGE		LITTLE	
	£		£	
Premises		120,000		25,000
Other Fixed Assets		43,500		4,000
Investment in Little plc		28,500		–
Stocks		11,200		4,850
Debtors		3,100		1,900
Bank		800		–
Cash		530		–
Current (owed by Little)		1,600		–
		209,230		35,750
Creditors	2,600		2,780	
Accruals	480		210	
Bank Overdraft	–		320	
Current (owed to Large)	–		1,200	
Debentures	25,000		6,000	
		28,080		10,510
		181,150		25,240
Financed by:				
Ordinary Shares of £1 each		150,000		20,000
Share Premium		15,000		1,000
Profit and Loss Account Balance		16,150		4,240
		181,150		25,240

In addition:

- There is cash in transit.
- Goods costing £2,100 were sold at a mark up of 50% by Large to Little in December **Year 3**. Only 40% of these had been sold on by Little at the year end.
- Goodwill is written down on a **monthly basis** at 10% per annum.

(*c*) Prepare the consolidated balance sheet of the Large & Little Group as at 31 December **Year 3** (28 months after acquisition). **18**

2. (continued)

The following data apply at the end of **Year 4**.

- Goods which had cost Large £1,500 were sold to Little for £2,000 in November **Year 4**.
- Little's stock balance still includes £1,400 in respect of this transaction, 30% of the goods having been sold on for £750.

(*d*) Calculate, in respect of the above transactions, the profit recorded in the books of:

(i) Large plc;
(ii) Little plc;
(iii) The Large & Little Group. **7**

(*e*) Calculate:

(i) the amount of profit unrealised in the Large & Little Group's books at 31 December **Year 4**;

(ii) the amount of profit yet to be realised for the Group upon the final sale of the balance of the goods, assuming that Little's mark-up is 25%. **6**

(40)

[Turn over

3. Randall, Hopkirk and Scrooge dissolve their partnership on 31 December Year 6. The partners shared profits in the ratio of capital invested. The following Balance Sheet and additional information apply.

Balance Sheet as at 31 December Year 6

		AGGREGATE		
		COST	DEPN	NBV
Fixed Assets		**£000s**	**£000s**	**£000s**
Premises		100	–	100
Machinery		150	80	70
Fixtures and fittings		50	40	10
		300	120	180
Current Assets				
Stocks			30	
Debtors		40		
Less Provision for Doubtful Debts		2		
			38	
Bank			22	
			90	
Current Liabilities				
Creditors		42		
VAT		28	70	20
				200
Financed by:	**Randall**	**Hopkirk**	**Scrooge**	
Capital Accounts	75	50	25	150
Current Accounts	6	13	1	20
	81	63	26	170
Long Term Loan (Bank)				30
				200

Marks

3. (continued)

Additional Information:

1 Some of the following assets were taken over by partners at agreed valuations.

	Hopkirk	**Scrooge**
• Premises	£30,000	£20,000
• Machinery	£15,000	–
• Stock	–	£4,000

2 The remainder of the above assets and others were sold.

• Premises	£58,000
• Machinery	£33,000
• Stock	£25,000
• Fixtures and Fittings	£3,000

3 Debtors settled their accounts for the total of £37,000.

4 Creditors allowed £2,000 in discounts.

5 Dissolution expenses amounted to £2,000.

6 Randall, Hopkirk and Scrooge secured a £6,000 rebate when they settled their outstanding VAT account.

7 The bank charged a discharge fee of £1,000 when the long term loan was repaid.

All payments and receipts were by cheque.

You are required to prepare the following accounts to close the books of the partnership.

(*a*) Realisation Account **15**

(*b*) Capital Accounts of all 3 partners **13**

(*c*) Bank Account **12**

(40)

[Turn over

Marks

4. (*a*) Describe the contents and purpose of the following notes attached to the final accounts and balance sheet of a public limited company.

(i) Accounting Policies

(ii) Sources of Turnover

(iii) Fixed Assets

(iv) Statement of Recognised Gains and Losses **12**

(*b*) Describe the contents and purpose of any 5 items which must appear in a Directors' Report. **10**

(*c*) Published Accounts must be audited.

(i) Explain the duties of independent external auditors.

(ii) Describe the **3** main sections which make up a typical Auditors' Report.

(iii) What measures might be taken if auditors find serious flaws in accounts prepared for publication? **8**

(30)

5. (*a*) Explain why many large PLCs today include a section on "social accountability" as part of their annual report to shareholders. **8**

(*b*) Discuss how pressure groups such as Friends of the Earth might influence the activities of a commercial company. **6**

(*c*) Social Audits are becoming more common.

Explain why companies carry out social audits and describe **4** areas which may be included. **8**

(*d*) Describe the conflicts which may exist between those stakeholders who provide organisational funding for financial gain and those who may be more concerned with social and environmental factors. **8**

(30)

[*END OF SECTION A*]

Marks

SECTION B

You should attempt 3 questions from this section:

Question 6, AND Question 7 OR 8, AND Question 9 OR 10.

6. Innes plc manufacture and sell a single product called Classic.

The following figures relate to Year 1.

Budgeted production and sales	6,000 units
Budgeted selling price per unit	£160
Actual production and sales	6,100 units
Actual selling price per unit	£158

The standard costs per unit of Classic are as follows.

Direct material	10 kg at £7 per kg
Direct labour	6 hours at £8 per hour
Variable overhead	6 hours at £2 per hour
Fixed overhead	6 hours at £1·50 per hour

(*a*) Calculate:

(i) Budgeted sales value for Year 1;

(ii) Actual sales value for Year 1;

(iii) Standard Cost of Actual sales for Year 1;

(iv) Standard profit from Actual sales for Year 1. **10**

The actual costs relating to Year 1 were as follows.

Material used	62,000 kg costing £6·80 per kg
Labour cost	35,000 hours costing a total of £287,000
Variable overhead	£72,000
Fixed overhead	£58,000

[Turn over

Marks

6. (continued)

(*b*) Calculate the following variances which occurred during Year 1.

(i) Total material cost variance

(ii) Material price variance

(iii) Material usage variance

(iv) Total labour cost variance

(v) Labour rate variance

(vi) Labour efficiency variance

(vii) Variable overhead cost variance

(viii) Variable overhead expenditure variance

(ix) Variable overhead efficiency variance

(x) Fixed overhead cost variance

(xi) Fixed overhead expenditure variance

(xii) Fixed overhead volume variance

(xiii) Total sales revenue variance

(xiv) Sales price variance

(xv) Sales volume variance **40**

(50)

Marks

7. Part A

Mackie plc has two potential capital investment projects which are mutually exclusive.

The following information has been collected in relation to the projects.

		Project 1 £	Project 2 £
Initial Cost		21,000	33,000
Additional expenditure			
Year	3	3,200	
Cash Inflows			
Year	1	11,500	11,000
	2	7,500	11,000
	3	6,000	11,000
	4	4,500	11,000
Scrap Values			
Year	4	3,700	1,300

Mackie's cost of capital is 10%.

(*a*) Calculate the Net Present Value for Project 1. **8**

(*b*) Project 2 produced a Net Present Value of £2,747 at a discount factor of 10%. Calculate the internal Rate of Return for Project 2. **7**

(*c*) Recommend which project should be undertaken. **1**

DISCOUNT TABLE (FROM 8% TO 15%)								
Present Value of £1 received after n years discounted at i%								
i	8	9	10	11	12	13	14	15
n								
1	0·926	0·917	0·909	0·901	0·893	0·885	0·877	0·870
2	0·857	0·842	0·826	0·812	0·797	0·783	0·769	0·756
3	0·794	0·772	0·751	0·731	0·712	0·693	0·675	0·658
4	0·735	0·708	0·683	0·659	0·636	0·613	0·592	0·572
5	0·681	0·650	0·621	0·593	0·567	0·543	0·519	0·497

[Turn over

7. (continued) *Marks*

Part B

Newbuild plc is a building contractor who commenced two contracts, A and B, during Year 1.

At the end of their financial year on 31 December the following information was available in respect of Contract A.

Contract A

	£000s
Contract price	1,900
Material purchased	200
Material issued from store	90
Material transferred to other sites	15
Material returned to store	10
Wages paid	340
Direct expenses paid	100
Sub contract costs	20
Plant and machinery purchased	80
Balances at 31 December	
Work done not certified	50
Value of certified work	950
Value of Plant and machinery	40
Wages accrued	30
Direct expenses prepaid	10
Material unused on site	35

Overheads are charged to contracts as 20% of material costs (including sub contract costs)

Any profits on contracts are recognised using formula

$$\text{Notional profit} \times \frac{\text{Value of work certified}}{\text{Contract price}}$$

(*a*) Prepare an account for Contract A at 31 December Year 1 showing clearly your calculation and treatment of any profits or losses. **18**

Summarised figures for contract B at 31 December Year 1 are as follows.

Contract Price	750
Cost of contract to date	550
Value of uncertified work	20
Value of certified work	500

(*b*) Calculate the amount that should be transferred to Profit and Loss Account for Contract B for year ended 31 December Year 1. **6**

(40)

Marks

8. Nayreal plc commenced production of three joint products P, Q and R from Process 1 in January Year 1.

The joint processing costs incurred during January at separation point were £120,000.

Details of the output for January are as follows.

Product	**Output (kg)**	**Selling price per kg at Separation point**
P	5,000	£30
Q	3,000	£21
R	2,000	£6

(*a*) Assuming that the costs are to be apportioned on the basis of physical quantities, calculate:

(i) the profit or loss per kg on each product;

(ii) the total profit or loss for each product and for Nayreal plc if all production in January is sold. **12**

(*b*) Assuming process costs to be apportioned on the basis of sales value at Separation point, calculate:

(i) the total process costs to be apportioned to each joint product;

(ii) the cost per kg for each joint product;

(iii) the total profit for each product and for Nayreal plc if all production in January is sold. **18**

(*c*) Why should the answer for the total profit earned by Nayreal plc in (*a*)(ii) and (*b*)(iii) be the same? **4**

The management of Nayreal plc are considering a proposal which would involve further processing and then canning products P and R.

The costs of this proposal would add £3·50 per kg to P and £1·50 per kg to R.

It is anticipated that this would allow the selling price of the products to rise to £33 for P and £8 for R.

(*d*) State whether Nayreal plc should implement this proposal either in whole or in part. Support your answer with figures. **6**

(40)

Marks

9. (*a*) Distinguish clearly between fixed budgets and flexible budgets. **12**

(*b*) Why are flexible budgets better for reporting performance? **10**

(*c*) Costs may be classified as controllable or non-controllable.

What are the implications of this distinction for variance analysis? **8**

(30)

10. The objectives of a Purchasing Department are to acquire goods and services of the right quality, in the right quantity, at the right time and at the right price.

(*a*) Outline the procedures which should be followed by a business in order to achieve the aims outlined above. **15**

(*b*) Describe the different stock level controls which a business may use and outline their contribution to the overall control of material costs in production. **15**

(30)

[*END OF QUESTION PAPER*]

FOR OFFICIAL USE

X209/702

NATIONAL QUALIFICATIONS 2008

MONDAY, 26 MAY
1.00 PM – 4.00 PM

ACCOUNTING
ADVANCED HIGHER
Worksheet for
Question 1 PART A (*a*) – (*c*)

Fill in these boxes and read what is printed below.

Full name of centre

Town

Forename(s)

Surname

Date of birth
Day Month Year

Scottish candidate number

Number of seat

The Worksheet should be inserted inside the front cover of the candidate's answer book and returned with it.

Worksheet for Question 1 PART A (*a*)-(*c*)

Question 1(*a*)

Bank Account	**Dr**	**Cr**	**Balance**
Application and Allotment	30,000		30,000
Application and Allotment	50,000		80,000
First Call	40,000		120,000

Application and Allotment Account	**Dr**	**Cr**	**Balance**
Bank		30,000	30,000
Ordinary Share Capital	80,000		50,000
Bank		50,000	–

First Call Account	**Dr**	**Cr**	**Balance**
Ordinary Share Capital	40,000		40,000
Bank		40,000	–

Second Call Account	**Dr**	**Cr**	**Balance**

Worksheet for Question 1(*a*) (continued)

Ordinary Share Capital Account	**Dr**	**Cr**	**Balance**
Application and Allotment		80,000	80,000
First Call		40,000	120,000

Forfeited Shares Account	**Dr**	**Cr**	**Balance**

W Chalmers (Reissued Shares) Account	**Dr**	**Cr**	**Balance**

(20)

[Turn over

Worksheet for Question 1 (continued)

(*b*)

(2)

(*c*)

(2)

[*END OF WORKSHEET*]