H

National
Qualifications
SPECIMEN ONLY

SQ01/H/01 Accounting

Date — Not applicable

Duration — 2 hours

Total marks — 100

SECTION 1 — 40 marks

Attempt ALL questions.

SECTION 2 — 60 marks

Attempt ALL questions.

You may use a calculator.

All working should be shown fully, and clearly labelled.

Write your answers clearly in the answer booklet provided. In the answer booklet, you must clearly identify the question number you are attempting.

Use **blue** or **black** ink.

Before leaving the examination room you must give your answer booklet to the Invigilator; if you do not, you may lose all the marks for this paper.

SQ01H01

MARKS

SECTION 1 — 40 marks

Attempt ALL questions

1. Dalmeny plc has three production departments (machining, assembly and finishing) and two service departments (personnel and maintenance).

It has provided the following information about each department.

	Production departments			Service departments	
	Machining	**Assembly**	**Finishing**	**Personnel**	**Maintenance**
Floor area (m^2)	2,400	3,000	4,000	1,200	1,400
No of employees	18	26	24	6	12
Value of machinery	£220,000	£260,000	£210,000	-	£30,000
Kilowatt hours	1,400	1,600	1,000	600	400
Indirect materials	£59,860	£35,020	£6,180	-	£1,440
Direct labour hours	48,000	40,000	30,000	-	-
Direct machine hours	30,000	20,000	10,000	-	5,000
Direct materials	£23,100	£54,750	£15,100		£25,100

The budgeted overheads for Year 2 were:

Overhead	**£**
Rent and rates	60,000
Heat and light	36,000
Power	40,000
Depreciation of machinery	72,000

Using the information above:

(a) (i) **prepare** the Overhead Analysis Statement for Year 2;

(ii) **re-apportion** the Personnel overheads;

(iii) **re-apportion** the Maintenance overheads. 14

(b) **Calculate** the overhead recovery rate for **each** of the production departments on the following basis.

(i) Machining — per machine hour

(ii) Assembly — percentage of direct material cost

(iii) Finishing — per labour hour 3

MARKS

1. **(continued)**

At the end of Year 2 the actual results for each department were:

Machining — direct machine hours were 28,100
Assembly — direct material cost was £55,100
Finishing — direct labour hours were 29,000

(c) **Calculate** for **each** department the amount of overhead over- or under-absorbed. **6**

The following information relates to Job 22B.

	Machining	**Assembly**	**Finishing**
Material (kilos)	30	20	5
Material (cost per kilo)	£5	£4	£10
Direct labour hours	2	4	6
Labour rate (per hour)	£16	£14	£12
Direct machine hours	25	30	45
Overheads	?	?	?

Profit mark-up — 25%

VAT — 20%

(d) Using the information above **prepare** the quotation showing clearly the selling price of Job 22B. **14**

(e) **Explain** the purpose of preparing a cash budget. **3**

SECTION 2 — 60 marks

Attempt ALL questions

1. O'Connell Enterprises plc has capital available for investment in **one** of the following projects. The following information has been received from the company's project consultants.

	Project 1	**Project 2**
Initial investment	£140,000	£110,000
Residual value	£40,000	£50,000
Project life	5 years	5 years
Estimated net cash flow (excluding initial investment)		
Year 1	£55,000	£75,000
Year 2	£46,000	£30,000
Year 3	£35,000	£20,000
Year 4	£29,000	£18,000
Year 5	£26,000	£16,000

(a) (i) **Calculate** the profit earned in each year for **each** project. **6**

(ii) **Show** the results of applying the following methods of investment appraisal to the projects.

- Accounting Rate of Return (based on average profits earned on the initial investment);
- Payback (to the nearest day). **10**

(b) (i) **Describe** one advantage and one disadvantage of using the Payback method as a means of investment appraisal. **2**

(ii) **Outline** how the use of computer software might aid the finance department when carrying out an investment appraisal exercise. **2**

MARKS

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

	£000
Premises	300
Warehouse expenses	8
Factory rent and rates	26
Manufacturing wages	130
Factory machinery at cost	40
Provision for depreciation of machinery at 1 January Year 2	8
Fixtures and fittings at cost	100
Provision for depreciation of fixtures and fittings at 1 January Year 2	40
Inventories (stocks) at 1 January Year 2:	
Raw materials	13
Work-in-progress	14
Finished goods	70
Purchases of raw materials	220
Indirect wages	16
Revenue (sales)	600
Ordinary shares @ £1 each fully paid	28
General expenses	32
Provision for doubtful debts	8
Trade receivables (debtors)	40

NOTES

1 Inventories (stocks) at 31 December Year 2:
Raw materials £10,000
Work-in-progress £6,000
Finished goods £16,000

2 Provide for depreciation for the year as follows:
Factory machinery — 10% on cost
Fixtures and fittings — 5% of the diminished balance

3 Indirect wages are to be apportioned between the factory and the office in the ratio of 3:1 respectively.

4 General expenses owing are £8,000 and are to be apportioned between factory and office in the ratio of 4:1.

5 The provision for doubtful debts is to be adjusted to 10% of trade receivables (debtors).

6 The market value of finished goods is £440,000.

You are required to **prepare** for the year ended 31 December Year 2:

(a) the manufacturing account; **11**

(b) the income statement (trading, profit and loss account). **9**

3. Urquhart and Kernaghan are in partnership sharing profits and losses in proportion to capital invested. Their capital account balances on 1 January Year 2 were Urquhart £30,000 and Kernaghan £20,000.

Their partnership agreement also stated that:

- Interest on capital will be paid at 5% per annum.
- Interest on drawings will be charged at 2% per annum. The partners have agreed maximum drawings of 20% of capital per annum. Both partners have withdrawn the maximum this year.
- A salary of £1,000 per month is payable to Urquhart.
- Urquhart receives 6% interest per annum on a loan of £25,000 he has made to the partnership.

The profit for the year (net profit) ending 31 December Year 2 was £26,000.

(a) **Prepare** the appropriation account of Urquhart and Kernaghan for year ending 31 December Year 2. **6**

(b) **Calculate** Urquhart's current account balance at 31 December Year 2.

The balance of his current account at 1 January Year 2 was £2,150 Dr. **7**

At the start of Year 3 Urquhart and Kernaghan agree to admit Sanderson as a new partner under the following conditions.

- Sanderson's capital contribution is to be £14,000.
- Goodwill is to be valued at £3,600. Goodwill is to be written off.
- Revaluation of non-current assets (fixed assets) shows a loss of £5,400 prior to Sanderson's admission.
- Sanderson is to receive 25% of any future profits. Urquhart and Kernaghan's original profit-sharing ratio is to remain the same.

(c) **State** the new profit-sharing ratio. **1**

(d) **Calculate** the new capital account balances for **each** partner. **6**

[END OF SPECIMEN QUESTION PAPER]