

X209/301

NATIONAL
QUALIFICATIONS
2009

TUESDAY, 2 JUNE
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. Kwik-Instalments plc fits bathroom units. The following is the Trial Balance as at 31 December Year 3.

	<i>£000</i>	<i>£000</i>
Sales		341
Purchases	126	
Stock at 1 January Year 3	24	
Selling Expenses	20	
Office Expenses	35	
Warehouse Expenses	50	
Wages	71	
VAT		40
Provision for Doubtful Debts at 1 January Year 3		4
Debtors	60	
Creditors		43
Interim Dividend on Ordinary Shares	10	
Investments	70	
Bank	8	
Goodwill	24	
100,000 Ordinary Shares of £1 each		100
10% Debentures (Year 20)		80
Premises (at cost)	50	
Showroom Fittings (at cost)	70	
Vehicles (at cost)	50	
Provisions for Depreciation at 1 January Year 3:		
Showroom Fittings		20
Vehicles		10
Share Premium		30
Profit and Loss Account balance at 1 January Year 3		6
Preliminary Expenses	6	
	<i>£674</i>	<i>£674</i>

1. (continued)

NOTES at 31 December Year 3:

- (1) The stock is valued at £22,000.
- (2) Accrued charges are:
 - Carriage Inwards – £1,000.
- (3) Selling Expenses include a payment of £6,000 for a television advertisement which will be shown in the next financial year.
- (4) Provide for depreciation for the year as follows:
 - (i) Showroom Fittings – 10% on cost;
 - (ii) Vehicles – 20% of the reduced balance.
- (5) The Provision for Doubtful Debts is to be adjusted to 5% of Debtors.
- (6) Dividends of £4,000 are due from investments.
- (7) Corporation Tax is to be provided for at 25% of Net Profit.
- (8) During Year 3 a bonus issue of ordinary shares was made on the basis of one share for every five held. This issue was financed by a transfer from the Share Premium Account and is still to be recorded.
- (9) Premises are revalued at £60,000.
- (10) Write off the Preliminary Expenses by transfer from the Share Premium Account.
- (11) The Directors propose to:
 - (i) write down Goodwill by £6,000;
 - (ii) pay a final dividend of 5% of the Ordinary Shares, including the Bonus Shares.

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

Trading, Profit and Loss Accounts (including the appropriation of available profits) for the year ended 31 December Year 3 and a Balance Sheet as at that date. **(50)**

[Turn over

2. Jean Harlow and Bet Davis have invested capital of £30,000 and £20,000 respectively in a partnership.

The following information relates to the partnership for the year ended 31 December Year 2.

Sales	£120,000
Closing Stock	£6,000
Gross Profit Ratio	30%
Rate of Stock Turnover	12 times
Expenses Ratio	15%
Average Creditors	£6,000

* the partnership operates its trade on a credit-only basis.

(a) **Calculate** (to one decimal place):

- (i) Gross Profit;
- (ii) Mark-up Ratio;
- (iii) Opening Stock;
- (iv) Creditors Payment Period (days);
- (v) Net Profit;
- (vi) Return on Capital Employed.

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On 1 January Year 2 their current account balances were Jean – £5,000 (Cr) and Bet – £2,000 (Dr) respectively.

The Partnership Agreement states that:

- (1) interest is charged on drawings at 20% per annum. Partners are allowed to withdraw up to a maximum of 25% of their capital invested in any financial year
- (2) interest on capital is payable at the rate of 10% per annum
- (3) a salary of £2,000 per quarter is payable to Bet
- (4) residual profits and losses are to be shared in the same ratio as capital invested.

Both partners withdrew maximum drawings during Year 2.

(b) Using the Net Profit calculated in part (a)(v) **prepare** the Appropriation Account for the year ended 31 December Year 2.

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After the appropriation of the Net Profit, the following errors and omissions were found in the books of the partnership.

- (1) A sales invoice for £320 had been wrongly entered as £240.
- (2) No entry had been made for the sale of a vehicle (net book value – £1,600) for £1,200.
- (3) Wages had been underadded by £1,500.
- (4) Discount Received of £100 had been entered as Discount Allowed.
- (5) Stock value at £400 had been omitted from Closing Stock.
- (6) VAT of £300 had been omitted on Purchases.

(c) **Calculate:**

- (i) the amended Net Profit figure;
- (ii) **each** partner's final share of profit or loss.

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2. (continued)

At the start of Year 3 Jean and Bet agree to admit John Gilbert as a new partner under the following conditions.

- (1) John is to provide £15,000 as his Capital.
 - (2) Goodwill is to be valued at £6,000.
 - (3) A professional revaluation of existing assets and liabilities takes place resulting in a loss on revaluation of £2,160.
 - (4) As a Goodwill Account is not to be kept, goodwill is to be written off against the Capital Accounts of the **new** partnership.
 - (5) John is to receive or be liable for 25% of the residual profits or losses, the other partners are to share the remainder in the same relative proportions as before.
- (d) You are required to:
- (i) **state** the new profit sharing ratio; 2
 - (ii) **calculate** the new Capital Account balances of each partner. 8

(40)

[Turn over

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

3. The following data relate to the SwiftFlight Archery Club which includes the manufacture and sale of all types of archery equipment in a workshop extension to its Clubhouse.

Receipts and Payments Account for year ended 31 December Year 4

	£	£
Opening Balance at 1 January Year 4		1,500
Receipts:		
Subscriptions	4,000	
Locker Rental	2,000	
Sales: Equipment	15,000	
Refreshments	8,000	
Dance Tickets	1,200	
Raffle Tickets	500	
	<u>30,700</u>	30,700
		32,200
Payments:		
Purchases of Raw Materials	6,000	
Creditors for Refreshments	5,000	
Workshop Machinery	1,000	
Production Wages	4,000	
Raffle Expenses	600	
Dance Expenses	900	
Light and Heat	1,200	
Honorarium	800	
	<u>19,500</u>	19,500
Closing Balance at 31 December Year 4		<u>12,700</u>

Assets and Liabilities for Year 4 are as follows:

	Jan-01 £	Dec-31 £
Stocks:		
Raw Materials	600	400
Work-in-progress	200	300
Finished Goods	1,200	1,000
Refreshments	500	700
Workshop Machinery	2,500	3,000
Subscriptions in arrears	400	500
Locker rental prepaid	200	100
Creditors for Refreshments	600	800
Subscriptions in advance	300	200
Production wages due	80	120

3. (continued)

NOTE: Light and Heat is to be divided between the Clubhouse and the Workshop in the ratio 4:1.

Prepare for the year ended 31 December Year 4:

- | | |
|---|-------------|
| (i) Refreshments Trading Account – to show profit/loss on the sale of refreshments; | 6 |
| (ii) Manufacturing Account – to show Cost of Production of archery equipment; | 12 |
| (iii) Trading Account – to show profit or loss on sale of archery equipment; | 4 |
| (iv) Income and Expenditure Account. | 18 |
| | (40) |
|
 | |
| 4. (a) State 4 items listed in a Memorandum of Association. | 4 |
|
 | |
| (b) Explain the meaning of any 2 of the following. | |
| (i) Preliminary Expenses | |
| (ii) Financial Reporting Standards | |
| (iii) Goodwill | 6 |
| | (10) |
|
 | |
| 5. Name and describe 5 sources of funds available to a Plc. | (10) |

[Turn over

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

Fortrose Ltd has 3 departments: 2 production – A and B, and 1 service – C. Each production department makes a different product. The service department handles direct materials.

The following are the estimated fixed overheads for Year 2.

Supervision	£10,000
Machinery Insurance	£2,500
Rent	£24,000
Power	£8,000
Administration	£20,000
	<u>£64,500</u>

The following information is also available.

	Production Department A	Production Department B	Service Department C	Totals
Area (sq metres)	3,600	1,500	900	6,000
Number of workers	20	16	4	40
Value of Machinery	£13,000	£10,000	£2,000	£25,000
KiloWatt hours	10,000	5,000	1,000	16,000
Machine hours	40,000	15,000	–	55,000
Indirect Labour	£26,300	£20,500	£16,700	£63,500
Direct Materials	£360,000	£120,000	–	£480,000

- (a) (i) **Prepare**, using the information above, an overhead analysis statement for Year 2.
(ii) **Re-apportion** the Service Department total to the Production Departments on the basis of the direct material handled.
(iii) **Calculate** the fixed overhead recovery rate for the Production Departments on the following bases:

Department A – Machine hours

Department B – Percentage of Direct Materials

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- (b) At the end of Year 2 the **actual** figures for each department were:

Department A – 38,500 machine hours

Department B – £124,000 direct material cost

Calculate for each Department the amount of overheads over-absorbed or under-absorbed, clearly indicating which.

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6. (continued)

PART B

Ace plc manufactures freezers. The following forecasts have been made for the year ending 31 December Year 5.

Estimated Sales	7,000 units
Selling Price per unit	£150
Variable costs per unit:	
Materials	£60
Labour	2 hours at £10 per hour
Variable Overheads	£5 per labour hour
Annual Fixed Costs	£360,000

(a) **Calculate:**

- (i) Break-even point in units and sales value;
- (ii) Margin of Safety in units and sales value;
- (iii) P/V Ratio;
- (iv) Sales value required to make a profit of £67,500 after tax, if tax is 25%.

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Ace plc is working at full capacity and currently buys in a freezer component for £30 per unit. For the year ending 31 December Year 5, the company is considering making the component and estimates that it will take 1 labour hour at a total variable cost of £19 per unit.

- (b) **Advise**, with figures to support your answer, whether Ace plc should make or continue to buy the component.

6

(50)

[Turn over

7. PART A

The following budgeted data relate to the manufacturing firm Whang plc for the period June to October Year 2.

	June	July	August	September	October
Sales in Units	6,000	7,000	8,000	9,000	10,000

Closing stock at the end of each month is equal to the level of credit sales of the following month. Credit sales are 20% of total sales.

(a) **Prepare** the Production Budget for the period June to September.

6

The following information is available.

- 1 Cash Balance at 1 July is £5,000.
- 2 The retail selling price per unit is £50.
 - Retail sales are 80% of total sales.
 - Credit sales are to trade customers at £45 per unit.
 - Credit sales are paid one month after sale.
 - Monthly bad debts are estimated at 5% of credit sales.
- 3 Costs per unit are as follows.
 - Material – £18 per unit, payable in the month before production.
 - Labour – £14 per unit, payable in the month of production.
 - Variable overheads – £9 per unit, 2/3 payable in the month of production and the remainder in the month following production.
- 4 Fixed costs, excluding depreciation of £2,000, are £5,000 per month.
- 5 Part of the firm's premises are sub-let at an annual rental of £10,000 payable quarterly in advance starting in January.
- 6 A new machine is to be purchased in July for £200,000, payable as follows: initial deposit 10% and the balance in 4 equal monthly instalments beginning in August.

(b) **Prepare** the Cash Budget for July and August.

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PART B

The following details are from the manufacturing firm Con-Crete Ltd for the month of May.

Process 1

- Direct Materials – 8,000 kg at £5 per kg
- Direct Labour – 5,000 hours at £6.50 per hour
- Variable Overheads – 80% of labour cost
- Budgeted fixed overhead absorption rate is £5 per direct labour hour
- Transferred to Process 2 – 7,500 kg
- Normal loss 5% of input weight.
- All process losses are sold at a scrap value of £0.95 per kg

There is **no stock** at the start or end of the month.

Prepare the:

- (i) Process Account
- (ii) Abnormal Loss Account.

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(40)

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

8. PART A

E Smith runs her own driving school – Easidrive. She has a fleet of 5 cars **each** of which cost £9,000 with an estimated residual value after 4 years of £1,000.

The following are her estimated annual running costs per car.

- | | | |
|---|------------|--|
| 1 | Wages: | <ul style="list-style-type: none"> • each instructor is paid £10 per hour for an 8 hour shift Monday to Saturday with time and a half on Saturday • each instructor works 48 weeks and receives holiday pay of £250 per week |
| 2 | Petrol: | 1 litre of petrol per 8 miles at a discount price of £1 per litre – average daily mileage is 80 |
| 3 | Servicing: | every 12,000 miles at a cost of £200 each service |
| 4 | Tyres: | replaced every 16,000 miles at a cost of £60 per tyre |
| 5 | Sundry: | <ul style="list-style-type: none"> • MOT £40 • Road Tax £120 • Garage Rent £1,000 • Insurance £2,000. |

In addition to the above, Administration costs are estimated at £1,768 per quarter and Advertising at £300 per month.

Calculate:

- (a) the annual cost of operating the fleet of cars;
- (b) the hourly cost of using each car for lessons;
- (c) the price a learner driver should be charged for an hourly lesson to include 20% profit on that price.

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PART B

MacShea Ltd uses the LIFO system for stores receipts and issues.

Prepare the Stock Ledger Card for the month of June from the following figures.

		Units	Price
June 1	Balance	2,000	£2·00
June 2	Purchases	1,000	£2·10
June 5	Issues	1,200	
June 6	Issues	1,400	
June 10	Purchases	2,500	£2·20
June 15	Issues	900	
June 18	Purchases	1,200	£2·25
June 19	Returns	100 (from June 18 delivery)	
June 25	Issues	2,500	

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(40)

	<i>Marks</i>
9. (a) State 6 duties of a cost and management accountant.	6
(b) Explain the difference between wastage and spoilage.	4
	(10)
10. (a) Explain the meaning of two of the following.	
(i) Time Rates	
(ii) EFTPOS	
(iii) Job Costing	6
(b) State 4 limitations of Break-even analysis.	4
	(10)

[END OF QUESTION PAPER]