



National
Qualifications
2015

X700/75/11

Accounting

MONDAY, 18 MAY
9:00 AM – 10:30 AM

Total marks — 100

SECTION 1 — 60 marks

Attempt BOTH questions.

SECTION 2 — 40 marks

Attempt ALL questions.

Write your answers clearly in the Workbook provided. Accounting ratios have been provided on Pages 2 and 3 for use in answering Question 1.

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

All working should be shown fully, and clearly labelled.

You may use a calculator.

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



* X 7 0 0 7 5 1 1 *

Ratio formulae – new terminology

Ratio	Formula
Profitability ratios:	
Return on equity employed	$\frac{\text{Profit for the Year}}{\text{Opening Equity}} \times 100 = \%$
Gross profit ratio	$\frac{\text{Gross profit}}{\text{Sales revenue}} \times 100 = \%$
Profit for the year ratio	$\frac{\text{Profit for the year}}{\text{Sales revenue}} \times 100 = \%$
Liquidity ratios:	
Current ratio	Current assets : current liabilities Answer should be expressed as a ratio, eg 2.35:1
Acid test ratio	Current assets – closing inventory : current liabilities Answer should be expressed as a ratio, eg 1.27:1
Efficiency ratios:	
Rate of inventory turnover	$\frac{\text{Cost of sales}}{\text{Average inventory}} = \text{times}$
Expenses ratio	$\frac{\text{Expenses}}{\text{Sales revenue}} \times 100 = \%$
Trade payables period	$\frac{\text{Average trade payables}}{\text{Credit purchases}} \times 365 = \text{days (or } \times 52 = \text{ weeks, or } \times 12 = \text{ months)}$ NB – Where only one figure is given for trade payables, this will be taken as the average.
Trade receivables period	$\frac{\text{Average trade receivables}}{\text{Credit sales}} \times 365 = \text{days (or } \times 52 = \text{ weeks, or } \times 12 = \text{ months)}$ NB – Where only one figure is given for trade receivables, this will be taken as the average.
Non-current asset turnover	$\frac{\text{Sales revenue}}{\text{Non-current assets at net book value}}$ Answers should be expressed as a ratio, eg 0.75 : 1

Ratio formulae – old terminology

Ratio	Formula
Profitability ratios:	
Return on capital employed	$\frac{\text{Net profit}}{\text{Opening capital}} \times 100 = \%$
Gross profit ratio	$\frac{\text{Gross profit}}{\text{Sales revenue}} \times 100 = \%$
Net profit ratio	$\frac{\text{Net profit}}{\text{Sales revenue}} \times 100 = \%$
Liquidity ratios:	
Current ratio	Current assets : current liabilities Answer should be expressed as a ratio, eg 2.35:1
Acid test ratio	Current assets – closing inventory : current liabilities Answer should be expressed as a ratio, eg 1.27:1
Efficiency ratios:	
Return of inventory turnover	$\frac{\text{Cost of goods sold}}{\text{Average stock}} = \text{times}$
Expenses ratio	$\frac{\text{Expenses}}{\text{Sales revenue}} \times 100 = \%$
Creditors' payment period	$\frac{\text{Average creditors}}{\text{Credit purchases}} \times 365 = \text{days (or } \times 52 = \text{ weeks, or } \times 12 = \text{ months)}$ NB – Where only one figure is given for creditors, this will be taken as the average.
Debtors' collection period	$\frac{\text{Average debtors}}{\text{Credit sales}} \times 365 = \text{days (or } \times 52 = \text{ weeks, or } \times 12 = \text{ months)}$ NB – Where only one figure is given for debtors, this will be taken as the average.
Fixed asset turnover	$\frac{\text{Sales revenue}}{\text{Fixed assets at net book value}}$ Answers should be expressed as a ratio, eg 0.75 : 1

SECTION 1 — 60 marks
Attempt BOTH questions

1. The following information is available for a sole trader business run by Michelle Maxwell for the year ended 31 December Year 2.

Sales Revenue (Sales)	£850,000
Gross Profit	£243,500
Profit for the Year (Net Profit)	£121,500
Opening Inventory (Stock)	£39,000
Closing Inventory (Stock)	£45,000
Average Trade Receivables (Debtors)	£80,000
Average Trade Payables (Creditors)	£65,000
Non-Current (Fixed) Assets	£450,000
Current Assets	£161,500
Current Liabilities	£90,000
Equity (Capital)	£400,000
All Sales and Purchases were on credit.	

Use Pages two to six of the Workbook provided for your answer to Question 1.

- (a) Calculate for Year 2 (correct to 2 decimal places):
- Gross Profit Ratio
 - Profit for the Year (Net Profit) Ratio
 - Expenses Ratio
 - Rate of Inventory (Stock) Turnover
 - Return on Equity (Capital) Employed
 - Current Ratio
 - Acid Test Ratio
 - Trade Receivables (Debtor) Collection Period (in days)
 - Trade Payables (Creditor) Payment Period (in days)
 - Non-Current (Fixed) Asset Turnover Ratio

1. (continued)

Michelle also provided the following information for Year 1.

Profit for the Year (Net Profit) Ratio	11%
Rate of Inventory (Stock) Turnover	12 times
Return of Equity (Capital) Employed	25%
Current Ratio	2:1
Trade Receivables (Debtor) Collection Period	52 days

- (b) State **one** possible reason for the difference between Year 1 and Year 2 for each of the above ratios. Give a different reason each time. 5
- (c) For Year 3 Michelle predicts the following:
 Sales Revenue (Sales) will increase by 10%
 Gross Profit Ratio will remain the same
 Profit for the Year (Net Profit) Ratio will increase to 16%
 For Year 3 calculate:
- (i) Sales Revenue (Sales) Figure; 1
 - (ii) Gross Profit; 1
 - (iii) Profit for the Year (Net Profit). 1
- (d) (i) Michelle wishes to expand her business. Suggest **one** source of finance available to her to do this. 1
- (ii) Justify your choice of finance. 1
- (e) Michelle offers her customers a trade discount. Suggest **one** reason for this. 1
- (f) Name the document Michelle would send to her credit customers at the end of each month. 1
- (g) One of Michelle's expenses is Bad Debts. State the meaning of the term Bad Debts. 1

[Turn over

2. Great Glen Manufacturers is a small manufacturer of high quality furniture owned by Martin MacLeod. The business has 2 production cost centres – Cutting and Finishing, and one service cost centre - Canteen.

Estimated overhead expenditure for the forthcoming year is as follows:

Overheads	Total Cost
Indirect Labour	£79,940
Employee Supervision	£40,000
Heat and Light	£46,000
Rent and Rates	£38,000
Insurance of Machinery	£12,000
	<u>£215,940</u>

The following information relates to the cost centres for this period.

	Cutting	Finishing	Canteen	TOTAL
Floor Area (sq m)	2,000	1,800	1,200	5,000
No of employees	9	12	4	25
Value of Machinery	£40,000	£60,000	£20,000	£120,000
Indirect Labour	£6,000	£8,000	£65,940	£79,940

Using the Worksheet provided on Page seven of the Workbook, you are required to:

- (a) **complete** the Overhead Analysis Sheet to show the overheads to be allocated or apportioned to each of the cost centres. 10
- (b) **re-apportion** the total overheads of the Canteen to the other cost centres on the basis of number of employees. 4

2. (continued)

Use Pages eight and nine of the Workbook to answer the rest of Question 2.


(c) The following time sheet relates to work done on Job 924A.

Labour is charged to jobs at the following rates:

Cutting department—£8 per hour

Finishing department—£12 per hour

Work done in excess of 20 hours in any department is charged at time and a half for each additional hour.

<i>Great Glen Manufacturers</i>			LABOUR TIME SHEET
Job Number: 924A			
Date	Details	Hours Worked	
12/04/15	Cutting dept	8	
	Finishing dept	12	
14/04/15	Cutting dept	10	
	Finishing dept	15	
17/04/15	Cutting dept	4	
	Finishing dept	6	
	TOTAL HOURS WORKED	55	

Calculate the total labour cost to be charged to Job 924A.

11

(d) State the meaning of the following terms:

(i) Break-even point.

1

(ii) Piece Rate.

1

(iii) Profit mark-up.

1

(e) Describe 2 benefits of preparing a cash budget.

2

[Turn over for Section 2 on Page eight

SECTION 2 — 40 marks

Attempt ALL questions

3. The following balances were extracted from the ledger of Shop Supplies on 30 April Year 3.

	£
Sales Revenue (Sales)	64,500
Purchases	24,800
Sales Revenue Returns (Sales Returns)	2,000
Purchase Returns	500
Discount Allowed	132
Discount Received	1,000
Carriage In	400
Carriage Out	60
Trade Receivables (Debtors)	500
Trade Payables (Creditors)	1,850
Property	56,400
Cash and Cash Equivalents (Bank Overdraft)	(1,600)
Inventory (Stock)	2,540
Drawings	2,900
Equity (Capital)	20,282

You are required to complete the Trial Balance, on the Worksheet provided on Page ten of your Workbook.

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4. Alex Fletcher commenced business on 1 May. The following information relates to the movement of material B990 for the month.

DATE	PURCHASES		ISSUES	
	QUANTITY	UNIT PRICE	JOB NO	QUANTITY
01 May	200	£8.00		
04 May			A250	120
08 May	400	£8.40		
12 May			A251	200
18 May			A252	240

Complete the Inventory (Stock) Record Card for the month of May using Last-In-First-Out (LIFO) on the **Worksheet provided on Page eleven** of your **Workbook**.

10

5. Gourdie Gardening Supplies sells high quality gardening products to businesses across the North-east of Scotland.

From the following information, complete the Statement of Account (on the **Worksheet provided on Page twelve of your Workbook**) to be sent to Gardens of Angus.

10

- 1 April Gardens of Angus owed Gourdie Gardening Supplies £360.
- 10 April Goods to the value of £486 (**excluding** VAT at 20%) were sold on credit to Gardens of Angus. A cash discount of 5% is given for payment within 30 days.
- 12 April Gardens of Angus returned goods valued at £43.20 (**including** VAT).
- 20 April A cheque was received from Gardens of Angus for £325 in full settlement of the balance outstanding on 1 April.

[Turn over

6. The following balances have been taken from the Trial Balance of Just Juice as at 31 December Year 3.

	£
Trade Receivables (Debtors)	14,000
Provision for depreciation of Vehicles	25,000
Opening Equity (Capital)	92,000
Cash and Cash Equivalents (Bank Overdraft)	(40)
Drawings	4,000
Provision for Bad Debts	1,000
Profit for the Year (Net Profit)	22,000
Trade Payables (Creditors)	1,200
Other Receivables (Prepaid)	240
Vehicles	95,000
Closing Inventory (Stock)	28,000

On Page thirteen of your Workbook, prepare the “top half” of the Statement of Financial Position (Balance Sheet) using only the relevant figures. (There is no requirement to prepare the “Financed by”/Equity section).

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[END OF QUESTION PAPER]

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ACKNOWLEDGEMENT

Question 2(c) – Zern Liew/shutterstock.com