National Qualifications 2018

X700/76/11 Accounting

FRIDAY, 25 MAY

9:00 AM – 11:00 AM

Total marks — 100

SECTION 1 — 40 marks

Attempt the question.

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.

SECTION 1 — 40 marks

Attempt the question

1. The following Trial Balance and notes relate to the business of Grant plc:

<u>Trial Balance as at 31 December Year 6</u>	**£000**	**£000**
Purchases and Sales Revenue	1,505	2,024
Purchases Returns		40
Property at Cost	500	
Fittings at Cost	120	
Motor Vehicles at Cost	44	
Investments (Market Value £80,000)	78	
Dividends on Investments		4
350,000 Ordinary Shares of £1 each		350
200,000 6% Preference Shares of £1 each		200
Dividend on Ordinary Shares	26	
Dividend on Preference Shares	12	
10% Debentures (redeemable Years 8–10)		160
Finance Costs – Debentures	16	
Provisions for Depreciation:		
Fittings		22
Motor Vehicles		24
Preliminary Expenses	10	
Share Premium		80
Unappropriated Profits at 1 January Year 6		54
Cash and Cash Equivalents	250	
Trade Receivables	80	
Trade Payables		118
Inventory 1 January Year 6	153	
Carriage In	35	
Bad Debts	3	
Provision for Doubtful Debts		6
Net Discounts		16
Selling and Distribution Expenses	60	
Rates	110	
Wages and Salaries	132	
Insurance	8	
VAT		44
	£3,142	£3,142

1. **(continued)**

NOTES at 31 December Year 6

1. Inventory £120,000.
2. An additional dividend on Investments is receivable £2,000.
3. Provide for depreciation for the year as follows:
   (a) Motor Vehicles 25% using the reducing balance method;
   (b) Fittings 15% on cost.
4. Property is professionally revalued at £540,000.
5. The Provision for Doubtful Debts at 31 December Year 6 is to be adjusted to 5% of Trade Receivables.
6. 10% of Rates are applied to the warehouse.
7. 5% of Selling and Distribution expenses are paid for the year ending 31 December Year 7.
8. £4,000 is payable for Wages and Salaries.
9. Auditors' fees are payable £6,000.
10. Corporation Tax is payable at the rate of 25%.
11. The Share Premium account is used to write off Preliminary Expenses.
12. The Share Premium account is used to finance a Bonus Issue of Ordinary Shares in the ratio of one for every 50 held.

(a) You are required to prepare the:

(i) Income Statement for year ended 31 December Year 6, and **19**

(ii) Statement of Financial Position as at that date. **19**

(b) Describe **2** advantages of forming a plc rather than a partnership. **2**

[Turn over

MARKS

SECTION 2 — 60 marks

Attempt ALL questions

2. GWS plc has equity available for investment in **one** of the following projects. One proposal has already been received. Patrick Richardson, Operations Director, has submitted a late project proposal for the Board of Directors to consider. This late proposal is incomplete and appears to be significantly more costly in terms of financial outlay. Details are as follows:

Project 2			
Initial investment	£400,000		
Project life	5 years		
	Estimated Cash Inflows	**Estimated Wage Costs related to Project 2**	**Other Estimated Costs related to Project 2** (excluding annual depreciation of 7·5% on the original investment)
Year 1	£175,000	£25,000	£60,000
Year 2	£142,000	£27,000	£45,000
Year 3	£120,000	£28,000	£30,000
Year 4	£112,000	£30,000	£24,000
Year 5	£100,000	£33,000	£15,000

(a) Calculate the profit earned for each year of Project 2. 4

2. **(continued)**

Details on project proposal 1 are as follows:

	Project 1
Initial investment	£180,000
Project life	5 years
Estimated profit	
Year 1	£4,000
Year 2	£8,000
Year 3	£16,000
Year 4	£24,000
Year 5	£24,000
Estimated net cash flow	
(excluding initial investment)	
Year 1	£32,000
Year 2	£44,000
Year 3	£60,000
Year 4	£92,000
Year 5	£100,000

(b) Show the results of applying the following methods of investment appraisal to each of the **2 projects**.

(i) Accounting Rate of Return (based on average profits earned on the initial investment) **4**

(ii) Payback (to the nearest day) **6**

(c) Advise the Board of GWS plc as to the most attractive investment proposal. Justify your answer. **2**

(d) If GWS plc opts to use Payback as its preferred method of investment appraisal, describe **one** advantage and **one** disadvantage of this technique. **2**

(e) Describe how a potential shareholder would make use of investment ratios. **2**

[Turn over

3. The following are receipts and issues of Material X for Mitchell Fabricators for June.

The opening balance on 1 June of inventory is 150 kg @ £8·00 per kg.

Date	**Transaction**	**Units**	**Price**
June 8	Purchases	100 kgs	£8·50
June 10	Issues to Process 1	100 kgs	
June 18	Purchases	250 kgs	£8·60
June 22	Issues to Process 2	120 kgs	
June 25	Returns of inventory bought on June 18	70 kgs	

(a) Prepare the inventory record card for Material X using the weighted average method (AVCO) for the month of June. **6**

(b) The following data relates to Mitchell Fabricators Process 2 for June.

From Process 1	75 kgs @ £13·00 per kg
Issues of Material X from stores	?
Labour	250 hours @£10 per hour
Fixed Overheads	£236
Variable Overheads	£3·50 per labour hour
Closing Work-in-Progress	20 kgs costing £480
Normal Loss	5 kgs
Finished output	160 kgs

All losses are sold for £4·00 per kg.

(i) Prepare the:

- Process 2 Account; and the
- Abnormal Loss Account showing the amount transferred to the Income Statement at end of June. **12**

(ii) Calculate the price per kilogram (kg) Mitchell Fabricators should sell the output of Process 2 for, if it wishes to earn a profit margin of 40%. **2**

MARKS

4. The following are the budgeted sales figures of McLeod plc for the 6 month period July to December Year 2.

Sales (units)	**July**	**August**	**September**	**October**	**November**	**December**
Cash sales	1,000	1,200	800	700	600	700
Credit sales	3,000	3,400	4,000	5,000	5,400	5,300

The closing inventory for each month is expected to be 20% of the cash sales of the following month.

Cash sales for January Year 3 are estimated to be 2,000 units.

(a) Prepare the Production Budget for 6 months July–December Year 2. **5**

The following information is also available:

1. Selling price per unit: £25, however, credit customers who pay within one month will receive 4% discount.
2. It is estimated that 80% of credit customers will receive the cash discount by paying in the month following the sale.
3. Of the remaining credit customers, 95% will pay 2 months after sale and the rest will be written off as a bad debt.
4. Raw materials cost £8 per unit — this is paid for in the month before production.
5. Labour costs £5 per unit — payable in the month of production.
6. A bonus of £2 per unit for each unit produced over 5,000 units is paid in the month following production.
7. Variable overheads of £3 per unit are paid one month after production.
8. Fixed costs of £36,000 per annum, including depreciation of £12,000 are to be paid monthly.
9. Selling expenses of £2 per unit on credit sales are payable 2 months after sale.
10. A machine owned by the business will be sold during the month of October. The purchase price of the machine was £50,000 and at the time of sale it will have depreciated by £30,000. It is estimated that it will be sold at a loss of £500.

(b) Prepare the Cash Budget for the 2 months October to November Year 2. It is estimated that there will be a Cash and Cash Equivalents balance of £20,000 at the end of September. **15**

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