X209/13/01

NATIONAL QUALIFICATIONS 2014

TUESDAY, 29 APRIL
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.

SECTION A

You should attempt 3 questions from this section.

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

1. PART A

The information below has been provided by McKechnie plc for the financial year ended 31 December Year 3.

1 Changes in Fixed Assets

	Factory and Warehouse	**Machinery**	**Delivery Vehicles**
Acquisitions and Disposals	£000s	£000s	£000s
Purchases	300	150	45
Sales	(100)	(50)	(20)
Provisions for Depreciation			
Written off to Profit and Loss	–	135	20
On Sales		(50)	(10)
Revaluation of Assets			
Increase in value	120	–	–

2 Sales of Fixed Assets realised:

	£000s
Factory and Warehouse	150
Machinery	10
Delivery Vehicles	8

3 Profit and Loss Account for the year ended 31 December Year 3 allowed for the following:

	£000s
Debenture Interest	?
Ordinary Dividends	30
Corporation Tax	35

4 Unappropriated profit for the year amounted to £120,000.

5 An analysis of the Balance Sheets for the years ended 31 December Year 2 and Year 3 showed the following:

	31 December Year 2	31 December Year 3
	£000s	£000s
Corporation Tax owing	24	26
Debenture Interest due	10	20
10% Debentures	200	260

1. (continued)

6 Debentures were issued on 1 July Year 3.

7 During the year McKechnie plc issued 100,000 50p Ordinary Shares at a premium of 20p each share.

8 Current Assets and Liabilities at 31 December Year 2 and Year 3

	31 December Year 2	31 December Year 3
	£000s	£000s
Stock	28	45
Debtors	30	15
Creditors	10	18

Using the above information you are required to prepare the necessary statements on the Worksheet provided in accordance with FRS 1 to show for the year ended 31 December Year 3.

(*a*) Net Cash Flow from Operating Activities.

(*b*) Cash Flow Statement. **40**

PART B

The following information has been provided by the directors of Wishaw plc.

	Wishaw plc
Net profit after interest and tax	£300,000
Ordinary Shares of £1 each	£500,000
5% Preference Shares	£150,000
8% Debentures	Nil
Ordinary Shares Market Price	£1·20
Ordinary dividend per share	7p

You are required to calculate for inclusion in the Published Report and Accounts:

(*a*) Dividend yield;

(*b*) Dividend cover;

(*c*) Earnings per share;

(*d*) Price/earnings ratio.

Answers should be given to 2 decimal places. **10**

(50)

[Turn over

2. PART A

Brown, Grey and White are in partnership sharing profits and losses in the ratio 2:2:1. The Balance Sheet of their business on 31 December Year 2 was as follows:

	£ **Cost**	£ **Aggregate Depreciation**	£ **Net Book Value**
Fixed Assets			
Factory Premises	250,000		250,000
Office Equipment	75,000	25,000	50,000
Delivery Vans	50,000	22,000	28,000
	375,000	47,000	328,000
Current Assets			
Stock	17,000		
Debtors	15,000		
VAT	8,000	40,000	
Current Liabilities			
Bank overdraft	12,500		
Creditors	5,600	18,100	21,900
			349,900
Loan from White			20,000
			329,900
Financed by			
Capital			
Brown		131,900	
Grey		131,900	
White		55,000	318,800
Current Accounts			
Brown		12,800	
Grey		2,000	
White		–3,700	11,100
			329,900

The partners have decided to dissolve the partnership with effect from the above date. The details relating to the dissolution are as follows:

1 Factory Premises were sold for £265,000.

2 The Office Equipment was sold at 60% of its book value.

3 Brown and White took 2 of the firm's Delivery Vans at a net book value of £12,000, and £8,000 respectively. The remainder were sold at auction for £18,000.

4 Stock sold realised £12,000.

Marks

2. (continued)

5 Debtors paid in full less 10% discount and a cheque was received from Revenue and Customs for VAT owed.

6 Creditors were paid and allowed a discount of £600.

7 Realisation expenses amounted to £1,400.

You are required to prepare:

(*a*) The Realisation Account;

(*b*) The Capital Account for White only. **15**

PART B

In Year 1 Murray plc issued 100,000 £1 7% Preference Shares at a premium of 20p payable on allotment.

The shares are to be paid for as follows on:

Application	40p
Allotment	60p including Share Premium
First and Final Call	20p

1 Applications were received for 120,000 shares. The Board of Directors decided to reject the applications for 10,000 shares and refund payments. Additional cash received was offset against future payments.

2 All monies were received at allotment.

3 One applicant failed to pay the balance due on call for his 500 shares. These shares were subsequently declared forfeit.

4 The directors decided to reissue the forfeited shares to J Brown at 70p per share.

You are required to:

(*a*) make the entries necessary in the accounts to record the issue of the shares;

(*b*) make the entries necessary to account for the forfeiture and reissue of the 500 shares. **25**

(40)

[Turn over

Marks

3. The following financial information relates to River plc on 30 September Year 2 on which date Denver plc acquired an 80% share in River plc paying £2 per share.

	River plc
	£
Ordinary Shares of £1 each	50,000
Share Premium	5,000
Profit and Loss Account	4,800

(*a*) You are required to calculate:

(i) the value of goodwill on acquisition;

(ii) the value of minority interest on acquisition. **6**

The following Balance Sheets were produced on 30 September Year 3.

	Denver plc		River plc	
	£	£	£	£
Fixed Assets		441,150		70,000
Investment in River plc		80,000		
Stock		5,900		3,200
Debtors		5,600		5,240
Bank		8,800		
Current (owed by River plc)		3,000		
		544,450		78,440
Creditors	3,000		3,500	
Accruals	500		150	
Bank			720	
Current (owed to Denver plc)		3,500	2,250	6,620
		540,950		71,820
Less Long-term Liabilities				
Debentures		15,000		10,000
		525,950		61,820
Financed by:				
Ordinary shares of £1 each		400,000		50,000
Share Premium		40,000		5,000
Profit and Loss		85,950		6,820
		525,950		61,820

The following additional information was provided.

1 There is cash in transit.

2 Goods costing £3,600 were sold at a mark-up of 50% by Denver plc to River plc in December Year 3. Of these only 60% had been sold on by River plc.

3 Goodwill is written down by 20% annually using the straight line method.

Marks

3. (continued)

(*b*) You are required to calculate the following for inclusion in the Group's Consolidated Balance Sheet:

(i) Post acquisition profits

(ii) Unrealised profits

(iii) Minority Interest

(iv) Cash in transit

(v) Profit and Loss Account Balance **12**

(*c*) Prepare the Consolidated Balance Sheet of the Denver and River Group as at 30 September Year 3. **22**

(40)

[Turn over

Marks

4. Prior to the presentation of the final statements of a company the accounts should be audited.

(*a*) Discuss what you understand by the term auditing. **6**

(*b*) Discuss the rights and duties of an auditor. **10**

(*c*) Describe the contents of the auditor's report. **8**

(*d*) Describe the benefits of an independent external audit to shareholders. **6**

(30)

5. Financial Reporting Standards define how various types of transactions should be reported in financial statements.

(*a*) Discuss the contents of **2** of the following:

- FRS 3 Reporting Financial Performance
- FRS 10 Goodwill and Intangible Assets
- FRS 18 Accounting Policies **20**

To comply with the Companies Acts, the Board of Directors must provide a report to shareholders in addition to the Financial Statements.

(*b*) Discuss **5** of the areas the Report may cover and explain the significance for shareholders. **10**

(30)

[Turn over for Section B on *Page ten*

Marks

SECTION B

You should attempt 3 questions from this section.

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

6. PART A

Theo and Juan propose to invest in 2 projects, each beginning on 1 January Year 1. They can afford to choose Projects A **or** B, **and** C **or** D.

The following data apply (£million):

	Project A	**B**	**C**	**D**
Initial Investment	240	240	60	70
Net Cash Inflows:				
Year 1	40	40	30	20
2	80	60	20	30
3	80	100	15	30
4	80	100	10	10
5	80	60	10	10
6	40	40	5	10

The cost of winding up each project is estimated to be 20% of the initial investment cost, payable immediately upon completion of the project.

Cost of Capital—12%. The discount factors at 12% are:

Year 1	0·893
2	0·797
3	0·712
4	0·636
5	0·567
6	0·507

(*a*) (i) Calculate the payback period for Projects A and B only, **if the project is terminated at payback**.

(ii) Explain, showing workings for Project A to support your answer, why projects would be very unlikely to be terminated at payback.

(iii) Calculate the Accounting Rate of Return for Projects A and B only, based on the estimated average profit made over the life of the project. **15**

(*b*) Calculate, **for Project A only**, the Net Present Value at the end of Year 6. **10**

Marks

6. (continued)

The following additional estimated data is available at the end of Year 6:

	Project A	**B**	**C**	**D**
Net Present Value:				
Discounted at 12% (£m)	?	8	2	1
Discounted at 15% (£m)	–10	–10	–1	–1
Internal Rate of Return	?	?	13·81%	14·16%

(*c*) Calculate the Internal Rate of Return **for Projects A and B only**. **8**

(*d*) (i) Advise Theo and Juan in which 2 projects they should invest, stating the basis for your advice. Give an explanation for your choices.

(ii) State the total profit in cash terms that Theo and Juan can expect to make. **5**

PART B

Cheyne & Co manufactures Product G and operates a Standard Costing system. The following information applies to Year 3.

	Budgeted Data	**Actual Data**
Production in units	10,000	11,000
Direct Materials:		
Quantity	5 kg per unit	55,800 kg
Cost	£1·50 per kg	£78,120
Labour Hours	10,000 hours	9,800 hours
Variable Overheads	£20,000	£22,100

Calculate the following variances:

(i) Total Material Cost

(ii) Material Price

(iii) Material Usage

(iv) Variable Overhead Cost

(v) Variable Overhead Expenditure

(vi) Variable Overhead Efficiency **12**

(50)

[Turn over

7. PART A

Zobell Ltd makes a single product in 2 processes, Rolling and Finishing.

The following data apply to the Finishing Process for Month 6.

Work in progress at start	3,000 kg (Materials £3,375; Labour £1,250; Overhead £800)
Transferred in from Rolling	15,000 kg @ £1·50 per kg
Materials added during month	12,000 kg @ £0·70 per kg
Other costs:	
Labour	£18,000
Variable overhead	75% of labour cost
Fixed overhead	£20,000
Work in progress at end	2,000 kg (Complete as to Materials—100%; Labour and Overhead—50%)
Good Output transferred for sale	27,000 kg

Expected losses are 5% of total input weight

All losses are sold for £1 per kg

Zobell Ltd prepares all cost accounts on a Marginal Costing basis.

(*a*) **Using the worksheet provided**, complete the following for Month 6:

(i) the Statement of Expected Equivalent Units Produced;

(ii) the Statement of Cost per Equivalent Unit for each element of cost and in total. **15**

(*b*) Prepare the Finishing Process Account for Month 6 showing any adjustment for abnormal levels of output. **8**

7. (continued)

PART B

Telmore Contractors undertake engineering contracts. The following data apply to Year 1 of Contract 1 being carried out for FirstNine plc.

Contract Price	£540,000

During Year to 31 December Year 1:	£
Materials delivered to site	50,500
Wages paid	60,000
Direct site expenses	9,280
Plant sent to site (at cost)	20,000
At 31 December:	
Materials on site	5,200
Wages accrued	3,720
Value of plant on site	16,000
Work complete but not yet certified	40,000
Work certified complete	180,000

During the year materials costing £10,000 were damaged on site. 50% of these were scrapped and sold for £1,300. The remainder were disposed of as waste and removed from the site at no cost to Telmore.

Company overhead costs of £82,500 are to be shared out on a Prime Cost basis between the 3 contracts currently being undertaken by Telmore in Year 1. The following data apply.

Contract 2—Prime Cost £63,000
Contract 3—Prime Cost £70,000

Profits are recognised using the formula:

Notional Profit × (Work Certified/Contract Price)

Prepare the Contract Account for Contract 1 for the year ended 31 December Year 1. **17**

(40)

[Turn over

Marks

8. Jacktara plc makes 3 products—Ortiz, Telford and Knowles. Their productive capacity is currently limited to 30,000 machine hours **and** 35,000 kg of materials. There is no shortage of factory space, labour or capital.

The following estimated data apply to **Period 3**.

Product	**Ortiz**	**Telford**	**Knowles**
Demand (units)	4,000	3,000	5,000
Units Data (£):			
Selling Price	50	60	100
Variable Costs:			
Materials (£5 per kg)	10	20	25
Labour	10	9	15
Overhead	5	4	10
Machine Hours	2	1	5

Fixed Costs are £100,000

(*a*) Calculate the unit contribution earned by each product. **1**

(*b*) State the order of priority for manufacture if production is limited by:

(i) machine hours available.

(ii) materials available. **6**

Your answer to (*b*) will gain no marks unless supported by appropriate workings.

(*c*) (i) Calculate the number of units of each product required to maximise profits if Jacktara limits production by machine hours. **3**

(ii) Calculate the additional amount of materials required to enable the levels of production in your answer to (*c*)(i). **3**

(iii) If the supply of materials cannot be increased calculate the effect this would have on your answer to (*c*)(i). **2**

(*d*) (i) Calculate the number of units of each product required to maximise profits if Jacktara limits production by material supply. **3**

(ii) Calculate the additional number of machine hours required to enable the levels of production in your answer to (*d*)(i). **3**

(iii) If the number of machine hours cannot be increased, calculate the effect this would have on your answer to (*c*)(i). **2**

8. (continued)

In **Period 4** demand for all 3 products is expected to be 5,000 units. Unit data will remain the same as for Period 3, but a contract is expected to be awarded to a new supplier who will guarantee supplies of all materials required.

Jacktara plc is considering the following options, each of which will yield a greater profit than earned in period 3.

Option 1

Maintain current capacity and contract out the production and marketing of all additional units to Pine Ltd. Jacktara plc would receive a royalty payment of £15 per unit contracted out.

Option 2

As Option 1, but contract out the production only of the additional units to Wood Ltd at a cost of £45 per unit. Jacktara would undertake the sale of all production. Fixed costs would rise by £50,000.

(*e*) Advise the directors of Jacktara plc which option to choose and why.

Your answer to (*e*) will gain no marks unless supported by appropriate workings. **17**

(40)

[Turn over for Questions 9 and 10 on *Page sixteen*

Marks

9. Profit statements may be produced on either a Marginal Costing or an Absorption Costing basis. Some financial information contained within these statements is common to each method, whilst other information differs.

(*a*) Describe the financial information which is common to both Marginal Costing and Absorption Costing statements. **4**

(*b*) Describe the financial information which differs between Marginal Costing and Absorption Costing statements. **16**

(*c*) Explain the effects of the differences between Marginal Costing and Absorption Costing statements on:

(i) Profits;

(ii) Decision making. **10**

(30)

10. (*a*) Describe each of the following and explain their significance to Cost Accountants.

(i) Attainable Standards

(ii) Flexible Budgets **12**

(*b*) Describe the process by which a Master Budget may be produced. **8**

(*c*) Describe each of the following and explain their significance to Cost Accountants.

(i) Activity Based Costing

(ii) Multi-Product Breakeven Analysis **10**

(30)

[*END OF QUESTION PAPER*]

FOR OFFICIAL USE

X209/13/11

NATIONAL QUALIFICATIONS 2014

TUESDAY, 29 APRIL
1.00 PM – 4.00 PM

ACCOUNTING ADVANCED HIGHER
Worksheet for
Question 1 Part A
and Question 7

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 Worksheets for Question 7 Part A need only be completed if the question is attempted.

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

WORKSHEET FOR QUESTION 1 Part A

You should answer all of Question 1 Part A on this worksheet.

RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES		
	£	£
Operating Profit (before interest and taxation) Non Cash Adjustments Changes in Working capital Net cash inflow (outflow) from operations		

Working Notes:		

1. **Part A (continued)**

CASH FLOW STATEMENT FOR YEAR ENDED _

	£	£
Net cash inflow (outflow) from operating activities (Note 1)		
Returns on investments and servicing of finance		
Net cash inflow (outflow) from returns on investments and servicing of finance		
Taxation		
Capital expenditure and financial investments		
Net cash inflow (outflow) from capital expenditure and financial investments		
Equity dividend paid		
Net cash inflow (outflow) before management of liquid resources and financing		
Management of liquid resources and financing		
Increase (decrease) in Cash/Bank during the year		

Working Notes:		

You should answer all of Question 7 Part A on this worksheet.

7. Part A

(*a*) (i) **Equivalent Production Statement for Month 6**

	Units	%	Materials	%	Labour	%	Overheads
Inputs:							
Work in Progress							
Transferred in							
Materials Added							
Expected Output							
Good Output		100%		100%		100%	
Normal Loss			**NIL**		**NIL**		**NIL**
Work in Progress		100%		50%		50%	
Equivalent Units Produced							

(ii) **Cost per Equivalent Unit Produced in Month 6**

	Materials	Labour	Overheads
Transferred in			
Costs for Month			
Work in Progress			
Less Scrap Value of Normal Loss			
Equivalent Units Produced			
Cost Per Equivalent Unit			

Total Cost per Unit	

7. (continued)

(*b*) **Finishing Process Account for Month 6**

[*END OF WORKSHEET*]

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