X209/12/01

NATIONAL QUALIFICATIONS 2014

TUESDAY, 29 APRIL
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.

Marks

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. The following are the assets and liabilities of the Gimmie Golf Club at 1 January Year 2.

	£000
Clubhouse and Course	500
Machinery at cost	40
Bar Fixtures (cost £20,000)	15
Creditors for Bar Supplies	4
Bank	6
Professional's Salary due	2
Bar Stock	3
Electricity due	1
Subscriptions in Arrears (Year 1)	3
Subscriptions in Advance (Year 2)	2

(*a*) **Calculate** the Accumulated Fund at 1 January Year 2. **5**

The Treasurer has provided you with the following Receipts and Payments for the year ended 31 December, Year 2.

	£000	*£000*
Receipts		
Subscriptions	155	
Bar Takings	60	
Life Membership Fees	50	
Gaming Machines Takings	6	271
Payments		
Creditors for Bar Supplies	40	
Greenkeepers' Wages	25	
Professional's Salary	33	
Purchase of Machinery	20	
Repairs to Machinery	17	
Purchase of Grass Seed and Sand	20	
Gas and Electricity	12	
Bar Wages and Expenses	15	
Rental of Gaming Machines	3	
General Expenses	7	192

Marks

1. (continued)

You are provided with the following additional information for the year ended 31 December, Year 2.

		£000
(1)	Creditors for Bar Supplies	5
(2)	Bar Stock	4
(3)	Electricity due	2
(4)	Subscriptions in Arrears (Year 2)	4
(5)	Subscriptions in Advance (Year 3)	1
(6)	Stock of Grass Seed	3
(7)	Professional's Salary due	3
(8)	Depreciation on Machinery is to be 10% on cost	
(9)	Depreciation on Bar Fixtures is to be 20% of the reduced balance method	
(10)	80% of the Life Membership Fees are to be capitalised	

For the year ended 31 December Year 2 **prepare**:

(*b*) a Bar Trading and Profit and Loss Account; **8**

(*c*) an Income and Expenditure Account; and **21**

(*d*) a Balance Sheet as at that date. **16**

(50)

[Turn over

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

2. The following balances have been taken from the ledger of Davis plc at 31 December Year 3.

	£000	£000
200,000 Ordinary Shares of £1 each		200
10% Debentures		100
Prime Cost	247	
Stocks at 1 January Year 3:		
Work-In-Progress	15	
Finished Goods	21	
Sales of Finished Goods		691
Wages:		
Factory Indirect	25	
Warehouse	21	
Office	23	
General Expenses	45	
Office Insurance	6	
Lighting and Heating	48	
Debenture Interest	5	
Provision for Bad Debts at 1 January Year 3		3
Factory Machinery at cost	400	
Office Equipment at cost	250	
Provision for Depreciation at 1 January Year 3:		
Factory Machinery		100
Office Equipment		75
Creditors		26
Debtors	40	
Interim Dividend on Ordinary Shares	30	
Goodwill	35	
Profit and Loss Account Balance at 1 January Year 3		5

Marks

2. (continued)

NOTES at 31 December Year 3

(1) Stocks:

Work-In-Progress – £27,000
Finished Goods – £18,000

(2) General Expenses accrued – £5,000. General Expenses are to be apportioned 60% to the Factory and 40% to the Office.

(3) Office Insurance prepaid – £2,000.

(4) Lighting and Heating are to be apportioned between the Factory, the Warehouse and the Office in the ratio 3:2:1.

(5) Depreciation is to be provided as follows:

Factory Machinery – 25% of the reduced balance
Office Equipment – 20% on cost

(6) 150,000 units were produced during the year and transferred to the Warehouse at a market value of £2·80 per unit.

(7) The Provision for Bad Debts is to be adjusted to £2,000.

(8) Provide for Corporation Tax at 25% of Net Profit.

(9) The Directors propose to:

(i) pay a final dividend on the Ordinary Shares of 10p per share;

(ii) write Goodwill down by £15,000.

You are required to prepare, for internal use, from the list of balances and notes for the year ended 31 December Year 3 the:

(i) Manufacturing Account (starting with Prime Cost); **14**

(ii) Trading and Profit and Loss Accounts including appropriation of the available profits. **26**

(40)

[Turn over

Marks

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

3. **PART A**

Ray and Fennel are in partnership sharing profits and losses in the same ratio as their capital invested.

The Capital and Current Account balances on 31 December Year 3 were:

	Capital Account £	Current Account £	
Ray	60,000	5,500	Cr
Fennel	100,000	3,000	Dr

On 1 January Year 4 Ray and Fennel agree to admit Bishop as a new partner under the following conditions.

(1) Goodwill is to be valued at £40,000.

(2) Bishop is to provide £120,000 as her capital.

(3) A professional revaluation of the existing assets and liabilities results in:

	Old Value	New Value
Vehicles	£50,000	£30,000
Premises	£150,000	£200,000

(4) On revaluation the Bad Debt Provision increases by £1,000.

(5) Revaluation Expenses are £3,000.

(6) As a Goodwill Account is not to be kept, Goodwill is to be written off against the Capital Accounts of the **new** partnership.

(7) The balances on the original partners' Current Accounts are to be transferred to their Capital Accounts.

(8) Bishop is to receive 20% of the profits, the other partners continuing to share the remainder in the same relative proportions as before.

Ray and Fennel have asked you to **calculate** on 1 January Year 4:

(*a*) the profit or loss on revaluation; **4**

(*b*) the share of profit or loss on revaluation for each partner; **2**

(*c*) the new profit sharing ratio; **2**

(*d*) the new capital balances of each partner. **12**

(20)

Marks

3. (continued)

PART B

The following information was taken from the accounts of Tollcross Enterprises at 31 December Year 3.

Sales (80% credit)	£200,000
Gross Profit Ratio	30%
Rate of Stock Turnover	10 times
Closing Stock	£12,000
Net Profit Ratio	12%
Opening Debtors	£18,000
Closing Debtors	£10,000
Fixed Assets	£60,000
Bank/Cash	£4,000
Current Liabilities	£10,000

(*a*) From the above information, **calculate**:

(i) Gross Profit;

(ii) Mark-up Ratio;

(iii) Opening Stock;

(iv) Purchases;

(v) Expenses;

(vi) Debtors' Collection Period (in days);

(vii) Acid Test Ratio. **16**

(*b*) At 31 December Year 2, the business achieved the following results:

Gross Profit Ratio — 35%
Debtors' Collection Period — 37 days

Give **two** reasons for the change in each ratio. **4**

(20)

(40)

[Turn over

Marks

4. (*a*) **Name** the documents which are required for the formation and control of a PLC and state **two** features of each document. **6**

(*b*) **Compare** Debentures with Preference Shares. **4**

(10)

5. **Explain** the meaning of the following terms:

(i) Share Premium;

(ii) Rights Issue of Shares;

(iii) Royalties;

(iv) Factoring;

(v) Capital Expenditure. **(10)**

SECTION B

Marks

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. Fraser Limited has estimated the following unit sales for the first 6 months of Year 2.

Jan	Feb	Mar	Apr	May	Jun
1,700	1,800	2,300	1,850	1,900	2,200

Unit sales during December Year 1 were 2000.

The stock of units at 31 December Year 1 is 170.

Stock at the end of each month is expected to remain at the same proportion of the next month's sales as it was at the end of Year 1. However, due to space restrictions it is not possible to hold more than 200 units in stock at the end of any month.

(*a*) Prepare the Production Budget for the 5 months from January to May of Year 2. **11**

The following estimates relate to the period commencing January Year 2.

(1) The closing bank balance at the end of January Year 2 is expected to be £5,300.

(2) Retail Selling Price per unit will be £20.

(3) Cash Sales will be 20% of total sales.

(4) 60% of Credit Sales will be paid for the month following sale and will have a discount of 10% on the retail selling price.

The remainder of the credit sales should be paid for 2 months after sale at the normal retail selling price. However, 5% of the amounts due from these customers will be bad debts.

(5) The company will issue 10,000 ordinary shares at £0·40 each in April at a premium of £0·05 per share.

(6) A delivery van owned by the business will be sold during the month of April. The purchase price of the delivery van was £18,000 and at the time of sale will have an expected depreciation of £3,000. It is estimated that it will be sold for a profit of £500.

(7) Unit costs will be as follows:

Material – £8 paid in the month before production
Labour – £5 paid in the month of production

(8) A production bonus of £1 per unit for units in excess of 2,000 in one month is paid in the month following production.

(9) Fixed and Variable Overheads in January will total £8,420, of which £5,000 will be fixed. The Fixed Costs of £5,000 includes £2,000 for depreciation. Variable Overheads **per unit** will remain constant throughout the period.

(10) Variable overheads will be paid – 80% in the month of production.
20% one month after production

(11) Fixed overheads will be paid monthly.

(*b*) Prepare the Cash Budget for the 3 months commencing February Year 2. **39**

(50)

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

7. PART A

Castle Eagles Golf Tours Ltd offers golfing packages in Scotland to overseas clients. These packages include accommodation, cost of golf and transport.

Packages are available for only 30 weeks per year and include 7 nights accommodation with 6 days of golf. No golf is played on Sunday as this is the day of arrival and departure of groups.

Details of the arrangements and costs involved with the above are as follows.

(1) Cost of executive bus (solely used for golf) £40,000
Estimated life 5 years
Residual value £10,000

(2) The bus driver's wages are £100 per weekday and time and a half on weekends. He is also paid a retainer of £150 per week when the golf packages are not available.

(3) The bus can accommodate 15 persons but average occupancy is 80%.

(4) Daily cost of golf £60 on weekdays
£90 at weekends

(5) Overnight accommodation (including meals) is £100 per night.

(6) Each group will be charged for 2 trips of 100 miles to/from airport on Sunday plus an average of 130 miles each day to/from each golf course.

(7) Fuel costs are £1·50 per litre and the bus averages 10 miles per litre of fuel.

(8) Annual insurance/licence costs are £1,200.

(9) The 4 tyres on the bus are replaced every 12,000 miles at a cost of £80 per tyre.

(10) Sundry annual costs are £10,706.

(*a*) **Prepare** a statement to show the total annual cost of providing golf packages. **25**

(*b*) **Calculate** the price which should be quoted to a golfer wishing to purchase a package. The company wishes to earn a profit margin of 25%. **5**

(30)

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

7. (continued)

PART B

Rocco plc manufactures Product Z. The following information relates to Product Z for the month of November Year 3.

Variable Costs per unit:

	£
Material	15·00
Labour	10·00
Overheads	50% of Labour Cost
Contribution per unit	10·00
Break-Even point	10,000 units

Using the information given above, **calculate**:

(i) the selling price per unit;

(ii) the total fixed costs;

(iii) the number of units to be sold to make a profit of £40,000 after tax, if profits are taxed at 20%. **(10)**

(40)

[Turn over

Marks

8. PART A

Brothers plc is a chemical manufacturer. In Process 2 output from Process 1 is mixed with additional material in the ratio 2:1 in order to complete the finished product.

Details of production in Process 2 during May were:

Additional Materials	200 litres costing £4 per litre
Transfer from Process 1	£12 per litre
Labour	100 hours at £10 per hour
Variable overheads	£500
Fixed overheads	10% of prime cost
Normal losses	5% of total input
Closing Work in Progress	50 litres with a value of £420
Finished output	500 litres

Any losses can be sold for £2 per litre.

(*a*) **Prepare** the Process 2 Account for May. **13**

(*b*) **Prepare** the Abnormal Loss Account for May. **4**

(*c*) **Calculate** the price per litre Brothers plc should sell the output of Process 2 for, if it wishes to earn a profit margin of 30%. **3**

(20)

Marks

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

8. (continued)

PART B

Buchanan Ltd produces and sells a range of 3 products to which the following details relate.

Product	A	B	C
Estimated output/sales (units)	3,000	2,000	4,000
Total direct material cost	£9,000	£2,800	£5,200
Total variable overheads (80% of labour cost)	£12,000	£3,200	£4,800
Selling price per unit	£15	£7·50	£6
Fixed costs	£10,000	£4,000	£6,000
Labour hours per unit	3	5	1

(*a*) **Calculate**:

(i) total labour cost for each product for the estimated output;

(ii) total variable cost per unit for each product;

(iii) contribution per unit for each product.

(iv) total profit or loss which would be earned from the estimated sales. **13**

Due to staff shortages, labour hours for the following year will be limited to 14,000.

(*b*) Calculate the number of units of each product to be made to maximise profit **7**

(20)

(40)

[Turn over

Marks

9. (*a*) **Explain**, with an example of each, the difference between an "apportionment" of overheads and an "allocation" of overheads. **4**

(*b*) **State 3** methods of calculating overhead absorption rates and give the formula for each. **6**

(10)

10. **Explain** the following terms:

(i) AVCO;

(ii) Piece Rate;

(iii) Limiting Factor;

(iv) PV Ratio;

(v) Cost Centre. **(10)**

[*END OF QUESTION PAPER*]