X209/13/01

NATIONAL QUALIFICATIONS 2015

MONDAY, 18 MAY
9.00 AM – 12.00 NOON

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.

A worksheet is provided for Question 8.

SECTION A

You should attempt 3 questions from this section.

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

1. Omega plc has provided you with the following data for the year ended 31 December Year 3, after the preparation of the Manufacturing Account.

	£(000s)
Sales	2,750
Factory Cost of Production	600
Investments	1,000
Stocks:	
Raw Materials 31 December Year 3	150
Work in Progress 31 December Year 3	75
Finished Goods 1 January Year 3	360
Purchases of Finished Goods	750
Carriage Inwards on purchases of Finished Goods	10
Prepaid Manufacturing Expenses	15
Manufacturing Wages accrued	10
Wages and Salaries	120
Interim Ordinary Dividend paid 30 June Year 3	250
Interim Preference Dividend paid 30 June Year 3	30
General Expenses	180
Debenture Interest paid	20
Debtors	325
Creditors	150
Directors Fees	125
Bank Overdraft	70
Cash	55
Premises (Cost)	1,800
Delivery Vehicles (Cost)	1,000
Plant and Machinery (Cost)	800
Provision for Depreciation:	
Delivery Vehicles	500
Plant and Machinery	410
Interest Received	30
VAT (Cr)	20
10% Debentures	300
Ordinary Shares, fully paid, 50p per share	2,500
10% Preference Shares of £1 each	600
Share Premium	200
Profit and Loss Account Balance 31 December Year 2	125

1. (continued)

In addition:

1 Stocks of Finished Goods at 31 December Year 3—£250,000.

2 There were no acquisitions or disposals of fixed assets during the year. Depreciation is provided for Delivery Vehicles at 20% per annum on the reducing balance.

3 The following expenses were accrued and prepaid at 31 December Year 3.

	Accruals	**Prepayments**
General Expenses		£25,000
Audit Fee	£15,000	
Wages and Salaries	£20,000	

4 Allocate the expenses as follows.

	Cost of Sales	**Administration**	**Distribution**
General Expenses	20%	60%	20%
Audit Fee		100%	
Wages and Salaries	10%	20%	70%
Delivery Vehicle Depreciation	40%		60%

5 Allow for Corporation Tax of £50,000.

6 The market value of investments at 31 December Year 3 was £1,200,000.

7 Debentures of £100,000 were redeemed on 30 June Year 3. A further £100,000 is due for redemption on 30 June Year 4.

8 Premises were revalued during Year 3 at £2,000,000.

You are required to prepare the Profit and Loss Account and Balance Sheet of Omega plc for the year ended 31 December Year 3 in a form suitable for publication.

(NB Full working notes should be shown). **50**

(50)

[Turn over

2. Hamilton plc provides you with the following information taken from the Profit and Loss Accounts and Balance Sheets for the years ended 31 December Year 2 and Year 3.

	Year 2	**Year 3**
	£000s	**£000s**
Turnover	900	1,575
Gross Profit	450	690
Operating Profit	180	380
Net Profit before Tax	120	366
Net Profit after Tax	95	261
Dividends:		
Ordinary Share	45	68
Preference Share	36	54
Fixed Assets (Net)	850	1,735
Stocks	75	162
Debtors	99	254
Bank		45
Creditors	60	60
Corporation Tax	45	105
Bank Overdraft	15	
10% Debentures (Year 3–6)		300
£1 Ordinary Shares	400	1,050
£1 Preference Shares	375	528
Retained Profit	129	153

In addition you are provided with the following information.

The figures taken from the balance sheets for stocks, debtors and creditors are typical of the balances held throughout each year. All purchases and sales are on credit.

Accountants use ratios to analyse the performance, efficiency and liquidity of a firm.

(*a*) Using the above information calculate appropriate ratios and comment on whether these indicate an improvement or deterioration, suggesting possible reasons for any changes.

NB Ratios should be calculated to **2 decimal places**. **32**

Marks

2. (continued)

The Dividend Yield for Year 3 has been calculated as 7·5%.

(*b*) For year 3 calculate:

(i) Market Price per Share (nearest 1p);

(ii) Earnings per Share;

(iii) Price Earnings Ratio;.

(iv) Dividend Cover. **8**

(40)

[Turn over

3. B Butler is a general dealer who started business on 1 January Year 2.

Equipment costing £35,000 was acquired on that date and depreciation is calculated at 10% per annum on cost.

A vehicle was acquired on 1 January Year 2 at a cost of £15,000 and an additional vehicle was purchased on 1 July Year 4 at a cost of £10,000. Depreciation is charged at 20% per annum on the written down value.

Depreciation on all assets is chargeable from date of purchase.

On 1 January Year 5 he had the following assets and liabilities.

Assets and liabilities	**£**
Equipment	?
Vehicles	?
Stock	14,920
Bank Overdraft	10,350
Debtors	11,350
Creditors	2,610
Lighting and Heating due	300

Below is a summary of the entries made in the cash book for the year ended 31 December Year 5.

Receipts	**£**
Cash Sales	28,240
Received from Debtors	18,830
Payments	
Wages	10,940
Rent and Rates	8,200
New Equipment purchased 1 July	2,000
Cash Purchases	4,200
Paid to Creditors	19,220
Drawings	15,000
Vehicle Running Expenses	4,860
Heating and Lighting	1,330

Marks

3. (continued)

The following additional information was provided on 31 December Year 5:

1 The stock of goods for resale was valued at £11,000.

2 Debtors and Creditors were £7,800 and £5,600 respectively.

3 Discounts received and allowed during the year amounted to £250 and £400 respectively.

4 Bad debts written off during the year amounted to £1,800. Butler decides to create a provision for doubtful debts of 5% per annum.

5 Amounts owing

Rent and Rates	£90
Heating and Lighting	£120

6 Vehicle running expenses prepaid £190.

(*a*) You are required to calculate:

(i) Butler's opening capital on 1 January Year 5; **9**

(ii) Total Sales for year ended 31 December Year 5; **6**

(iii) Total Purchases for year ended 31 December Year 5. **5**

(*b*) Using the above information prepare the Trading and Profit and Loss Accounts for the year ended 31 December Year 5 and the Balance Sheet at that date. **20**

(40)

[Turn over

Marks

4. (*a*) Outline the accounting steps to be taken when dissolving a partnership. **20**

(*b*) Discuss the possible sources of finance, other than issuing shares or debentures, a limited company may utilise when wishing to expand its business. **10**

(30)

5. (*a*) Discuss the procedures followed when setting a new Accounting Standard. **16**

(*b*) Discuss the main reasons for carrying out a Social Audit. **14**

(30)

[Turn over for Section B on *Page ten*

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SECTION B

You should attempt 3 questions from this section.

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

6. Andrew Automatons produces and sells toy robots. The following estimated information applies to the production and sale of toy robots for the 5 months ended 28 February Year 2.

- The list selling price will be £80 per unit to traditional retailers such as toy shops and large stores. From 1 October Year 1 Andrew began selling to online retailers at discounts from the list price.
- Sales (in Units) from 1 October Year 1 to 31 January Year 2.

	October	**November**	**December**	**January**
Traditional Retailers	4,000	5,000	5,000	1,000
Online (30% discount)	3,000	3,000	3,000	–
Online (50% discount)	–	–	–	3,000
Factory Shop (10% discount)	1,000	2,000	2,000	–

- Sales from 1 February Year 2 are expected to be 2,000 units per month in total.
- Traditional retailers pay within 1 month, whilst online retailers pay within 2 months. Factory shop sales are for cash.
- Bad debts will average 5% on all credit sales.
- Production Costs (per Unit):

Direct Materials	1·5 kg @ £14 per kg paid for 1 month after purchase
Labour	2 hours @ £9 per hour paid in month of production
Other Direct Costs	£5 per labour hour paid in month of production

- Stocks of toy robots will be maintained at 70% of the next month's sales until 31 December. From January Year 2 onwards stocks will be reduced to 20% of the next month's sales.
- Stocks of direct materials will be maintained at 25% of the next month's production requirements at all times.
- There will be no work in progress.
- Fixed Overheads will be £20,000 per month.

Marks

6. (continued)

(*a*) Prepare the following budgets for the 4 months ending 31 January Year 2.

(i) Sales Budget (in units and sales value from the various sources)

(ii) Production Budget

(iii) Production Cost Budget

(iv) Material Purchases Budget **35**

Additional information.

- Andrew has estimated that there will be an overdraft of £213,000 on 1 November Year 1.
- A loan of £100,000 along with interest at 10% is due for repayment in January Year 2.

(*b*) Prepare the Cash Budget for 3 Months from 1 November Year 1. **15**

(50)

[Turn over

Marks

7. Emily Enterprises manufactures a single product 'Little Darling'. The following data apply to Years 1, 2 and 3.

Little Darling (per Unit)	
Selling Price	£45
Costs:	
Direct Materials	£10
Direct Labour	£10
Variable Costs	£5

Fixed costs are £4 per unit at the normal production level of 8,000 per annum.

	Units
Closing Stock	
Year 1	800
Sales	
Year 2	7,000
Year 3	9,000
Production	
Year 2	6,400
Year 3	9,400
Actual Annual Fixed Costs	
Year 2	£33,000
Year 3	£31,000

(*a*) Prepare statements to show the profit earned in each of Years 2 and 3 using:

(i) Marginal Costing;

(ii) Absorption Costing.

You should indicate the over or under-absorption of Fixed Costs where necessary. **28**

7. (continued)

In Year 4 Emily wishes to increase her sales to 10,000 units and earn a minimum of £160,000 profit (using marginal costing).

She plans to:

- reduce her selling price to £40;
- reduce stocks to 400 units;
- employ efficiency measures to reduce the marginal cost per unit of production.

Fixed costs in Year 4 are expected to be £40,000.

(*b*) (i) Assuming Emily proceeds with the above plan, calculate, using marginal costing, the profit she can expect to make in Year 4 **before employing efficiency measures to reduce marginal costs**.

(ii) Calculate the saving per unit in marginal costs which would be required to achieve Emily's target profit of £160,000 in Year 4.

(Your answer should be given to the nearest 1p) **12**

(40)

[Turn over

Marks

8. Read the following and answer **on the worksheet provided**.

McLaughlin Ltd uses standard costing. The following data relate to Year 1.

	Budget	**Actual**
Revenues:		
Sales	£700,000	£884,000
Selling Price per unit	£35	£34
Costs:		
Direct Materials		
Kg per unit	0·5	–
Price per kg	£10	–
Materials consumed	–	13,000 kg
Total material cost	–	£128,700
Direct Labour		
Hours per unit	1·2	
Cost per hour	£12	
Hours worked		32,000
Total labour cost		£400,000
Overheads		
Variable	£40,800	£45,000
Fixed	£50,400	£70,000

All overheads are recovered at a rate per direct labour hour.

(*a*) Calculate the budgeted profit for Year 1. **4**

(*b*) Calculate the actual profit for Year 1. **4**

(*c*) Calculate the standard cost for actual sales for Year 1. **4**

(*d*) Calculate the variances and complete the Standard Costing Profit Statement for Year 1. **28**

(40)

Marks

9. Marginal costing techniques are used in decision making.

(*a*) Describe the role of marginal costing and the factors to be considered in making decisions in respect of:

(i) Special Orders;

(ii) Making or buying component parts for a product;

(iii) Factors which limit production;

(iv) Product pricing. **14**

There are a number of assumptions which have to be made when conducting a break even analysis.

(*b*) Discuss these assumptions and their basic flaws. **10**

(*c*) Explain how a break even analysis is conducted in a multi-product situation. **6**

(30)

10. (*a*) Describe the circumstances under which it would be appropriate to use Process Costing. **10**

(*b*) Discuss the effects on the cost per unit produced of each of the following and describe how they are dealt with in a process costing system.

(i) Waste and Scrap

(ii) Normal and Abnormal Losses

(iii) Joint Products and By-products

(iv) Work in Progress **20**

(30)

[*END OF QUESTION PAPER*]

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2015

MONDAY, 18 MAY
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ACCOUNTING
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Worksheet for Question 8

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 Worksheet for Question 8 need only be completed if the question is attempted.

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

WORKSHEET FOR QUESTION 8

You should answer all of Question 8 on this worksheet.

8. (*a*) **Budgeted Profit Statement**

(*b*) **Actual Profit Statement**

(*c*) **Standard Cost of Actual Sales**

8. (continued)

(*d*) **Variances**

[Turn over for Profit Statement

8. (*d*) (continued)

Standard Costing Profit Statement			
	£	£	£
Standard (Budgeted) Sales			
Sales Variances	Favourable	Adverse	
Price			
Volume			
Actual Sales			
Less Standard Cost of Actual Sales			
Standard Profit for Actual Sales			
Cost Variances	Favourable	Adverse	
Material Price			
Material Usage			
Labour Rate			
Labour Efficiency			
Variable Overhead Expenditure			
Variable Overhead Efficiency			
Fixed Overhead Volume			
Fixed Overhead Expenditure			
Net Variance			
Actual Profit			

[*END OF WORKSHEET*]