National Qualifications 2016

X700/77/11 Accounting

TUESDAY, 31 MAY

9:00 AM – 11:30 AM

Total marks — 140

SECTION 1 — 120 marks

Attempt ALL questions.

SECTION 2 — 20 marks

Attempt **EITHER** Question 4 or 5

You may use a calculator.

All working should be shown fully, and clearly labelled. Any incorrect figures not supported by adequate working will receive no marks.

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.

MARKS

SECTION 1 — 120 marks

Attempt ALL questions

1. **PART A**

Jacobsen plc is a manufacturing firm which has just started up in business. The company has provided the following unit data:

	Per Unit
Selling Price	£45
Material Cost	£14
Labour Cost	£18
Variable Overhead	£6

Sales and Production information for the first three months of Year 1 are as follows:

	January	February	March
Sales in units	3,800	4,900	5,000
Production in units	4,500	5,200	4,600

Fixed Overhead information is as follows:

Estimated Fixed Overheads per annum:		£105,000
(*based on expected annual production of 60,000 units*)		
Actual Fixed Overheads:	January	£8,000
	February	£9,000
	March	£8,500

(a) Calculate the Opening and Closing Inventory for January to March. **3**

(b) Prepare a month by month Profit Statement for January to March using Marginal Costing. **10**

(c) Prepare a month by month Profit Statement for January to March using Absorption Costing. **17**

MARKS

PART B

Elrick Subsea plc is considering investing in two mutually exclusive projects. It has calculated the following financial information for each project:

	YEAR	PROJECT 1	PROJECT 2
Initial Cost		£200,000	£200,000
Additional Cost	2	£10,000	
Net Cash Inflows	1	£110,000	£95,000
	2	£65,000	£54,000
	3	£50,000	£76,000
	4	£47,000	£38,000

Cost of borrowing for the firm is 10%.

DISCOUNT TABLE (FROM 10% TO 15%)						
Present Value of £1 received after n years discounted at i%						
i	10	11	12	13	14	15
n						
1	0·909	0·901	0·893	0·885	0·877	0·870
2	0·826	0·812	0·797	0·783	0·769	0·756
3	0·751	0·731	0·712	0·693	0·675	0·658
4	0·683	0·659	0·636	0·613	0·592	0·572
5	0·621	0·593	0·567	0·543	0·519	0·497

(a) Calculate the Net Present Value for each project. **10**

(b) Calculate the internal rate of return for both projects. **8**

(c) Based on your findings in part (b), advise Elrick Subsea plc in which project to invest. **2**

[Turn over

2. The following information has been extracted from the accounts of Anwar Logistics for the financial year ended 31 December Year 4:

1. Changes in Non-Current Assets

	Property £000	Equipment £000	Vehicles £000
Acquisitions & Disposals			
Purchases	400	220	560
Sales	–150	–80	–130
Provisions for Depreciation			
Written off to Income Statement	–	80	120
On Sales	–	–45	–85
Revaluation of Assets			
Increase in value	145		

2. Sales receipts of Non-Current Assets

	£000
Property	195
Equipment	20
Vehicles	35

3. An analysis of the Statement of Financial Position for the last two years showed the following:

	31 December Year 3	31 December Year 4
Tax and Debentures	£000	£000
Corporation Tax Owing	49	41
Debenture Interest Due	16	8
5% Debentures*	180	220

* Note – Debentures were issued on 1 July Year 4

Current Assets and Liabilities	£000	£000
Inventory	55	43
Trade Receivables	24	31
Trade Payables	27	18

MARKS

2. (continued)

4. During Year 4, Anwar Logistics had the following share issue:

   Number of Ordinary Shares issued – 200,000
   Par Value of Shares – 50p per share
   Issue Price – 80p per share

5. The Income Statement and Statement of Retained Earnings for the year ended 31 December Year 4 showed the following:

	£000
Debenture Interest	?
Ordinary Dividends Paid	45
Corporation Tax	90
Opening Retained Earnings	200
Closing Retained Earnings	515

(a) Using the Worksheet provided and the above information, prepare, in accordance with IAS 7, a Statement of Cash Flows for Anwar Logistics for the year ended 31 December Year 4. **38**

(b) Outline 2 circumstances where a business entity does not have to produce a Statement of Cash Flows. **2**

[Turn over

MARKS

3. Ury plc is a house building firm specialising in the construction of 3 and 4 bedroom kit houses. Two contracts were started during Year 1: Contracts Crichie and Davah.

The following information was available on 31 December Year 1.

Contract – Crichie

	£000s
Contract price	920
Kits imported	200
Shipping cost for kits	13
Materials purchased	80
Material issued from stores	23
Material transferred to Contract Davah	8
Direct wages paid	140
Direct site expenses paid	51
Plant and machinery sent to site (at valuation)	100
Sub contract costs	43
Professional architects fees	12
Balances at 31 December:	
Work completed but not yet certified	40
Work certified complete	690
Value of Plant and machinery on site	75
Direct wages accrued	12
Direct expenses prepaid	3
Materials on site	6

1. During the year materials costing £20,000 were damaged on site, 25% of which were scrapped and sold for 40% of the value. The remainder were disposed of at no cost.
2. Company overheads costing £90,000 are to be shared out on a Prime Cost basis between Contract Crichie and Davah. Contract Davah had Prime Cost of £400,000.
3. Any profits on incomplete contracts are recognised using the formula:
   - Notional Profit × Value of Work Certified/Contract Price
4. All contracts allow house purchasers to retain 5% of the value of work certified for a period of 1 year after the completion date.

(a) Prepare the account for Contract Crichie at 31 December Year 1, showing your calculation and treatment of any profit or loss. **23**

(b) (i) Calculate the amount paid to date to Ury plc by its clients for Contract Crichie. **2**

(ii) Explain why the clients do not pay the full amount due at the completion date. **2**

(c) Explain the significance of establishment costs to a firm beginning a new contract. **3**

MARKS

SECTION 2 — 20 marks

Attempt EITHER question 4 OR question 5

4. Reid plc uses a standard costing system. The budget for the month of April is shown below:

Budgeted output	8,000 units

Budgeted costs per unit

Direct Material	1·2 kg at £4 per kg
Direct Labour	8 hours at £9 per hour
Fixed Overheads	£1 per direct labour hour
Variable Overheads	£1·5 per direct labour hour

At the end of April the following figures were available:

Actual output	10,000 units

Actual costs

Material	14,000 kg at £3·80 per kg
Labour	64,000 hours at £10 per hour
Fixed overheads	£70,000
Variable overheads	£104,000

Calculate the following variances:

(a) (i) Total material; **2**

(ii) Materials usage, **2**

(iii) Material Price; **2**

(b) (i) Total Labour; **2**

(ii) Labour Efficiency; **2**

(iii) Labour Rate; **2**

(c) (i) Fixed Overhead Volume; **2**

(ii) Fixed Overhead Expenditure; **2**

(d) (i) Variable Overhead Efficiency; **2**

(ii) Variable Overhead Expenditure **2**

[Turn over

5. Torvill plc made a partial acquisition of Dean plc on 1 April Year 1. Information at that date was as follows:

Price per share paid by Torvill plc		£2·20
Number of shares purchased by Torvill plc		63,000
£1 Ordinary Shares	– Torvill	£380,000
	– Dean	£90,000
Share Premium	– Torvill	£30,000
	– Dean	£3,000
Retained Earnings	– Torvill	£28,500
	– Dean	£9,000

(a) Calculate the goodwill arising at the date of acquisition. **4**

(b) Prepare the Equity section of the Consolidated Statement of Financial Position of Torvill and Dean group at the date of acquisition. **3**

Year 4 Information:

Statement of Financial Position as at 31 December

	Torvill plc		**Dean plc**	
	£	£	£	£
Non-Current Assets				
Tangible Assets		357,800		102,800
Investment in Dean plc		138,600		
		496,400		102,800
Current Assets				
Inventories	26,500		12,200	
Trade Receivables	18,500		13,700	
Cash & Cash Equivalents	9,800		3,100	
		54,800		29,000
TOTAL ASSETS		**551,200**		**131,800**
Current Liabilities				
Trade Payables	14,400		9,600	
Other Payables	1,600		800	
	16,000		10,400	
Non-Current Liabilities				
10% Debentures	50,000		10,000	
TOTAL LIABILITIES		**66,000**		**20,400**
NET ASSETS		**485,200**		**111,400**
Equity				
Ordinary Shares (£1)		380,000		90,000
Share Premium		30,000		3,000
Retained Earnings		75,200		18,400
TOTAL EQUITY		**485,200**		**111,400**

MARKS

5. (continued)

The following information is also available:

(1) An Impairment Review on 30 November Year 4 reduced the value of Goodwill by 20%. (Note – this was the first impairment review to reduce the value of goodwill).

(2) During the year, Torvill sold goods to Dean. Details are as follows:

Cost of sales:	£8,000
Torvill's Profit Margin on sales:	20%
Percentage sold by Dean:	40%

(3) There is an inter-company debt included in the Statement of Financial Position as follows:

Amount in Torvill's Trade Receivables owed by Dean:	£3,500
Amount in Dean's Trade Payables owed to Torvill:	£2,900

Note – there is a cheque payment in transit.

(c) Calculate the following for inclusion in the Consolidated Statement of Financial Position of Torvill and Dean Group for the year ended 31 December Year 4:

(i) Post-Acquisition Profits **3**

(ii) Unrealised Profits **3**

(iii) Cash in Transit **1**

(iv) Trade Receivables **2**

(v) Retained Earnings **4**

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FOR OFFICIAL USE

National
Qualifications
2016

Mark

X700/77/01

Accounting
Answer Booklet

TUESDAY, 31 MAY

9:00 AM – 11:30 AM

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Fill in these boxes and read what is printed below.

Full name of centre

Town

Forename(s)

Surname

Number of seat

Date of birth

Day Month Year

Scottish candidate number

Write your answers clearly in this answer booklet. You must clearly identify in the margin the question number you are attempting.

A worksheet for Question 2 is included on *Page 02*.

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

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

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Worksheet for Question 2

Statement of Cash Flows for Anwar Logistics for y/e 31 Dec Year 4

CASH FLOWS FROM OPERATING ACTIVITIES	£000	£000
Operating profit		
Adjustments for:		
Operating cash flow before working equity changes		
Cash generated from operations		
Net cash from operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Net cash used in financing activities		
Net increase/decrease in cash and cash equivalents		

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Working for Question 2

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Question No	Marks/Grades	