H

National
Qualifications
2016

X700/76/11 Accounting

TUESDAY, 31 MAY

9:00 AM – 11:00 AM

Total marks — 100

SECTION 1 — 40 marks

Attempt THIS 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.

MARKS

SECTION 1 — 40 marks

Attempt THIS question

1. Elegant Enterprises plc is currently operating at 80% of its machine capacity in the manufacture of three different types of chair. The following information for each product is available for the year ended Year 1.

Unit Information	**Basic**	**Delux**	**Super Delux**
Selling Price	£150	£200	£260
Variable Costs			
– Materials	£60	£80	£110
– Labour	£40	£60	£80
– Variable Overheads	?	?	?
Machine Hours	2 hrs	5 hrs	5 hrs
Units Produced	5000	5500	6500

Variable overheads are charged to each product at the rate of £5 per machine hour.

Fixed costs are currently £450,000.

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

(i) the total number of machine hours currently being used by Elegant Enterprises plc in Year 1; **3**

(ii) the total profit being earned by Elegant Enterprises plc at the current level of production. **5**

In Year 2 Elegant Enterprises plc will work at full machine capacity and it is anticipated that the demand for each of the 3 products will be:

Basic – 6,500 units
Delux – 7,500 units
Super Delux – 8,000 units

Fixed costs will rise by 20%.

(b) Using the information for Year 2, **calculate**:

(i) the number of machine hours available at full capacity; **1**

(ii) the quantity of each product to be produced at full capacity if profits are to be maximised; **6**

(iii) Total Profit. **5**

1. (continued)

At the start of Year 3 Elegant Enterprises plc plans to introduce a new product called Ultimate Delux. The company will invest in new machinery, which will increase total machine capacity by 20%. Fixed costs will rise by a further £45,000. Variable overheads will be recovered at the same rate as in the previous 2 years. The information per unit is as follows.

Selling Price	£300
Material Cost	£175
Labour	£60
Machine hours	5 hours

Demand for the new product, Ultimate Delux will be 5,500 units, while the demand for the other 3 products will remain the same as in Year 2.

(c) **Calculate** the maximum possible profit that could be earned during Year 3 by Elegant Enterprises and advise the company whether or not it should introduce the new product. **12**

(d) During Year 4, a special order of 2,000 units of Ultimate Delux at a reduced price of £280 per unit is being considered. The factory will continue working at full capacity and demand for the company's products will remain the same as before. All other costs and prices remain unchanged. **Calculate** the new profit and advise whether or not the special order should be accepted. **6**

(e) **Explain** the meaning of the term opportunity cost. **2**

[Turn over

SECTION 2 — 60 marks

Attempt ALL questions

2. Kowolski Ltd has 5 departments for which the following estimates have been made for May.

	Machining	Assembly	Finishing	Canteen	Maintenance
Overheads Apportioned	£26,000	£66,400	£20,000	£16,000	£18,000
Direct Machine Hours	22,000	10,000	4,000	0	4,000
Direct Labour Hours	6,000	14,000	20,000	5,000	0
Direct Materials	£100,000	£38,200	£30,000	0	£14,000
No of employees	28	20	16	8	10

(a) (i) Re-apportion the overheads of the maintenance department based on direct machine hours. **3**

(ii) Re-apportion the overheads of the canteen based on number of employees. **2**

(b) **Calculate** the overhead recovery rate for each of the production departments on the following basis:

(i) Machining – per direct machine hour; **1**

(ii) Assembly – percentage of direct material cost; **1**

(iii) Finishing – direct labour hours. **1**

MARKS

2. **(continued)**

At the end of May the actual results for each department were:

- Machining – direct machine hours were 24,000
- Assembly – direct material cost was £35,000
- Finishing – direct labour hours were 17,500

Actual Overheads for May were:

- Machining – £43,800
- Assembly – £74,500
- Finishing – £23,800

(c) **Calculate** for each department the amount of overhead over or under absorbed. **4**

The following information relates to Job 33C.

	Machining	Assembly	Finishing
Material Cost	£80	£40	£4
Direct Machine Hours	20	8	2
Direct Labour Hours	6	12	10
Labour rate (per hour)	£12	£8	£8·50
Overheads	?	?	?

(d) **Calculate** the selling price to be charged for Job 33C if a profit margin of 20% is expected. **7**

(e) **Explain** the difference between "apportionment" and "allocation" of overheads. **1**

[Turn over

3. The following information was extracted from the books of Garioch Manufacturing plc for the year ended 31 December Year 8.

	£000
Inventory (Stocks) – 1 January Year 8:	
Raw Materials	20
Work in Progress	35
Finished Goods	15
Purchases:	
Raw Materials	160
Finished Goods	70
Purchase Returns – Raw Materials	15
Carriage in on Finished Goods	2
Wages:	
Production	95
Warehouse	30
Factory Repairs	10
Factory Rates	12
Royalties	52
Advertising	8
Salaries	44
General Expenses	24
Lighting and Heating	20
Insurance	17
Factory Machinery (at cost)	120
Vehicles (at cost)	50
Provision for Depreciation at 1 January Year 8:	
Factory Machinery	20
Vehicles	10
Trade Receivables (Debtors)	22
Bad Debts	5
Sales Revenue (Sales) of Finished Goods	640
Sales Revenue Returns (Sales Returns) of Finished Goods	20
Selling Expenses	4

MARKS

3. **(continued)**

NOTES AT 31 DECEMBER YEAR 8:

1 Inventory (Stocks):

Raw Materials	£22,000
Work in Progress	£26,000
Finished Goods	£19,000

2 Production wages payable (due) £5,000.

3 Lighting and Heating and Insurance are to be apportioned between the Factory and the Office in the ratio of 3:2 after taking into account receivable (prepaid) insurance of £2,000.

4 The salaries are to be apportioned between the Factory and the Office in the ratio of 3:1.

5 The Factory is to be charged with 75% of the General Expenses with the remainder being charged to the Office.

6 Depreciation per annum is to be provided for as follows:

- Factory Machinery – 20% of the reduced balance.
- Vehicles – 10% on cost – vehicles are used 80% for delivery of finished goods and 20% for the factory.

7 Production of finished goods for the year amounted to 100,000 units. These are to be transferred to the warehouse at their market value of £4·60 per unit.

(a) **Prepare** the Manufacturing Account for the year ended 31 December Year 8 using the relevant information. **13**

(b) **Prepare** the trading section of the Income Statement (Trading Account) for the year ended 31 December Year 8. **6**

(c) **Explain** how the Manufacturing Profit is treated in the Financial Statements. **1**

[Turn over for next question

MARKS

4. On 1 January Year 1, Claire McKay and Sean Cahill went into a business partnership with equity (capital) of £50,000 and £25,000 respectively.

(a) A Partnership Agreement with the following conditions was drawn up at the commencement of their business.

- Interest on equity (capital) will be paid at 5% per annum.
- Each partner will take 20% of their equity (capital) invested each year as drawings.
- Interest on drawings is 2% per annum.
- Claire McKay will be paid a salary of £5,000 per annum.
- Sean Cahill has provided the business with a long term loan of £20,000. He will receive annual interest of 4%.
- Profits are to be shared in the ratio of equity (capital) invested.

For the year ended 31 December Year 1 the business earned a Profit for the Year (Net Profit) of £35,000.

From the above information you are required, for year ended 31 December Year 1, to **prepare** the:

(i) Partnership Appropriation Account; **6**

(ii) Current Account of each partner. **5**

(b) On 1 January Year 2, Claire and Sean decide to admit Rachael Young as a new partner subject to the following conditions.

Prior to Rachael's admission, assets of the existing partnership will be revalued as outlined below.

Asset	Old Value	New Value
Property	£19,400	£26,000
Machinery	£18,000	£14,400
Delivery Vans	£12,000	£10,000
Inventory (Stock)	£28,000	£20,000

- Professional revaluation costs amount to £2,000.
- Goodwill is estimated at £12,000 and is to be written off against the Equity (Capital) Accounts of the new partnership.
- Rachael will invest £25,000 as Equity (Capital) in the partnership.
- Rachael will receive 25% share of profits and Claire and Sean will continue to share the remainder in the same proportions as before.

Calculate for the new partnership:

(i) the surplus/deficit on the revaluation of assets; **4**

(ii) the new profit sharing ratios for all 3 partners; **1**

(iii) the updated equity (capital) balances for Claire McKay, Sean Cahill and Rachael Young. **4**

[END OF QUESTION PAPER]