National Qualifications 2017

X700/77/11 Accounting

WEDNESDAY, 24 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.

X7007711

MARKS

SECTION 1 — 120 marks

Attempt ALL questions

1. The following information relates to Emlu plc for Year 3.

	Budget	**Actual**
Costs		
Materials: Quantity (kg)	50,000	55,000
Price per kg	£5·00	£4·50
Direct labour: Hours	25,000	28,000
Total Cost	£150,000	£210,000
Variable overhead	£50,000	£49,000
Fixed overhead	£80,000	£98,000
Revenues		
Production/Sales in Units	20,000	24,000
Selling price per unit	£80	£70

Variable overheads are recovered as a rate per direct labour hour.
Fixed overheads are recovered as a rate per unit produced.

(a) Calculate the budgeted profit for Year 3. **4**

(b) Calculate the actual profit for Year 3. **4**

(c) Calculate the total standard cost of actual sales for Year 3. **4**

(d) Calculate the following variances.

(i) Sales Price; **2**

(ii) Sales Volume; **2**

(iii) Total Sales Revenue; **2**

(iv) Materials Price; **2**

(v) Materials Usage; **2**

(vi) Total Materials Cost; **2**

(vii) Labour Rate; **2**

(viii) Labour Efficiency; **2**

(ix) Total Labour Cost; **2**

(x) Variable Overhead Expenditure; **2**

(xi) Variable Overhead Efficiency; **2**

MARKS

Question 1 (d) (continued)

(xii)	Total Variable Overhead Cost;	**2**
(xiii)	Fixed Overhead Expenditure;	**2**
(xiv)	Fixed Overhead Volume;	**2**
(xv)	Fixed Overhead Cost.	**2**

(e) For each of the following variances explain a reason for why it has occurred:

(i)	Sales Price;	**1**
(ii)	Sales Volume;	**1**
(iii)	Materials Price;	**1**
(iv)	Materials Usage;	**1**
(v)	Labour Rate;	**1**
(vi)	Labour Efficiency;	**1**
(vii)	Fixed Overhead Volume;	**1**
(viii)	Fixed Overhead Expenditure.	**1**

[Turn over

2. The following ledger balances are taken from the accounts of Orbit plc at 31 December Year 4:

	£000	**£000**
Property	3,000	
Equipment	780	
Provision for Depreciation: Equipment		150
Goodwill	225	
£1 Ordinary Shares		1,200
10% Debentures		700
Sales Revenue		4,260
Purchases	1,450	
Employee Costs	550	
Other Operating Expenses	360	
Carriage Out – Hire of Delivery Vans	305	
Trade Receivables	410	
Trade Payables		260
Investments (Market Value)	490	
Cash & Cash Equivalents	103	
Share Premium		230
Income from Investments		28
Investment Revenues (Bank Interest)		4
Advertising & Promotion	147	
Debenture Interest	50	
Inventory at 1 January Year 4	198	
Ordinary Dividend Paid	48	
Directors Remuneration	311	
Discount Allowed	19	
Discount Received		26
Revaluation Reserve		670
Retained Earnings at 1 January Year 4		918
	8,446	8,446

MARKS

2. **(continued)**

The following additional information is also available:

(1) Inventory at 31 December Year 4 is £142,000.

(2) Audit Fee outstanding: £22,000
Employee Costs outstanding: £50,000
Other Operating Expenses paid in advance: £10,000

(3) Corporation Tax for the year (estimate): £477,000.

(4) The following expenses are to be split as follows:

	Cost of Sales	Administration	Selling and Distribution
Employees Costs	30%	10%	60%
Other Operating Expenses	20%	40%	40%

(5) The sale of some surplus equipment at the year-end has not yet gone through the books. Details are as follows:

Original Cost:	£100,000
NBV at date of sale:	£30,000
Sale proceeds:	£25,000

(6) Equipment depreciation for the year is to be charged at 10% of the reduced balance. It is to be split between Selling and Distribution Expenses and Administration Expenses in the ratio of 4:1.

(7) A property revaluation took place and as a result the value of all property held is to rise by 6%.

(8) After an impairment review, goodwill is to be written down by £45,000.

In accordance with IAS 1, Presentation of Financial Statements, prepare the following for Orbit plc:

(a) An Income Statement for the year ended 31 December Year 4. **17**

(b) A Statement of Retained Earnings for the year ended 31 December Year 4. **2**

(c) A Statement of Financial Position as at 31 December Year 4. **21**

[Turn over

MARKS

3. Watt plc produces 3 products: A, B and C.

The following overheads relate to period 3:

Receipts of raw materials	£10,000
Machining	£48,000
Machinery set up costs	£18,000
Inspection costs	£12,000
Despatch costs	£8,000

Overheads are currently absorbed using a factory wide rate based on machine hours.

The following data relates to the 3 products manufactured by Watt plc:

	A	B	C
Production and sales in units	6,000	2,000	12,000
Direct costs per unit (£)	60	50	40
Machine hours per unit	10	6	4
Number of production runs	12	10	8
Number of purchase requisitions	24	16	60
Number of orders	40	35	25

(a) Using the current method of overhead absorption, calculate the overhead cost per unit of products A, B and C. **7**

(b) Using Activity Based Costing, calculate the cost per unit.

- Receipts of raw materials are based on purchase requisitions
- Machining costs are based on machine hours
- Machinery set up costs are based on the number of production runs
- Inspections costs are based on the number of production runs
- Despatch costs are based on the number of orders **21**

(c) Describe **2** advantages of applying Activity Based Costing rather than the traditional method of absorbing overheads to production units. **2**

MARKS

SECTION 2 — 20 marks

Attempt EITHER question 4 OR question 5

4. Brahan plc manufactures office chairs for business and has identified an opportunity for expansion overseas which will allow it to increase production.

Normal UK production is 15,000 chairs per year.

The new overseas market could provide demand for an increase of up to 20%.

UK production would be unaffected by the overseas market.

Brahan plc normally charges £80·00 per chair. In order to take advantage of the new overseas market it will have to reduce its selling price by 20%.

Shipping charges would apply as follows:

Shipping quantity 1 to 2,000 – £10 per chair
Shipping quantity greater than 2,000 – £8 per chair (applied to full shipment)

The production costs are estimated below:

Materials per chair	£15·00
Machine labour	2 hours at £8 per hour
Manual labour	1 hour at £12 per hour
Factory overheads	£1·50 per machine hour
Power	£0·75 per chair
Fixed overhead costs per year:	
Rates	£12,000
Depreciation of machinery	£35,000
Light and heat	£15,000
Salaries	£60,000
Maintenance of machinery	£10,000

(a) Calculate the number of chairs produced at 100%, 110%, and 120% of normal production. **1**

(b) (i) Produce a statement showing the total costs of production at each level of production. **14**

(ii) Calculate, correct to **2** decimal places, the cost per chair at each level. **1**

(c) Calculate the net cash flow for each level of production. **4**

[Turn over

5. The following are the Statements of Financial Position of Kingdom plc as at 31 December Year 4 and Year 5:

	31 December Year 4		**31 December Year 5**	
	£000	**£000**	**£000**	**£000**
Non-Current Assets				
Tangible Assets		265		325
Investments		44		87
		309		412
Current Assets				
Inventories	291		234	
Trade Receivables	127		210	
Cash & Cash Equivalents	55		–	
		473		444
Total Assets		**782**		**856**
Current Liabilities				
Trade Payables	59		43	
Other Payables	23		28	
Bank Overdraft	–		30	
Taxation payable	17		24	
	99		125	
Non-Current Liabilities				
10% Debentures	120		80	
Total Liabilities		**219**		**205**
Net Assets		**563**		**651**
EQUITY				
Ordinary Shares	200		250	
8% Preference Shares	150		90	
Retained Earnings	163		211	
Share Premium Account	50		100	
Total Equity		**563**		**651**

The following information is also available:

(1) The Tangible Assets figures are net of depreciation. Aggregate depreciation for both years is as follows:

Year 4	Year 5
£000	£000
70	95

(2) Tangible Assets were sold during year 5. Details were as follows:

	£000
Cost of Tangible Assets sold	40
NBV of Tangible Assets sold	25
Sales Receipts of Tangible Assets sold	21

(3) Investments were sold during year 5. Details were as follows:

	£000
Cost of Investments sold	35
Profit on sale of Investments	13

Question 5 (continued)

(4) The redemption of Debentures took place on 31 December Year 5.

(5) Included in Other Payables in the Current Liabilities section is Debenture Interest owing. The amounts are as follows:

Year 4	Year 5
£000	£000
11	6

(6) Profit for the Year for Year 5 was £86,000.

(a) Calculate the following figures which should appear in the Statement of Cash Flows:

(i) Operating Profit; **2**

(ii) Debenture Interest Paid; **3**

(iii) Purchase of Investments; **3**

(iv) Depreciation of Tangible Assets; **4**

(v) Net increase/(decrease) in cash and cash equivalents; **1**

You must indicate an increase or decrease in your answer.

(b) Calculate the Working Equity changes, indicating clearly if each calculation represents a cash inflow or cash outflow. **5**

(c) Outline why a loss on the sale of a Non-Current Asset would be added to Operating Profit in the Statement of Cash Flows. **2**

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