H

National
Qualifications
2022

X800/76/11 Accounting

MONDAY, 30 MAY

9:00 AM – 11:30 AM

Total marks — 120

SECTION 1 — 80 marks

Attempt ALL questions.

SECTION 2 — 40 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.

X8007611

SECTION 1 — 80 marks

Attempt ALL questions

1. The following balances were extracted from the ledger of Glengordon plc on 31 December Year 9.

Trial Balance as at 31 December Year 9

	£000	£000
1,200,000 Ordinary Shares of £0.50 each		600
240,000 5% Preference Shares of £1 each		240
Share Premium		100
Investments (Market Value £300,000)	260	
10% Debentures (Year 12)		120
Unappropriated Profit at 1 January Year 9		16
Sales Revenue		1,104
Sales Revenue Returns	60	
Inventory at 1 January Year 9	68	
Purchases	480	
General Expenses	200	
Bad Debts	44	
Advertising	74	
Finance Cost – Debentures	10	
Directors’ Fees	96	
Dividend on Ordinary Shares	32	
Dividend on Preference Shares	12	
Property at cost	320	
Machinery at cost	480	
Delivery Vans at cost	70	
Goodwill	24	
Trade Receivables	222	
Trade Payables		43
VAT		111
Provisions for Depreciation at 1 January Year 9:		
Machinery		48
Delivery Vans		20
Provision for Doubtful Debts at 1 January Year 9		14
Cash and Cash Equivalents		12
Dividends on Quoted Investments		24
	£2,452	**£2,452**

MARKS

1. **(continued)**

NOTES at 31 December Year 9

1. Inventory was valued at £101,000.
2. Provide for depreciation for the year as follows:
   - Machinery at 15% on cost
   - Delivery Vans at 20% using the reducing balance method.
3. Property is to be revalued at £340,000.
4. Audit Fees amounting to £12,000 is payable.
5. Advertising included £4,000 for a campaign due to begin on 1 January Year 10.
6. The Provision for Doubtful Debts is to be £11,000.
7. During Year 9 a Bonus Issue of Ordinary Shares was made on the basis of one share for every 40 held. This issue was financed by a transfer from the Share Premium Account and is still to be recorded.
8. Entries are required to record the following transaction:

   A cheque has been received for £8,000 from a customer who has been declared bankrupt. This sum represents a payment of 20p in the £. The remaining balance is to be written off as a bad debt.
9. A further £16,000 of Dividend on Quoted Investments has been awarded but not yet received.
10. Provide for Corporation Tax on profits at 25%.
11. The Directors propose to write Goodwill down by one third.

(a) Prepare the:

  (i) Income Statement for the year ended 31 December Year 9. **18**

  (ii) Statement of Financial Position as at 31 December Year 9. **20**

(b) Outline **2** duties of a financial accountant. **2**

[Turn over

MARKS

2. Anderson and Ogilvie are in partnership and estimate the following data for January to June Year 3.

	January	February	March	April	May	June
Production Units	2,000	2,400	2,800	3,200	3,600	4,000

The closing inventory for each month is estimated to be 30% of the following month's production.

Production in July Year 3 was 2,500 units.

(a) Prepare the Sales Budget for the 6 months January–June Year 3. **5**

The following information is also available.

1. Cash and Cash Equivalents balance at 28 February Year 3 is expected to be £20,000.
2. The retail selling price per unit is £28.
   - Credit sales are expected to be 50% of total sales.
   - 50% of all credit sales will be paid for one month after purchase and will receive a discount of 10%.
   - The remainder are expected to be paid for 2 months after sale, however, it is estimated that 5% of this amount will be written off as a bad debt.
3. Costs are as follows:
   - Materials – £12 per unit – payable in the month before production
   - Labour – £6 per unit – payable in the month of production.
4. A production bonus of £2 per unit, for units in excess of 2,700, is paid in the month following production.
5. Fixed and Variable Overheads in January are £8,800, of which £4,500 are fixed. The Fixed Overheads include £2,400 for depreciation. Variable Overheads **per unit** will remain constant throughout the period. 60% of the Variable Overheads are paid in the month of production and 40% will be payable in the month after production.
6. A vehicle owned by the business will be sold during the month of April. The purchase price of the vehicle was £15,000 and at the time of sale will have an expected net book value of £5,450. It will be sold for a profit of £350.
7. Anderson and Ogilvie agreed to introduce a new partner in May who will invest £40,000 equity which includes £5,000 as a premium for Goodwill.
8. In March the partnership will receive a loan of £12,000 from Anderson to purchase a new vehicle worth £22,000 (the vehicle will be bought in the same month). The loan, including interest of 6% per annum, will be repaid in 12 equal instalments starting in April.

(b) Prepare the Cash Budget for the 3 months March–May Year 3. **29**

(c) Outline **3** ways of improving a firm's liquidity. **3**

(d) Identify **3** steps that may be carried out on the admission of a new partner. **3**

SECTION 2 — 40 marks

Attempt ALL questions

3. On 1 January Year 4, Simpsons had an opening inventory of 300 kg of material K at £7.00 per kg. The following are the purchases and issues for material K for the month of January.

Date	Transaction	Unit	Price
3 January	Purchases	200 kg	£7.25
6 January	Issues	300 kg	
11 January	Purchases	200 kg	£7.50
16 January	Issues	250 kg	
25 January	Return of half of the goods purchased on 11 January due to faults		

(a) (i) Prepare the Inventory Record Card for material K, for the month of January Year 4, using the Weighted Average Method (AVCO). **6**

(ii) Describe **one** advantage and **one** disadvantage of using AVCO. **2**

Simpsons produce product Z. The following is the data for the month of January for Process 3, which combines 2 kg of material Y with 1 kg of material from Process 2.

From Process 2	1,000 kg at £10 per kg
Material Y	? kg at £6 per kg
Labour	500 hours at £10 per hour
Fixed Overheads	10% of Prime Cost
Variable Overheads	£4 per labour hour
Closing Work-in-Progress	600 kg at £7,550
Normal Loss	5% of total input quantity
Finished Output transferred to stores	2,200 kg

All losses are to be sold for £5 per kg.

(b) Prepare, for the month of January, the:

(i) Process 3 Account. **8**

(ii) Abnormal Loss Account. **4**

[Turn over

Formulae Sheet

Equity Gearing Ratio

(Preference Shares + Long-term Liabilities): Ordinary Shares

Dividend Yield

$$\frac{\text{Ordinary Dividend per share}}{\text{Market Price per share}} \times 100$$

Dividend Cover

$$\frac{\text{(Profit for the Year after Tax — Preference Share Dividend)}}{\text{Ordinary Share Dividend}}$$

Earnings per share

$$\frac{\text{(Profit for the Year after Tax — Preference Share Dividend)}}{\text{Number of Ordinary Shares}}$$

Price/Earnings Ratio

$$\frac{\text{Market Price per share}}{\text{Earnings per share}}$$

Interest Cover

$$\frac{\text{Profit for the Year before Interest and Tax}}{\text{Interest}}$$

MARKS

4. **PART A**

Duncan plc and Robinson plc have the following equity structures.

	Duncan plc	Robinson plc
	£000	£000
Issued Share Equity		
Ordinary Shares £0.50 each	1,000	1,600
10% Preference Shares £1 each	1,000	400
8% Debentures	1,000	600

(a) (i) Calculate the equity gearing ratio for each company. **3**

(ii) Justify which company would give the best return to Ordinary Shareholders in periods of high profit. **1**

At 31 December Year 3 Duncan plc:

- earned a profit of £300,000 (before tax and finance cost).
- will calculate Corporation Tax at the rate of 25%.

(b) Calculate, for Duncan plc **only**, the:

(i) Total profit available for distribution to the Ordinary Shareholders. **4**

(ii) Total dividend to be paid to Ordinary Shareholders if they wish to retain 20% of their profit within the company. **2**

(iii) Ordinary dividend per share (to 2 decimal places). **3**

(iv) Earnings per share (to 2 decimal places). **1**

For Duncan plc the Price/Earnings Ratio is 50 times.

(c) Calculate, for Duncan plc **only**, the market price per share (to 2 decimal places). **2**

4. **PART B**

Duncan plc plan to invest in one of the following projects, which both have an initial investment of £300,000 and a project life of 4 years. Project 1 will be worth 15% of its initial investment at the end of its life and project 2 will be worth 12%.

<u>Projected Net Cash Inflow</u> (excluding initial investment)

	Project 1	Project 2
Year 1	£102,000	£98,000
Year 2	£128,000	£134,000
Year 3	£107,000	£167,000
Year 4	£235,000	£215,000

Calculate the payback period (to the nearest day) for each project. **4**

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