

X209/701

NATIONAL
QUALIFICATIONS
2011

TUESDAY, 31 MAY
1.00 PM – 4.00 PM

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.



SECTION A

You should attempt 3 questions from this section:

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

1. ABC plc provides you with the following Profit and Loss Accounts for Year 1 and Year 2 and Balance Sheets as at 31 December Year 1 and Year 2.

Profit and Loss Accounts (£000s)

	YEAR 1		YEAR 2	
	£000	£000	£000	£000
Turnover		600		1,050
Gross Profit		300		460
Operating Profit		120		253
Interest Charges		—		9
Net Profit before Tax		120		244
Net Profit after Tax		90		174
Dividends:				
Ordinary Share	30		45	
Preference Share	<u>24</u>	<u>54</u>	<u>48</u>	<u>93</u>
Retained Profits		<u>36</u>		<u>81</u>

Balance Sheets

	YEAR 1		YEAR 2	
	£000	£000	£000	£000
Fixed Assets	600		1,230	
Less Depreciation	<u>50</u>	550	<u>110</u>	1,120
Current Assets				
Stocks	50		108	
Debtors	66		169	
Bank	<u>—</u>		<u>30</u>	
	116		307	
Creditors: due within 1 year				
Creditors	40		40	
Corporation Tax	30		70	
Bank Overdraft	<u>10</u>		<u>—</u>	
	<u>80</u>	36	<u>110</u>	197
		586		1,317
Creditors: due after 1 year				
Debentures				<u>200</u>
		<u>586</u>		<u>1,117</u>
Capital and Reserves				
£1 Ordinary Shares	300		700	
£1 Preference Shares	<u>250</u>	550	<u>300</u>	1,000
Profit and Loss		<u>36</u>		<u>117</u>
		<u>586</u>		<u>1,117</u>

1. (continued)

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

(a) Using the above information calculate for each year:

- (i) **three** ratios which measure business profitability;
- (ii) **four** ratios which measure business efficiency;
- (iii) **two** ratios which measure liquidity.

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

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(b) Using the ratios you have calculated evaluate the business performance of ABC plc.

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The Dividend Yield for Year 2 has been calculated as 5%.

(c) For Year 2 calculate:

- (i) Market Price per Share (to nearest 1p);
- (ii) Earnings per Share;
- (iii) Price Earnings Ratio;
- (iv) Dividend Cover.

8

(d) (i) Calculate the gearing ratio for each year.

- (ii) Discuss the effect **an increase** in the gearing ratio would have on the Ordinary Shareholders.

6

(50)

[Turn over

2. Part A

Wilson, Kepple and Bettie are in partnership sharing profits and losses in the ratio 3:2:1. The Balance Sheet of their business on 31 December Year 3 was as follows.

	£ At Cost	£ Aggregate Depreciation	£ Net Book Value
Fixed Assets			
Premises	50,000		50,000
Furniture	16,500	4,000	12,500
Motor Vehicles	40,000	16,000	24,000
	<u>106,500</u>	<u>20,000</u>	<u>86,500</u>
Current Assets			
Stock	36,000		
Debtors	18,000		
Bank	<u>12,600</u>	66,600	
Current Liabilities			
Creditors		<u>15,000</u>	<u>51,600</u>
			138,100
Loan from Wilson			<u>36,000</u>
			<u>102,100</u>
Financed by:			
Capital			
Wilson		45,000	
Kepple		30,000	
Bettie		<u>15,000</u>	90,000
Current accounts			
Wilson		7,000	
Kepple		6,200	
Bettie		<u>(1,100)</u>	<u>12,100</u>
			<u>102,100</u>

The partners decide to dissolve the partnership with effect from the above date. The details relating to the dissolution are as follows.

- 1 Premises were taken over by Wilson at a value of £48,000.
- 2 The furniture was sold at 75% of its net book value.
- 3 Kepple took over one of the firm's motor vans at a net book value of £4,000. The remainder were sold at auction for £17,500.
- 4 Stock sold realised £45,000.
- 5 Debtors were factored and realised 90% of their net book value.
- 6 The loan was repaid to Wilson.
- 7 Creditors were paid by cheque and allowed a discount of £2,000.
- 8 Realisation expenses amounted to £675.

2. Part A (continued)

You are required to prepare the following.

- (a) Realisation Account
- (b) Bettie's Capital Account
- (c) Bank Account

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Part B

The following financial information has been provided by Butler plc for the year ended 30 June Year 5.

- 1 Unappropriated profit for the year ended 30 June Year 5 was £60,000.
- 2 Analysis of the Business Balance Sheets as at 30 June Year 4 and Year 5 identify the following.

	At 30 June YEAR 4	At 30 June YEAR 5
Corporation Tax Owing	£15,000	£30,000
Debenture Interest Owing	£10,000	£15,000
Stocks	£12,000	£22,000
Debtors	£43,000	£23,000
Creditors	£18,000	£38,000

3 Fixed Assets Schedule (extract)

	Premises	Motor Vehicles	Fixtures and Fittings
Cost			
Acquisitions	£150,000	£75,000	£25,000
Disposals	(£75,000)	(£35,000)	(£50,000)
Depreciation			
Charge for the year	—	£60,000	£20,000
Disposals		(£30,000)	(£15,000)

4 Sale of Fixed Assets realised:

Premises	£165,000
Vehicles	£15,000
Fixtures and Fittings	£22,000

5 During the year ended 30 June Year 5 the following amounts were paid

Debenture Interest	£25,000
Ordinary Dividends	£15,000
Corporation Tax	£15,000

On the Worksheet provided, and using the above information, prepare the statement necessary to calculate the Net Cash Flow from Operating Activities in accordance with FRS1.

Note: A Cash Flow Statement is **NOT** required.

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(40)

3. Part A

On 30 June Year 1 Lakeside Ltd had Capital and Reserves totalling £1,200,000. On this date Riverside Ltd purchased 1,260,000 Ordinary shares in Lakeside Ltd.

On 30 June Year 2 the Balance Sheets of the 2 companies were as follows.

	Riverside Ltd		Lakeside Ltd	
	£000	£000	£000	£000
Fixed Assets		4,500		1,200
Investment in Lakeside Ltd		1,500		
		<u>6,000</u>		<u>1,200</u>
Current Assets				
Stock	600		225	
Bank	750		300	
Debtors	<u>900</u>		<u>375</u>	
	<u>2,250</u>		<u>900</u>	
Current Liabilities				
Creditors	525		180	
Other accrued charges	<u>1,125</u>		<u>270</u>	
	<u>1,650</u>		<u>450</u>	
Net Current Assets		<u>600</u>		<u>450</u>
		<u>6,600</u>		<u>1,650</u>
Financed by				
Ordinary Shares of 50p each	5,250		1,050	
Revenue Reserves	<u>1,350</u>	<u>6,600</u>	<u>600</u>	<u>1,650</u>

Prepare the Consolidated Balance Sheet as at 30 June Year 2, taking into consideration the following.

- (i) Goodwill is to be written off in equal instalments over 5 years.
- (ii) Lakeside Ltd is holding stock valued at £90,000, which had been bought from Riverside Ltd at cost plus 25%.
- (iii) Lakeside Ltd's creditors include £45,000 owing to Riverside Ltd.
- (iv) Riverside Ltd's debtors include £60,000 owing by Lakeside Ltd. A payment of £15,000 from Lakeside Ltd is in transit.

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3. (continued)**Part B**

Wonderworld plc issued 150,000 £1 Ordinary Shares at a premium of 50p per share.

Payments were received as follows.

1 March	40p payable on application
1 June	70p per share (including premium) payable on allotment
1 September	40p per share on first and final call

The following additional information is provided.

- (i) Applications were received for 200,000 shares and the directors agreed to allot these shares on a pro rata basis.
- (ii) All allotment monies were received by 1 June.
- (iii) All monies were received for the First and Final call except for an amount from Alan Smith who had been allotted 2,000 shares.
- (iv) Smith's shares were forfeited on 15 October and reissued to Jane Friar on 1 December at a premium of 20p per share.

On the Worksheet provided prepare the accounts necessary to record the above transactions.

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(40)

[Turn over

4. (a) Describe the procedure used by the Accounting Standards Board to produce a new Accounting Standard. **10**
- (b) The Accounting Standards Board regulates the way different business organisations prepare their accounts. Describe the main points of **2** of the following Accounting Standards.
- (i) FRS 10 Goodwill and Intangible Assets
 - (ii) FRS 15 Tangible Fixed Assets
 - (iii) FRS 18 Accounting Policies **20**
- (30)**
5. (a) Explain the inclusion of the following notes in the Published Annual Report of a plc.
- (i) Explanation of any deviation from accounting standards.
 - (ii) Sources of turnover from different geographical markets.
 - (iii) Details of fixed assets.
 - (iv) Directors' emoluments. **16**
- Social Accounting is used by businesses to report on how their business affects society as a whole.
- (b) Explain the term Social Audit and describe the reasons why it may be carried out by a business. **14**
- (30)**

SECTION B

You should attempt 3 questions from this section:

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

6. Tweed Ltd has provided the following budget information for Month 4.

Expected Production (Units) 80,000

Budgeted Costs

Raw Materials	16,000 kg @ £6 per kg
Direct Labour	10,000 hours at £10 per hour
Direct Expenses	£12,000
Maintenance	£30,000 (including a fixed element of £10,000)
Rent, Rates and Insurance	£6,000
Heating and Lighting	£2,000
Office Salaries	£25,000
Miscellaneous Expenses	£60,000 (20% variable at this output)

Tweed Ltd's maximum production capacity is 120,000 units.

- (a) You are required to produce a flexible budget statement for Month 4 showing costs for activity levels of 75%, 80% and 85% of maximum production.

24

The actual data for Month 4 was as follows.

Actual Production (Units) 90,000

Actual Costs

Raw Materials	17,500 kg @ £7 per kg
Direct Labour	12,000 hours at £9 per hour
Direct Expenses	£0.15 per unit
Maintenance	Fixed element increased by 10% Variable element £0.22 per unit
Rent, Rates and Insurance	£5,950
Heating and Lighting	£2,100
Office Salaries	£25,000
Miscellaneous Expenses	Fixed element reduced by £3,000 Variable element £0.20 per unit

- (b) Prepare a Performance Report for Month 4 to show clearly the total variances which have arisen at the actual output of 90,000 units. Your Report should show the Budgeted Cost, Actual Cost and the Total Variance (Favourable or Adverse) for each cost element.

18

- (c) Using the budget and actual data above as appropriate, calculate the following variances.

- (i) Material Price
- (ii) Material Usage
- (iii) Labour Rate
- (iv) Labour Efficiency

8

7. Part A

Reivers Ltd is considering 2 investment projects. The following data apply.

	YEAR	PROJECT 1	PROJECT 2
Initial Cost		£41,000	£41,000
Additional Cost	2	£2,000	
Net Cash Inflows	1	£24,000	£15,000
	2	£15,000	£14,000
	3	£10,000	£13,000
	4	£7,000	£12,000
Sale of Equipment	4	£4,000	£2,000
Clean-up Costs	4	£8,000	£1,000

The cost of capital is 10%.

(a) Calculate the Net Present Value of each Project.

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The following Negative Net Present Values have been calculated.

	PROJECT 1	PROJECT 2
Cost of Capital	12%	14%
Net Present Value	-£179	-£608

(b) Calculate the Internal Rate of Return for each Project.

6

(c) Advise Reivers Ltd which project they should accept.

1

(20)

DISCOUNT TABLE (FROM 8% TO 15%)								
Present Value of £1 received after n years discounted at i%								
<i>i</i>	8	9	10	11	12	13	14	15
<i>n</i>								
1	0.926	0.917	0.909	0.901	0.893	0.885	0.877	0.870
2	0.857	0.842	0.826	0.812	0.797	0.783	0.769	0.756
3	0.794	0.772	0.751	0.731	0.712	0.693	0.675	0.658
4	0.735	0.708	0.683	0.659	0.636	0.613	0.592	0.572
5	0.681	0.650	0.621	0.593	0.567	0.543	0.519	0.497

7. (continued)**Part B**

Borderers plc produces a range of generators. Machine Shop 1 is used to make Part XT3, which is a component in every model of generator.

Current production of Part XT3 is 2,000 units. Total manufacturing costs are £20,000, of which £14,000 are fixed.

Part XT3 can now be purchased from a reliable supplier for £12.50 per unit.

(a) Calculate the change in profit which would result if Borderers plc ceases production of Part XT3. You should provide an answer for each of the following alternative courses of action.

(i) Purchase **2,000** units of Part XT3 and close down Machine Shop 1. Fixed Costs will fall by £12,000.

(ii) Purchase **2,000** units of Part XT3 and rent out Machine Shop 1 for £8,000 per annum to a tenant who will meet all the costs of Machine Shop 1.

(iii) Purchase **2,000** units of Part XT3 and use Machine Shop 1 to produce 3,000 units of a new Product, Novo. Novo will sell for £20 per unit and incur variable costs of £12 per unit. Fixed costs of Machine Shop 1 will rise to £20,000.

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(b) Assuming that Part XT3 is purchased and Novo is manufactured, calculate the number of units of Novo which need to be made and sold to give an additional profit of £10,000.

5

(c) A shortage of skilled labour limits the production of Novo to 4,000 units. Calculate the selling price which would have to be charged for Novo to give the additional profit of £10,000.

4**(20)****(40)****[Turn over]**

8. Part A*Marks*

Cowboy Builders Ltd are contractors specialising in building ranch-style barns and houses using materials purchased in the UK and kits imported from the USA.

Contracts A and B were commenced during Year 1. The following information was available on 31 December Year 1.

Contract A

	£000s
Contract price	600
Kits imported	145
Shipping cost for kits	5
Material purchases	50
Material issued from stores	10
Material transferred to Contract B	5
Wages paid	100
Direct expenses paid	40
Plant and machinery sent to site (at valuation)	60
Sub contract costs	30
Architects fees	10

Overheads are charged to contracts at 10% of material costs (including sub contract costs).

Balances at 31 December

Work completed not certified	20
Work certified	480
Plant and machinery	50
Wages accrued	15
Direct expenses prepaid	3
Materials remaining on site	5

Any profits on incomplete contracts are recognised using the formula:

Notional Profit \times Value of Work Certified/Contract Price

All contracts allow clients to retain 15% of the value of work certified for a period of 2 years after the completion date.

- (a) Prepare the account for Contract A at 31 December Year 1 showing your calculation and treatment of any profit or loss.
- (b) (i) Calculate the amount paid to date to Cowboy Builders Ltd by their clients for Contract A.
- (ii) Explain why the clients do not pay the full amount due at the completion date.

16**4****(20)**

8. (continued)**Part B**

The following information relates to the Mixing stage of the manufacture of Product B for April Year 3.

	Units	% Complete	Costs
Work in Progress at 1 April	750	Materials 100%	£6,720
		Labour 80%	£4,368
		Overhead 60%	£1,200
Started during April	12,000	Materials	£8.60 per unit
		Labour	£67,482
		Overhead	£46,000
Good output completed in April	11,000		?
Work in Progress at 30 April	700	Materials 90%	?
		Labour 75%	?
		Overhead 50%	?

Normal losses of 5% of work started in April are expected. These have a scrap value of £2 per unit.

All losses are identified when they have been through the complete process.

The weighted average system is used to value stocks of work in progress.

- (a) (i) Prepare a statement to show the equivalent units produced during April for each element of cost and in total.
- (ii) Calculate the cost per equivalent unit for each element of cost and in total.
- (iii) Calculate the value of work in progress at 30 April.
- (b) Prepare the Mixing Process Account for April Year 3.

13**7****(20)****(40)**

[Turn over for Questions 9 and 10 on Page fourteen]

9. (a) Activity based costing and “conventional” absorption costing are both widely used means of dealing with overheads. Describe each method. **20**
- (b) Discuss the arguments for and against the introduction of activity based costing. **10**
- (30)**
10. (a) In order that costs may be treated appropriately in product costing and profit determination it is important that they are classified correctly.
- (i) Describe how costs may be classified.
- (ii) Explain the difficulties which may arise when classifying costs. **18**
- (b) Two companies have recently undertaken 5-year contracts, one to provide a local bus service, and the other to build a shopping centre.
- (i) Explain why these companies will use different cost accounting methods.
- (ii) Describe the costing procedure for the local bus service. **12**
- (30)**

[END OF QUESTION PAPER]

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NATIONAL
QUALIFICATIONS
2011

TUESDAY, 31 MAY
1.00 PM – 4.00 PM

ACCOUNTING
ADVANCED HIGHER
Worksheets for
Question 2 Part B and
Question 3 Part B

Fill in these boxes and read what is printed below.

Full name of centre

Town

Forename(s)

Surname

Date of birth

Day Month Year

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Scottish candidate number

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Number of seat

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



Worksheet for Question 2 Part B

BUTLER plc

Reconciliation of cash flows from operating activities and operating profit

	£000	£000
Net profit before Interest and Tax		
<u>Non-cash adjustments</u>		
<u>Changes in Working Capital</u>		

(20)

Working Notes:

Worksheet for Question 3 Part B

BANK ACCOUNT		Dr	Cr	Balance

APPLICATION AND ALLOTMENT ACCOUNT		Dr	Cr	Balance

SHARE PREMIUM ACCOUNT		Dr	Cr	Balance

FIRST AND FINAL CALL ACCOUNT		Dr	Cr	Balance

Worksheet for Question 3 Part B (continued)

ORDINARY SHARE CAPITAL ACCOUNT		Dr	Cr	Balance

FORFEITED SHARES ACCOUNT		Dr	Cr	Balance

JANE FRIAR'S ACCOUNT		Dr	Cr	Balance

(20)*[END OF WORKSHEETS]*