X209/701

NATIONAL
QUALIFICATIONS
2009

TUESDAY, 2 JUNE
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. Wilson and Brown are in partnership operating a printing firm. They do not keep double entry records. Their partnership agreement states that:

(i) Interest on drawings will be charged at 5% per annum;
(ii) Interest on capital is allowed at 10% per annum;
(iii) Profits or losses are to be shared in proportion to capital.

They provide you with the following information for the year ended 31 December Year 4.

	£
Receipts	
Payments from debtors	180,000
Cash sales banked	150,000
Bank loan	40,000
Sale of original printers	2,000
	372,000
Payments	
Payments to creditors	170,000
Administration expenses	20,020
Drawings – Wilson	30,000
Drawings – Brown	25,000
Wages	39,960
Purchase of colour laser printer	20,000
	304,980

Balances at the start and end of **Year 4** were:

	1 January	**31 December**
Premises (Cost)	158,000	
Computer Equipment (Cost)	100,000	
Printers (Cost)	10,000	
Provision for Depreciation:		
Computer Equipment	15,600	
Printers	4,880	
Administration expenses due	1,100	450
Bank	1,100	
Creditors	3,000	2,800
Debtors	5,400	4,600
Stock	17,000	15,120
Capital:		
Wilson	150,000	
Brown	100,000	
Current Account:		
Wilson (Cr)	12,500	
Brown (Cr)	6,020	

1. (continued)

The following additional information is provided.

(i) During the year paper worth £1,200 was returned to supplier.

(ii) Discounts allowed and received amounted to £3,600 and £1,400 respectively.

(iii) Bad debts amounting to £3,000 were written off during the year. Interest charged to debtors on late payment of accounts amounted to £500.

(iv) Wages of £8,000 for part-time employees were paid out of cash sales before takings were banked.

(v) A provision for doubtful debts of 5% is to be created.

(vi) On 30 June Year 4 all the original printers were sold and replaced with a new colour laser printer.

(vii) Depreciation is to be provided on fixed assets as follows:

Computer Equipment 5% per annum on straight line method;
Printers 20% per annum using diminishing balance method.

(viii) The bank loan was received on 30 June Year 4. Interest of 10% per annum is due.

(ix) Included in the purchases figure is stationery, worth £1,000, taken by Brown for his own use.

You are required to prepare the:

(*a*) Trading and Profit and Loss including Appropriation Accounts for the year ended 31 December Year 4; **45**

(*b*) Current Account of Brown. **5**

(50)

[Turn over

2. The following are the Balance Sheets of ABC plc as at 31 December.

	Year 1			Year 2		
	£000s	£000s Agg	£000s	£000s	£000s Agg	£000s
Tangible Fixed Assets	Cost	Depn	NBV	Cost	Depn	NBV
Premises	200		200	225		225
Machinery	210	50	160	250	60	190
Fixtures and Fittings	135	32	103	140	42	98
	545	82	463	615	102	513
Current Assets						
Stock	44			37		
Debtors	18			33		
Bank	12	74		68	138	
Creditors: due within 1 year						
Creditors	12			8		
VAT	9			12		
Preference dividend due	4			5		
Ordinary dividend due	9			10		
Corporation tax	31	65	9	42	77	61
			472			574
Creditors: due after 1 year						
10% Debentures			50			30
			422			544
Capital and Reserves						
Ordinary shares of £1 each		250			300	
Preference shares of 50p each		100	350		100	400
Revaluation Reserve					25	
Share Premium		48			48	
Retained Profit		24	72		71	144
			422			544

2. (continued)

During Year 2 the following changes took place.

(i) Premises were revalued on 1 July.

(ii) Fixtures costing £45,000, with a written down value of £15,000, were sold for £5,000.

(iii) New Fixtures costing £50,000 were purchased.

(iv) Debentures were redeemed on 30 June.

Profit and Loss Appropriation Account for year ended 31 December Year 2

	£000s	£000s	£000s
Profit after tax and interest			70
Interim Preference dividend	3		
Preference dividend due	5	8	
Interim ordinary dividend paid	5		
Proposed ordinary dividend	10	15	23
Retained profit for year			47

From the above information you are required to prepare:

(*a*) Statement of Net Cash flow from Operating Activities for year ended 31 December Year 2 showing:

(i) Operating Profit before Interest and Taxation;

(ii) Non cash adjustments;

(iii) Changes in working capital. **23**

(*b*) Cash flow Statement for year ended 31 December Year 2 in the format for FRS 1 (revised) showing:

(i) Return on Investments and Servicing of Finance;

(ii) Taxation;

(iii) Capital Expenditure;

(iv) Equity Dividends Paid;

(v) Financing. **17**

(40)

[Turn over

Marks

3. MacDougald plc purchased 18,000 £1 Ordinary Shares in MacLean plc on 1 July Year 1 paying £40,000.

At the time of purchase the following additional information was available for MacLean plc.

Ordinary Share Capital of £1 each	£30,000
Profit and Loss Account balance	£20,000
Share Premium	£10,000

(*a*) Calculate the Goodwill arising on acquisition. **4**

During Year 1 the following took place.

(i) MacDougald plc sold £20,000 goods at cost plus 40% to MacLean plc. It is estimated that 70% of these goods were unsold.

(ii) At 31 December there is a payment in transit to clear the current account balance.

3. (continued)

Balance Sheets as at 31 December Year 1

	MacDougald plc		MacLean plc	
Fixed Assets	£	£	£	£
Buildings		250,000		60,000
Motor Vehicles		40,000		
Fixtures and Fittings				38,000
Investment in MacLean plc		40,000		
		330,000		98,000
Current Assets				
Stock	24,000		16,000	
Debtors	30,000		5,100	
Current Account	3,000			
Bank	1,000		8,000	
	58,000		29,100	
Current Liabilities				
Creditors	56,000		16,000	
		2,000		13,100
		332,000		111,100
Long Term Liabilities				
10% Debentures		50,000		30,000
		282,000		81,100
Share Capital				
Ordinary Shares of £1 each		130,000		30,000
Share Premium		12,000		10,000
Revaluation Reserve		80,000		
Profit and Loss		60,000		41,100
		282,000		81,100

Note: Goodwill is to be written off evenly over a 5 year period

(*b*) From the above information you are required to calculate:

(i) the Group's share of post-acquisition profits;

(ii) Unrealised profits;

(iii) Consolidated stock value at 31 December Year 1;

(iv) Consolidated Reserves at 31 December Year 1;

(v) Minority interest at 31 December Year 1. **18**

(*c*) Prepare the Consolidated Balance Sheet as at 31 December Year 1. **18**

(40)

[Turn over

Marks

4. (*a*) Analysis of a set of final accounts can be very revealing compared to the original data.

Select 5 groups who will be interested in accounting information and describe the different aspects of the performance or position in which they will be interested. **10**

(*b*) Ratio Analysis allows comparisons to be made between different years or between different companies.

Discuss the ratios to be calculated, their significance and the impact one ratio may have on another. **20**

NB No marks will be awarded for stating the formula for the calculation of each ratio. **(30)**

5. (*a*) Accounting Standards provide the "working regulations" under which accounts and financial statements should be prepared and presented.

Describe the procedures the Accounting Standards Board follows in establishing a new accounting standard. **10**

(*b*) The Accounting Standards Board has published a Statement of Principles for Financial Reporting.

Discuss the main provisions of the Statement of Principles for Financial Reporting. **8**

(*c*) State the purpose of the main provisions of FRS 18 Accounting Policies. **12**

(30)

[Turn over for Question 6 on *Page ten*

Marks

SECTION B

You should attempt 3 questions from this section:

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

6. Dunliv plc make 4 different products. Each product passes through 3 different departments to completion. Dunliv plc is currently reviewing its procedures for charging overheads to production.

The following apply to Period 3.

DEPARTMENTAL DATA

	Machining	**Assembly**	**Finishing**
Total Overhead Costs	£92,450	£70,680	£33,000
Direct Material Costs	£184,900	£7,920	£7,920
Labour Hours Worked	6,800	4,560	1,320

PRODUCT DATA

	Product A	**Product B**	**Product C**	**Product D**
Total Units Produced	180	800	600	1,060
Per Unit:				
Labour Hours used in:				
Machining	6	3	2	2
Assembly	5	2·5	1	1
Finishing	0·5	0·5	0·5	0·5
Direct Material in Machining	£60	£65	£71	£75

(*a*) (i) Calculate the factory-wide rate for overhead absorption based upon direct labour hours worked **(answer to 2 decimal places)**.

(ii) Calculate the amount of overhead charge per unit for each product. **10**

(*b*) (i) Calculate the overhead absorption rate for each department using the following bases:

Machining – Percentage of Direct Material Cost;
Assembly – Rate per Direct Labour Hour;
Finishing – Rate per Unit.

(ii) Calculate the overhead charge per unit for each product. **15**

Marks

6. (continued)

On the advice of their new Management Accountant, Dunliv plc is now also considering an Activity Based Costing (ABC) approach to overhead absorption. The total overhead costs have subsequently been analysed as follows.

Nature of Overhead	**Amount Incurred**	**Cost Driver**
Set-up	£74,400	Number of Set-ups
Stock Administration	£89,400	Number of Orders
Spare Parts Administration	£32,330	Number of Spare Parts

Data for Period 3 are as follows.

	Product A	**Product B**	**Product C**	**Product D**
Number of Set-ups	2	8	2	4
Number of Orders	2	16	10	12
Number of Spare Parts	2	3	1	4
Total Units Produced	180	800	600	1,060

(*c*) (i) Calculate the overhead absorption rate for each cost driver.

(ii) Show for each product the total overhead absorbed per driver.

(iii) Calculate the overhead charge per unit for each product **(answer to 2 decimal places)**. **25**

(50)

[Turn over

Marks

7. Varico Ltd makes Product X on machines which can only be used for that purpose and are currently operating at full capacity.

Product X (Per Unit)

Selling Price	£15
Costs:	
Direct Material	£3
Direct Labour	£2
Variable Overhead	£2

Under normal conditions Fixed Overheads are expected to be £210,000 per annum and 70,000 units will be produced.

The following data apply to Years 3 and 4.

	Units
Production	
Year 3	72,000
Year 4	68,000
Closing Stocks Held	
Year 2	8,000
Year 3	6,000
Year 4	9,000
Actual Fixed Overheads incurred	
Year 3	£202,000
Year 4	£212,000

(*a*) Prepare statements to show the profit earned in each of Years 3 and 4 using:

(i) Marginal Costing;

(ii) Absorption Costing.

Your statements should indicate the over- or under-absorption of Fixed Overheads where appropriate. **26**

(*b*) Explain why the profits indicated using Marginal Costing may differ from those using Absorption Costing. **2**

In Year 5 Varico Ltd is planning to replace the existing machinery. The new general-purpose machines will allow Varico Ltd to introduce 2 new products Y and Z and to continue the manufacture of Product X. The total maximum capacity of the new machines will be 10,000 hours per annum.

The following data will apply if the new machines are purchased.

	Product X	**Product Y**	**Product Z**
Per Unit	**£**	**£**	**£**
Selling Price	15	20	25
Costs:			
Direct Materials	4	10	9
Direct Labour	5	3	12
Variable Overhead	2	2	1
Production Time	6 minutes	5 minutes	2 minutes
In addition:			
Expected Annual Demand (Units)	70,000	12,000	90,000

Fixed costs are expected to rise to £250,000 per annum

Varico Ltd's main objective is to maximise profits.

(*c*) Advise the directors of Varico Ltd whether they should replace the existing machinery.

To gain marks you must provide detailed workings in support of your advice. 12

(40)

[Turn over

8. Arthurs, Brown and Collins are partners in a cleaning firm – Cleanco – which hires cleaners to local offices. The partners' capital investment and salary requirements per annum are as follows.

	Capital Invested	**Salary Required**
Arthurs	£120,000	£40,000
Brown	£80,000	£30,000
Collins	£80,000	£20,000

In addition to their salaries the partners expect a Return on their Capital Invested of 30% per annum.

The following information will apply to Year 2.

Labour costs

Number of employees	20
Normal working week	30 hours (Mon–Fri)
Normal weekly wage	£210 per employee
Annual holiday	4 weeks per employee
Holiday pay rate	£6 per hour
Illness absence	8 days per employee (paid at the basic rate)
Overtime Rates (based on the normal wage):	Holiday cover—Time and a half Illness cover—Double time

Other costs

Cleaning Equipment	Replacements cost £3,000 every 6 months
Vehicles	2 minibuses each of which depreciates by £2,000 per annum. In addition total operating costs average £130 per week per vehicle
Office Equipment	Cost £8,000, depreciating uniformly over a life of 4 years to a residual value of £400
Rent and Rates	£24,000 per annum
Clerk/Receptionist	Annual salary of £14,400
Insurance	£1,250 per quarter
Utilities	£500 per month, by Direct Debit (resulting in an annual overpayment of £140)
Cleaning Materials	£240 per cleaner per annum
General Expenses	£22,280 per annum

Cleanco are contracted to provide 600 hours per week of cleaning services for 52 weeks of the year.

(*a*) Using an appropriate basis, calculate the hire rate per cleaner required in Year 2 to provide Arthurs, Brown and Collins with their target Return on Capital Invested. **23**

8. (continued) *Marks*

Cleanco operates a Quarterly Budgeting system.

The following additional information applies to Year 2.

- All payments from clients are received in full by Cleanco on a 1 month credit basis throughout the year.
- The partners have agreed to withdraw their salaries on a monthly basis throughout the year. No withdrawals in respect of profit shares are to be made.
- Each employee takes 2 weeks' holiday in the 3rd Quarter.
- 15% of absence through illness occurs in the 3rd Quarter.
- Cleaning equipment replacements take place in the 1st and 3rd Quarters each year.
- Vehicle servicing takes place in the 2nd and 4th Quarters each year and account for £1,040 of the total annual operating costs of each vehicle. The remainder of the annual vehicle operating costs are incurred uniformly throughout the year.
- **All** other costs, totalling £76,640, are incurred uniformly throughout the year.
- At the start of the 3rd Quarter of Year 2 Cleanco expect to have £20,000 in the Bank.

(*b*) Arthurs, Brown and Collins plan to invest in another business. This will require an outlay of £60,000 in the 3rd Quarter of Year 2.

Prepare a Cash Budget for Cleanco for the 3rd Quarter of Year 2 to assess the likely cash position at that time if the new investment goes ahead. **17**

(40)

[Turn over for Questions 9 and 10 on *Page sixteen*

Marks

9. (*a*) Explain the terms "standard cost" and "variance analysis". **4**

(*b*) Discuss the factors to be considered when setting Labour and Materials standards. **6**

(*c*) Discuss the implications of setting standards which are only attainable under perfect or near-perfect working conditions. **10**

(*d*) Indicate the conditions under which cost variances may be expected to occur and explain why favourable variances may give rise to others which are adverse. **10**

(30)

10. (*a*) Explain why it may be necessary to use a method of investment appraisal to support decisions concerning long term projects. **8**

(*b*) Discuss **4** methods of investment appraisal and the relative advantages and disadvantages of each. **16**

(*c*) How could the use of computer-based technology assist the accountant in conducting an investment appraisal? **6**

(30)

[*END OF QUESTION PAPER*]