H

National Qualifications 2015

X700/76/11 **Accounting**

MONDAY, 18 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.

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PB

FORMULAE SHEET

Capital 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

$$\frac{\text{(Profit for year (Net Profit) after tax – Preference Share Dividend)}}{\text{Ordinary Share Dividend}}$$

Earnings Per Share

$$\frac{\text{(Profit for year (Net Profit) after tax – Preference Share Dividend)}}{\text{Number of Ordinary Shares}}$$

Price/Earnings Ratio

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

Interest Cover

$$\frac{\text{Profit for year (Net Profit) before interest and tax}}{\text{Interest}}$$

[Turn over for Question 1 on *Page four*

DO NOT WRITE ON THIS PAGE

SECTION 1 — 40 marks

Attempt THIS question

1. Thomson and Affleck are in partnership sharing profits and losses in the ratio of capital invested.

Their partnership agreement states that:

(i) Interest on Equity (Capital) will be paid at 5% per annum.

(ii) Interest on drawings will be charged at 4% per annum.

(iii) A partnership salary of £4,000 will be paid to Thomson.

(iv) Interest on loans from partners will be paid at 5% per annum. Affleck made the loan on 1 July Year 2.

The following is their Trial Balance as at 31 December Year 2.

	£	£
Inventory (Stock) at 1 January Year 2	15,000	
Purchases	30,000	
Carriage in	2,000	
Wages	3,000	
Rates	4,000	
Electricity	6,000	
Sales Returns	10,000	
Rent	2,000	
Sales Revenue (Sales)		160,000
Vehicles (at cost)	70,000	
Provision for Depreciation of Vehicles at 1 January Year 2		30,000
Machinery (at cost)	130,000	
Provision for Depreciation of Machinery at 1 January Year 2		20,000
Provision for bad debts		4,000
Cash and cash equivalents (Bank)		15,000
VAT	4,000	
Discounts	2,000	3,000
Trade Receivables (Debtors) and Trade Payables (Creditors)	30,000	20,000
Current Accounts at 1 January Year 2: Thomson Affleck	 2,000	 7,000
Equity (Capital) Accounts: Thomson Affleck		 30,000 15,000
Drawings: Thomson Affleck	 8,000 6,000	
Loan – Affleck		20,000
	324,000	324,000

1. (continued)

NOTES at 31 December Year 2:

1 Inventory (Stock) at 31 December Year 2 is £5,000.

2 Wages are to be apportioned between the Warehouse and Office in the ratio of 2:1 respectively.

3 The Warehouse occupies 75% of the firm's rented premises and the remaining area is taken for office use.

4 The electricity payment for the final quarter of the year is outstanding.

5 Rates paid in advance £1,000.

6 Provision for Depreciation per annum as follows:

- Vehicles — 20% of the reduced balance;
- Machinery — 25% on cost.

7 The Provision for Bad Debts is to be adjusted to 10% of Trade Receivables (Debtors).

8 Thomson receives a bonus on salary of £1,500 if the Profit for the Year is above £50,000.

(a) From the Trial Balance and notes you are required to **prepare**:

(i) the Income Statement (Trading Profit and Loss Account) for the year ended 31 December Year 2; **17**

(ii) a Statement of Financial Position (Balance Sheet) as at 31 December Year 2. **17**

Thomson and Affleck decide to admit Spence as a new partner under the following conditions.

- Before Spence is admitted, the assets are revalued resulting in a surplus of £7,200.
- Spence will contribute £30,000 to the partnership.
- Goodwill has been valued at £12,000 and is to be written off against the Equity (Capital) Accounts of the new partnership.
- Spence is to receive 40% share of profits with Thomson and Affleck continuing to share in the same proportions as before.

(b) **Calculate:**

(i) the new profit sharing ratio; **1**

(ii) the new opening Equity (Capital) Account balances for each partner. **3**

(c) **Describe** 2 sources of finance only available to a PLC. **2**

[Turn over

MARKS

SECTION 2 — 60 marks

Attempt ALL questions

2. J Wilson and L Donnelly are in partnership producing fashionable travel bags. They have provided you with the following information for July to December Year 2.

Cash and cash equivalents balance as at 1 September will be £35,500.

	July	August	September	October	November	December
Production (Units)	3,000	2,500	3,000	2,200	1,500	1,200
Sales (Units)	2,700	2,750	3,200	1,900	1,400	1,100

- The unit selling price is £40.
- Cash sales represent 60% of each month's total sales.
- It is estimated that 50% of credit customers will pay in the month following the month of sale and will receive 5% discount.
- The other 50% of credit customers will pay 2 months after the month of sale and so do not qualify for a discount and bad debts are expected to be 2%.

Other information relating to the 6 month period is as follows.

1 Material costs £10 per unit, payable in the month before production.

2 Labour costs £6 per unit, payable in the same month of production.

3 A labour bonus of £1·50 per unit will be paid on production in excess of 2,000 units. The bonus will be paid in the month following production.

4 Variable overhead will cost £12 per unit, with 1/3 paid in the same month of production and 2/3 paid in the month following production.

5 Fixed costs are £18,000 per month (excluding depreciation of £4,000) payable in the same month as production.

(a) **Prepare** the Cash Budget for the 3 months September to November Year 2. **18**

(b) **Outline** 2 advantages of using a spreadsheet to prepare a cash budget. **2**

3. Alpha plc and Beta plc are financed in the following ways.

	Alpha plc	Beta plc
	£000	£000
Issued Ordinary Shares @ £1 per share	2,000	3,200
Issued 10% Preference Shares @ £1 per share	2,000	1,000
In addition, each company has long term, fixed interest funding, as follows:		
8% Debentures	2,000	1,400

(a) Using the information above you are required to:

(i) **calculate** the gearing ratio for each company; **2**

(ii) **state** the company which would give the best return to ordinary shareholders in periods of high profit. Justify your choice. **2**

At 31 December Year 1 earned profits (before accounting for debenture interest and tax) for:

- Alpha £960,000
- Beta £857,000

At 31 December Year 1 each company had:

- estimated corporation tax at 30%;
- a market price per share of £1·35.

(b) The directors of Beta plc have calculated a profit after tax and interest of £488,000 with an ordinary dividend payment of £250,000. **Calculate** for Alpha plc:

(i) the Profit for the Year after tax and interest; **2**

(ii) the profit available for ordinary dividends if company policy dictates that 25% is retained in the business. **2**

Calculate, for both companies:

(iii) Dividend cover; **2**

(iv) Earnings per share; **2**

(v) Price/Earnings Ratio. **2**

(c) Advise a potential investor on the most appropriate investment opportunity, using your answers to **justify** your advice. **3**

(d) (i) **Describe** one method of investment appraisal. **1**

(ii) **State** one advantage and one disadvantage of this method. **2**

[Turn over for Question 4 on *Page eight*

MARKS

4. Since commencing operations almost 2 years ago, AJP plc has subcontracted its staff canteen requirements to Bell Catering Services. The charge to AJP plc is £9,000 per week to provide 3,000 meals. This represents 75% of the overall canteen capacity.

1 The canteen is open 50 weeks of the year, closing only for the two week winter holiday, during which time routine factory maintenance is carried out.

2 AJP plc is now considering upgrading the existing facility and running the canteen itself, commencing on 1 January Year 3. The number of meals provided is estimated to increase to 90% of capacity.

3 AJP plc operates a 250 m^2 catering facility and has been quoted £450 per m^2 from their regular building contractor for general renovation costs.

4 AJP plc would also need to spend £105,000 on the purchase of its own kitchen equipment, which is currently provided by Bell Catering Services as part of its contract. Depreciation on kitchen equipment is to be charged at 10% on cost per annum.

5 AJP plc plan to employ a Canteen Supervisor at a cost of £29,360 per annum and 2 cooks, each earning a salary of £17,500 per annum.

6 Four kitchen assistants will be employed, each working 6 hours per day from Monday to Friday, and 4 hours on a Saturday and Sunday.

7 The assistants will be paid a basic hourly rate of £9·00 and double time for weekend work. Only 2 assistants will be required on any given weekend.

8 The assistants will be paid the same basic rate (Mon-Fri) for the 2 week holiday period when the factory is closed and, in addition, be entitled to 2 further weeks holiday throughout the year. During these times temporary staff will be drafted in for Mondays–Fridays only. They shall be paid £7·00 per hour.

Additional estimated costs for operating the canteen for the year to 31 December Year 3 are as follows:

Food supplies	£2,500 per week
Cleaning and laundry charges — payable for the whole year	£1,800 per quarter
Consumables (napkins etc)	£0·06 per meal
Other monthly costs (excluding depreciation) — payable for the whole year	£1,700 per month

(a) (i) **Calculate** for the year ended 31 December Year 3 the cost per meal to AJP plc of running the canteen themselves. 14

(ii) Advise AJP plc whether to go ahead with the plan to run the canteen themselves or to continue using Bell Catering Services. Show appropriate working to justify your answer. 2

(b) With reference to process costing, **outline** the procedure for recording abnormal loss in the accounts of a business. 4

[END OF QUESTION PAPER]