National Qualifications
2021 ASSESSMENT RESOURCE

X800/76/11 Accounting

Duration — 2 hours 30 minutes

Total marks — 120

SECTION 1 — 80 marks

Attempt ALL questions.

SECTION 2 — 40 marks

Attempt ALL questions.

You may use a calculator.

You must show your working fully and label it clearly. You will receive no marks for any incorrect figures not supported by working.

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

MARKS

SECTION 1 — 80 marks

Attempt ALL questions

1. Donnelly and Scott are in partnership, sharing profit and losses in the same ratio as their equity invested.

Their Equity and Current Account balances on 31 December Year 1 were

	Equity Accounts	**Current Accounts**
	£	£
Donnelly	75,000	6,200 Cr
Scott	125,000	4,800 Dr

On 1 January Year 2, Donnelly and Scott agree to admit Cahill as a new partner with the following conditions.

- Cahill will introduce £80,000 as his new equity
- Goodwill is valued at £20,000
- Before the admission of Cahill, the assets of Donnelly and Scott are to be revalued as follows

	Old Value	**New Value**
	£	£
Property	80,000	130,000
Vehicles	40,000	30,000
Inventory	8,000	12,000
Trade Receivables	9,000	6,000

- On revaluation, the doubtful debt provision will increase by £1,000
- Professional revaluation expenses are £4,000
- As a Goodwill Account is not to be kept, Goodwill is to be written off against the Equity Accounts of the new partnership
- 50% of the original partners' Current Accounts are to be transferred to their Equity Accounts
- Cahill is to receive a 20% share of any future profits, with Donnelly and Scott continuing to share as before

Calculate on 1 January Year 2

(a) the profit or loss on revaluation **4**

(b) the share of profit or loss on revaluation for each partner **2**

(c) the new profit sharing ratio **2**

(d) the new equity balances of each partner. **5**

1. (continued)

During Year 2 the partnership earned a Profit for the Year of £80,000. The new partnership agreement states that

- interest on equity is payable annually at 10%
- drawings taken (during Year 2): Donnelly £5,000, Scott £8,000 and Cahill £6,000
- interest on drawings is charged at 5% per annum
- an annual salary of £2,000 is paid to Donnelly.

(e) Prepare the Income Statement for the year ended 31 December Year 2, starting from the Profit for the Year. **5**

(f) Prepare the new Current Accounts for the 3 partners at the end of Year 2. **7**

Property (at cost)	£ 330,000
Inventory	£35,700
Trade Payables	£16,000
Trade Receivables	£7,500
Vehicles (at cost)	£30,000
Electricity Receivable	£3,500
Investments	£90,000
Wages Payable	£2,050
Equipment (at cost)	£20,000
Cash and Cash Equivalents	£12,500 (Cr)

- The new property was partly funded by a £100,000 mortgage
- The property was professionally revalued on 31 December Year 2 at £350,000
- Depreciation was — Vehicles £5,000 and Equipment 10% on cost
- Provision for Doubtful Debts is to be 10% of Trade Receivables

(g) Using information above and relevant information from (d)–(f) prepare the Statement of Financial Position for Year 2 of the new partnership. **13**

(h) Outline **2** reasons for the admission of a new partner. **2**

[Turn over

MARKS

2. PART A

The Designer Cake Company Ltd manufactures celebration cakes in three separate processes: mixing, baking and packaging. The company estimates that the number of cakes that will be sold during July to December Year 2 will be as follows.

	July	August	September	October	November	December
Sales	2,500	2,800	3,400	6,200	5,000	5,100

The closing inventory at the end of each month will be 20% of the estimated sales for the following month.

(a) Prepare the forecast production budget for the 5 month period July to November. **3**

(b) Describe sources of finance only available to limited companies. **3**

The following information relates to the baking process for the month of September.

Opening Work-in-Progress	500 kg @ £1·20 per kg
Materials	1,000 kg at £0·50 per kg
Labour	800 hours @ £6·50 per hour
Variable Overheads	£1·00 per labour hour
Fixed Overheads	20% of labour cost
Good Output	900 kg
Closing Work-in-Progress	425 kg valued at £2,125

Normal Loss is 5% of total input quantity. All losses are sold at 20p per kilogram.

(c) (i) Prepare the Baking Process Account for the month of September. **7**

(ii) Prepare the Abnormal Loss Account for the month of September. **4**

(d) Distinguish between margin and mark-up. **1**

MARKS

2. PART B

L&N Transport operates a fleet of 10 coaches. Each coach can hold 45 passengers and on average each coach is 80% full when on hire. Each coach travels an average of 500 miles per week over the course of a 52-week year.

The estimated running costs for next year are shown below.

1. Each coach cost £75,000 to purchase. Each has an expected life of 7 years, at which point they will be traded in at an estimated value of £5,000.
2. Each coach has one regular driver who is permitted by regulations to work a total of 55 hours per week. This total includes 15 hours of overtime — 10 hours at the weekend (paid at double time) and 5 hours at time and a half. Basic pay is £15 per hour. Each driver receives 4 weeks holiday per annum, paid at the basic rate.
3. Each coach is used for an average of 10 hours per day, 7 days per week, for 52 weeks of the year. Relief drivers make up the difference between the total annual hours of the regular drivers and the total operating hours of the coaches. Relief drivers are paid a flat rate of £10 per hour.
4. Each coach uses 1 litre of fuel for every 13 miles travelled. Fuel costs £1·35 per litre.
5. Additional Costs

Office and Admin	£3,000 per month
Garage Rental	£2,250 per quarter

6. Annual Costs

Insurance	£5,225 per coach
Maintenance and Repairs	£59,700 for the fleet
Licensing Costs	£795 per coach

(a) Prepare a statement to show the annual cost of operating the fleet of coaches. **19**

L&N Transport charge 20p per passenger mile.

(b) Calculate

(i) the number of passenger miles per annum, based on expected occupancy **2**

(ii) the estimated profit/loss for the year. **1**

[Turn over

MARKS

SECTION 2 — 40 marks

Attempt ALL questions

3. PART A

Clarke Construction manufactures lighting rigs. The following are the receipts and issues of Component KFC01.

The opening inventory at 1 September Year 3 is 2,500 units @ £6·00 per unit.

Date	Transaction	Units	Price
7 September	Purchase	1,500 units	£6·40
12 September	Issue to Job 307	1,000 units	
15 September	Purchase	2,000 units	£6·95
17 September	Returns (purchased 15 September)	200 units	
24 September	Issue to Job 310	1,200 units	

Prepare the Inventory Record Card for Component KFC01, using the weighted average (AVCO) method, for the month of September Year 3. **6**

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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

3. **PART B**

Andrews plc and Bhuvan plc have the following equity structures.

	Andrews plc	Bhuvan plc
	£	£
Authorised Share Equity		
Ordinary shares of £0·50 each	5,500,000	8,000,000
8% Preference shares of £1 each	3,500,000	5,000,000
Issued Share Equity		
Ordinary shares of £0·50 each	2,750,000	2,000,000
8% Preference shares of £1 each	750,000	2,500,000
Long-term Borrowing		
5% Debentures	2,000,000	3,000,000

(a) Calculate the equity gearing ratio for both companies. **2**

(b) (i) Calculate the updated equity gearing ratio if Andrews plc issues the remainder of the preference shares. **1**

(ii) Explain the possible impact on the return to ordinary shareholders of this decision. **1**

At 30 April Year 3 Bhuvan plc had

1. earned a profit for the year (before finance cost and tax) of £1,750,000
2. estimated corporation tax at the rate of 25%
3. retained 60% of their profit within the company.

(c) Calculate (correct to 2 decimal places) the

(i) total profit available for distribution to the ordinary shareholders **3**

(ii) total dividend to be paid to the ordinary shareholders **2**

(iii) total percentage dividend to be paid to the ordinary shareholders **1**

(iv) ordinary dividend per share **1**

(v) earnings per share. **1**

The price/earnings ratio of Bhuvan plc at 30 April Year 3 was 7·4 times.

(d) Calculate (correct to 2 decimal places) the

(i) market price of the equity shares at that time **1**

(ii) dividend yield. **1**

[Turn over for next question

MARKS

4. Attica Enterprises plc has equity available for investment in one of the following projects. The following information has been received from the company's project consultants.

	Project 1	**Project 2**
Initial Investment	£305,000	£220,000
Residual Value	£80,000	£100,000
Project Life	5 years	5 years
Estimated Net Cash Flow (excluding initial investment)		
Year 1	£132,000	£150,000
Year 2	£104,000	£60,000
Year 3	£82,000	£40,000
Year 4	£71,750	£36,000
Year 5	£64,000	£32,000

(a) (i) Calculate the profit earned in each year for each project. **6**

(ii) Calculate the results of applying the following methods of investment appraisal to the projects.

- Accounting Rate of Return (based on average profits earned on the initial investment)
- Payback (to the nearest day) **10**

(iii) Advise Attica Enterprises plc as to the most attractive investment proposal. Justify your answer. **1**

(b) Describe **2** advantages and **1** disadvantage of using the Accounting Rate of Return method as a means of investment appraisal. **3**

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