



National
Qualifications
2022

X800/77/11

Accounting

MONDAY, 30 MAY
9:00 AM – 11:30 AM

Total marks — 140

SECTION 1 — 80 marks

Attempt ALL questions.

SECTION 2 — 60 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.



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SECTION 1 — 80 marks

Attempt ALL questions

1. Gordon plc is a golf club retailer whose HQ is based in St Andrews. It has retail outlets situated around the world who focus on selling the company's own branded golf clubs, all of which are manufactured by a separate company on Gordon plc's behalf. The company's trial balance at 31 December Year 3 is given below.

	£000	£000
Purchases and Sales Revenue	12,865	20,500
Inventory at 1 January Year 3	2,500	
Finished Goods Warehouse Staff Cost	175	
Sales Staff Salaries and Commission	2,050	
Administration Salaries	500	
General Administration Expenses	380	
Advertising Costs	275	
Directors' Remuneration	300	
Debenture Interest paid	20	
Property: Cost	4,800	
Property: Depreciation at 1 January Year 3		400
Fittings: Cost	3,000	
Fittings: Depreciation at 1 January Year 3		1,080
Trade Receivables and Payables	3,195	3,728
Cash and Cash Equivalents	2,870	
8% Debentures — repayable Year 8		500
Ordinary Shares of £1 each		4,000
Share Premium		635
Retained Earnings at 1 January Year 3		2,187
Suspense Account		250
Ordinary Dividend paid	350	
	33,280	33,280

Additional information

1. Inventory at 31 December Year 3 consisted of 3 models of golf clubs valued as follows:

	Cost	Net Realisable Value
	£000	£000
GO-Hi	855	1,165
GO-Mid	1,115	975
GO-Lo	980	1,300
	2,950	3,440

1. (continued)

2. The Suspense Account refers to the following transaction:
The receipt of £250,000 from a new issue of 200,000 £1 ordinary shares. All monies have been banked but no ledger entries have yet been made.
3. The Board of Directors comprises 3 members: a Finance Director, a Sales Director and an Operations Director. The Operations Director's remuneration accounts for 50% of the total spend, with the other 2 directors sharing the remainder equally.
4. Included in property is land at a cost of £800,000. The Board of Directors, having sought the advice of an independent surveyor, wish to revalue the land at £1,200,000.
5. Company depreciation policy is as follows:
- | | |
|---------------------------|---|
| Property (excluding land) | 5% per annum on a straight line basis |
| Fittings | 20% per annum on a reducing balance basis |
- Depreciation on property is to be split 70% to cost of sales, 20% to administration and 10% to selling and distribution expenses.
- Depreciation on fittings is all charged to selling and distribution expenses.
- In December of Year 3 Gordon plc agreed the sale of some surplus warehouse buildings for £500,000. These had originally cost £600,000 and had a net book value at the date of sale of £540,000. Cash proceeds from the sale were received after the production of the trial balance and are still to be recorded in the ledger.
- There is no depreciation charged in the year of sale.
6. Corporation Tax for the year is estimated to be £460,000.

In accordance with IAS 1, Presentation of Financial Statements, prepare the following for Gordon plc.

- | | |
|---|----|
| (a) An Income Statement for the year ended 31 December Year 3. | 17 |
| (b) A Statement of Retained Earnings for the year ended 31 December Year 3. | 3 |
| (c) A Statement of Financial Position as at 31 December Year 3. | 20 |

[Turn over

2. PART A

Huron Construction has ended the first year of a 3-year construction contract called Optima.

During Year 1 the contract had the following costs:

Materials delivered to site	£214,600
Materials returned to central stores	£12,000
Wages paid	£311,800
Direct site expenses	£86,500
Plant and Equipment sent to site (at cost)	£190,200
Construction overheads	£67,600

On 31 December the following figures were available:

Materials on site	£34,700
Wages payable	£10,300
Construction overheads receivable	£2,400
Value of Plant and Equipment on site	£163,400
Work complete but not yet certified	£90,000
Work certified complete	£810,000

Notes:

1. During the year materials costing £18,000 were damaged on site and were sold for scrap for £1,500.
2. Head office overheads of £152,000 were shared amongst Huron Construction's projects on the basis of prime cost. The prime cost of all projects totalled £2.3 million.
3. The value of **ALL** work completed represents 40% of the contract price.
4. Profits on incomplete contracts are recognised using the following formula:

$$\text{Notional Profit} \times \text{Value of Work Certified} / \text{Contract Price}$$

Prepare the Optima Contract Account for the year ended 31 December Year 1.

20

[Turn over for next question

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2. PART B

Khan Enterprises plc has 2 potential capital investment projects which are mutually exclusive. The following information relates to **Project A**:

£000

Initial Cost 28,000

Cash Inflows:

Year 1 8,000

Year 2 12,200

Year 3 9,400

Year 4 7,700

Year 5 3,500

Additional Inflows/Outflows:

£000

Year 3 Additional Capital Expenditure 1,800

Year 4 Sale of Capital Equipment 5,200

In addition, the cost of winding up the project is estimated to be 20% of the initial investment cost, payable immediately on completion of the project.

Khan Enterprises has a Cost of Capital of 10%.

DISCOUNT TABLE (from 10% to 15%)						
Present value of £1 received after n years discounted at i%						
i	10	11	12	13	14	15
n						
1	0.909	0.901	0.893	0.885	0.877	0.870
2	0.826	0.812	0.797	0.783	0.769	0.756
3	0.751	0.731	0.712	0.693	0.675	0.658
4	0.683	0.659	0.636	0.613	0.592	0.572
5	0.621	0.593	0.567	0.543	0.519	0.497

- (a) Using the Discount Table above, calculate the Net Present Value (NPV) for **Project A**.

2. PART B (continued)

The following information relates to **Project B**:

Initial Cost (£000)	36,000
Life of Project	5 years
Total Cash Inflow (£000)	52,000
NPV at 10% (£000)	3,416
NPV at 15%	?

- The Cash Inflows are spread evenly across the life of project.
 - There are no winding up costs with this project.
- (b) Using only the NPV at 10% as the criteria, recommend which project should be undertaken, giving a reason for your answer. 1
- (c) Calculate the NPV of **Project B** at 15%. 3
- (d) Calculate the Internal Rate of Return (IRR) for **Project B**. 3
- (e) **Project A** has an IRR of 14.21%. Using only the IRR as the criteria, recommend which project should be undertaken, giving a reason for your answer. 1
- (f) The projects are ‘mutually exclusive’. State what this means. 1
- (g) Outline **2** disadvantages of using a discounted cash flow method such as NPV or IRR when appraising a proposed capital investment. 2

[Turn over

SECTION 2 — 60 marks

Attempt ALL questions

3. PART A

Brown, Cameron and Drennan are in partnership sharing profits and losses in the ratio 3:2:1. The Statement of Financial Position of their business on 31 December Year 3 is shown below.

	£	£	£
Non-current Assets	At Cost	Aggregate Depreciation	Net Book Value
Property	100,000		100,000
Furniture	33,000	8,000	25,000
Motor Vehicles	80,000	32,000	<u>48,000</u>
			173,000
Current Assets			
Inventory		72,000	
Trade Receivables		36,000	
Cash and Cash Equivalents		<u>25,200</u>	<u>133,200</u>
Total Assets			306,200
Current Liabilities			
Trade Payables		30,000	
Non-current Liabilities			
Loan from Brown		<u>72,000</u>	
Total Liabilities			<u>102,000</u>
Net Assets			204,200
Equity Accounts			
Brown		90,000	
Cameron		60,000	
Drennan		<u>30,000</u>	
		180,000	
Current Accounts			
Brown	14,000		
Cameron	12,400		
Drennan	<u>(2,200)</u>	<u>24,200</u>	204,200

3. PART A (continued)

The partners have agreed to dissolve the partnership with immediate effect. The details relating to the dissolution are as follows:

1. Property was taken over by Brown at a value of £96,000.
2. The furniture was sold at 75% of its net book value.
3. Cameron took over one of the firm's motor vehicles at a net book value of £8,000. The remainder were sold at auction for £35,000.
4. Inventory sold realised £90,000.
5. Trade receivables were sold on to a specialist invoice factoring firm, with the partnership realising 90% of their book value.
6. The loan was repaid to Brown.
7. Trade payables were paid by cheque and allowed a discount of £4,000.
8. Realisation expenses amounted to £1,350.
9. Cash and cash equivalents relates to funds held in the partnership's bank account.

Prepare the following.

- | | |
|-----------------------------------|----|
| (a) The Realisation Account. | 11 |
| (b) Drennan's Equity Account. | 3 |
| (c) The Partnership Bank Account. | 6 |

[Turnover

3. PART B

Samson Industries plc is preparing a Statement of Cash Flows for Year 4.

Corporation Tax Information	
	£million
Tax due for Year 4 (from Income Statement)	27.4
Tax owing at end of Year 4	15.8
Tax owing at end of Year 3	18.3

- (a) Calculate the amount of Corporation Tax which should appear in the Statement of Cash Flows.

3

Working Equity Information	End of Year 4	End of Year 3
	£million	£million
Relevant Current Assets	8.5	12.2
Relevant Current Liabilities	14.1	11.9

- (b) Calculate the Working Equity changes, stating clearly if each calculation represents a cash inflow or cash outflow.

2

Non-current Asset Information	
	£million
Disposals at cost	10.4
Cash proceeds from disposals	5.0
Depreciation on disposals	2.6
Total depreciation at end of Year 4	30.3
Total depreciation at end of Year 3	20.7

- (c) (i) Calculate the profit/loss from the sale of Non-current Assets.
(Note — you must clearly indicate whether there is a profit or loss made and whether this amount is added to or deducted from operating profit.)
- (ii) Calculate the depreciation to be included in the Statement of Cash Flows for the year.

3

2

[Turn over for next question

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4. Thompson Tourers plc is a manufacturer of luxury caravans. It produces 4 models: Atlas, Borneo, Canyon and Discovery. Production takes place in 3 departments: Forming, Assembly and Fit-out.

The following estimated data for Year 3 has been provided.

1. Overhead costs:

Forming	Assembly	Fit-out
£251,100	£617,600	£322,000

2. Current departmental overhead absorption rates:

Department	Basis	Rate
Forming	Machine Hours	£15.50
Assembly	Labour Hours	£31.20
Fit-out	Per Production Unit	£1,400

3. Additional information:

			Atlas	Borneo	Canyon	Discovery
Units produced and sold:			40	50	80	60
Department:	Forming	Machine Hours	2,400	4,000	5,600	4,200
	Assembly	Labour Hours	2,800	3,500	7,200	6,300
	Fit-out	Labour Hours	1,800	1,800	2,600	2,672

- (a) Calculate the overhead charge per unit for each of the caravans produced.

5

4. (continued)

The company's accountants are considering a change from the current departmental basis for absorbing overheads to an Activity Based Costing (ABC) system. In order to examine the impact of this, the same Year 3 data has been analysed on an activity basis as follows:

Activity	Cost	Cost Driver
Tooling setup	£667,000	Number of production runs
Material Requisitioning	£316,000	Number of requisitions
Quality Control	£123,948	Number of production runs
Delivery	£83,752	Number of deliveries

- Atlas, Borneo and Canyon will be produced in groups of 10 at a time.
 - Discovery will be made in groups of 5 at a time.
 - Each caravan requires 20 material requisitions.
 - Delivering each group of finished caravans requires 2 trips, due to capacity limits on transport vehicles.
- (b) Using the information provided, calculate the following (rounded to the nearest £).
- | | |
|--|---|
| (i) The overhead absorption rate for each activity. | 9 |
| (ii) The total overhead absorbed per activity, for each product. | 8 |
| (iii) The overhead charge per unit for each product. | 2 |
- (c)
- | | |
|--|---|
| (i) Describe the key features of an Activity Based Costing (ABC) system. | 3 |
| (ii) Justify the use of Marginal Costing within a business. | 3 |

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