Paper Reference(s)

6002/01

London Examinations GCE

Accounting (Modular Syllabus)

Advanced Subsidiary/Advanced Level

Unit 2 – Corporate and Management Accounting

Friday 18 January 2008 – Afternoon

Source booklet for use with Questions 1 to 7.

This source booklet is NOT to be returned with the paper.

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SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

1. The following balances remained in the books of Peninsular Film Studios plc at 31 December 2007.

	Debit	Credit
	£	£
Buildings	560 000	
Called-up share capital not paid	900	
Cash at bank		14 000
Cash in hand	28 000	
Creditors – trade		57 000
Debtors – trade	6 000	
12% Debenture 2012		400 000
Goodwill	120 000	
Interest on debenture		24 000
Machinery (net book value)	215 000	
Ordinary share capital called up		490 910
Patents	65 000	
Prepayments	2 700	
Profit and loss account	48 510	
Revaluation reserve		130 000
Rent receivable	1 200	
Share premium account		100 000
Stocks of consumables	6 600	
Taxation provision		178 000
Work in progress	340 000	

Notes and final adjustments:

(i) The buildings are to be revalued to a market value of £600 000 on 31 December 2007.

(ii) The bank requires the overdraft to be repaid by 30 June 2008.

(iii) The taxation provision must be paid by 30 September 2008.

Required:

(a) Prepare the balance sheet for Peninsular Film Studios plc as at 31 December 2007 in accordance with format one of the Companies Act 1985.

(20)

(b) Evaluate the importance of the Auditors' Report that accompanies the financial statements of a company.

(6)

(Total 26 marks)

Answer space for question 1 is on pages 2 to 5 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 2

2. World of Pots Limited produces clay pots used for growing plants. All pots are produced to orders, and no stocks of pots are held.

For the month of December 2007, the following information is available.

Budget:

- Each pot should use 15 kilograms of clay in production.
- Clay is to be purchased from suppliers at a rate of £0.07 per kilogram.
- Workers are to be paid £5.60 per hour, and are to produce 4 pots per hour.

Actual:

- 51 500 kilograms of clay were used for production at a total cost of £4 120.
- 822 hours of labour were used for production at a total cost of £4 674.
- The budgeted sales target of 3 200 pots at £4.95 per pot was achieved.
- Fixed costs for the month totalled £1 600.

Required:

(a) Stating the formula used in each case, calculate for December 2007:

(i) the variances for materials usage, materials price, and total materials cost. **(6)**

(ii) the variances for labour efficiency, labour rate, and total labour cost. **(6)**

(b) Calculate the actual profit for the month. **(3)**

The directors of World of Pots Limited expect the higher cost figures for December to apply in the following January, and have decided to charge these extra costs to customers by increasing the price of each pot sold. They plan to make the same amount of profit on each pot sold (in pounds and pence) in January as they expected to make in the December budget.

Required:

(c) Calculate

- for December, the production cost of **one** pot.
- for January, the expected production cost of **one** pot and the selling price of **one** pot.

(5)

(d) Evaluate the decision to pass on the increase in production cost to the customer.

(6)

(Total 26 marks)

Answer space for question 2 is on pages 6 to 10 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 3

3. The capital and reserves section from the balance sheet of EuroMed Trading plc at the start of the financial year on 1 January 2007 was as follows:

	£
Ordinary share capital – fully paid £1 shares	800 000
10% Redeemable preference share capital – fully paid £1 shares	125 000
Share premium account	160 000
Capital redemption reserve	125 000
Revaluation reserve	150 000
Profit and loss account	227 000
General reserve	75 000

The only movement on these accounts during the year was that on 1 December 2007 the directors redeemed all £1 10% redeemable preference shares at par, and issued 50 000 £1 ordinary shares at a premium of 20 pence per share.

Required:

(a) Distinguish between capital reserves and revenue reserves, giving **two** examples of each type.
(6)

(b) Prepare the ledger accounts for the financial year ended 31 December 2007 for the following:

- Preference share capital account
- Ordinary share capital account
- Share premium account
- Capital redemption reserve account

(11)

The profit for the financial year ended 31 December 2007 was calculated to be £146 000 after interest and taxation.

Required:

(c) Calculate the return on capital employed for the year ended 31 December 2007, stating the formula used.
(3)

(d) Evaluate the decision of the directors to redeem the preference shares and issue ordinary shares.
(6)

(Total 26 marks)

Answer space for question 3 is on pages 11 to 15 of the question paper.

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 4

4. Mushtaq and Hasan have decided to start their own business, Chatanooga Timber Limited. They plan to buy timber and sell to builders and other customers.

Mushtaq and Hasan will each invest £10 000 as share capital. There is £20 000 additional capital in the form of a bank loan.

At the start of month 1, Mushtaq and Hasan will pay:

- £12 500 for premises
- £13 000 for fixtures and fittings with an expected life of 10 years
- £22 000 for stock.

During the next three months purchases of stock are expected to be:

- Month 2 £7 000
- Month 3 £8 400
- Month 4 £10 080

During this period, credit is not available from suppliers.

Sales are expected to be £14 000 for the first month, increasing by 20% every month, as the business builds up customers. From month 1, Chatanooga Timber Limited will offer credit terms to customers, to be paid in the month following the sale. Each month 25% of sales are expected to be on credit.

General expenses are expected to be £4 000 per month, payable during the month incurred.

Mushtaq and Hasan plan to make directors' drawings of £400 each a week.

Assume 4 weeks in every month.

Required:

(a) Prepare a cash budget for the first **four** months of trading.

(10)

(b) Prepare a debtors budget, to show the value of debtors at the end of each month.

(2)

(c) Evaluate whether the expected level of directors' drawings is appropriate for the business during the first four months of trading.

(4)

(Total 16 marks)

Answer space for question 4 is on pages 16 to 18 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 5

5. Demetri Geekos is interested in computers. He has been given money by his grandfather, which he intends to invest in a firm in the computer industry. He has decided to invest in one of two firms, Grapefruit plc or Hallway plc. Demetri has carried out research on the internet and obtained the following information.

	Grapefruit plc	**Hallway plc**
Number of £1 ordinary shares issued	850 000	625 000
Net profit for year after interest and tax	£97 500	?
Earnings per ordinary share	?	11 pence
Total ordinary dividend paid for year	£51 000	?
Dividend cover	?	2.4 times
Share price	£1.03	?
Price/earnings ratio	?	12
Dividend paid per share	?	4.58 pence
Dividend yield	5.83%	?

Demetri knows you are an accountancy student and asks your advice.

Required:

(a) Calculations to complete the table.

(12)

(b) Evaluate the information in the table and calculated in (a) in order to recommend the company in which Demetri should invest.

(4)

(Total 16 marks)

Answer space for question 5 is on pages 19 to 21 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 6

6. PanAsiatic plc is a multinational oil company, with oil wells in a number of countries. Every quarter (three months) the directors review the profitability of each oil well. At present, the market price of oil is £35 a barrel. PanAsiatic would not be able to raise its selling price of oil, as buyers would purchase from other suppliers.

Figures for the three wells in the Central Region, for the quarter (three months) ended 31 December 2007, were:

	Al Quarat	Jenberouk	Sudamis
Direct labour	£1 800 000	£2 400 000	£1 000 000
Direct materials	£600 000	£900 000	£480 000
Fixed costs	£2 880 000	£4 200 000	£240 000
Production in barrels	120 000	300 000	40 000

Required:

(a) Calculate the total profit or loss of the Central Region oil wells for the quarter (three months) ended 31 December 2007. Within the total, show the profit or loss for the oil wells at Al Quarat, Jenberouk, and Sudamis.

(6)

(b) Calculate the profit or loss, and the contribution, made by each of the three oil wells, **per barrel**, for the quarter (three months) ended 31 December 2007.

(6)

(c) Evaluate the figures calculated in (b) to make a decision as to the future of each of the three oil wells.

(4)

(Total 16 marks)

Answer space for question 6 is on pages 22 to 24 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 7

7. The senior accountant at Shuhang Engineering is about to prepare the Cash Flow Statement (FRS 1 Revised) for the year ended 31 December 2007. She requires you, the junior accountant, to assist her. You are asked to prepare reconciliations, which she hopes will agree with the figures she calculated in the Cash Flow Statement.

The following information is available:

	31 December 2006	31 December 2007
	£	£
Current assets		
Stocks	15 466	16 194
Debtors	2 941	2 432
Cash	765	987
	19 172	19 613
Current liabilities		
Trade creditors	2 876	2 820
Accrued expenses	694	774
Taxation due	2 278	1 765
Proposed ordinary dividends	3 000	2 000
Overdraft	2 853	4 096
	11 701	11 455

Additional information:

(i) Net operating profit after interest was £27 680.

(ii) Interest charges on the overdraft for the year were £415.

(iii) A bank loan for £15 000 at 12% interest, repayable in 3 years, was received on 1 May 2007.

(iv) Depreciation is charged only on assets in the books at the year end.

(v) Machinery bought on 1 January 2006 had a net book value of £60 000 at 31 December 2006, and was still in the books at 31 December 2007. Depreciation is charged at the rate of 25% per year, using the straight line method.

(vi) Computers were bought for £3 600 on 1 July 2007, with an expected life of 2 years. Depreciation is charged for the fraction of the year that the asset is held.

(vii) On 1 October 2007, a motor van with a net book value of £12 000 was sold for £13 500.

(viii) On 2 December 2007, furniture with a net book value of £1 800 was sold for £990.

Required:

(a) A statement reconciling the net operating profit to the net cash flow from operating activities, for the year ended 31 December 2007.

(9)

(b) An analysis of the changes in bank and cash balances for the year ended 31 December 2007.

(3)

(c) Evaluate the importance of liquidity to a business.

(4)

(Total 16 marks)

Answer space for question 7 is on pages 25 to 28 of the question paper.

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