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Paper Reference(s)

6002/01

London Examinations GCE

Accounting (Modular Syllabus)

Advanced Subsidiary/Advanced Level

Unit 2 – Corporate and Management Accounting

Wednesday 27 January 2010 – Afternoon

Source booklet for use with Questions 1 to 7.

Do not return this booklet with the question paper.

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SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

1. Rajshahi Footwear plc produces shoes at its factory. The shoes are then delivered to the company's shops before sale to customers. The trial balance at 31 December 2009 was as follows.

	Debit £	Credit £
Advertising	72 000	
Bank	118 000	
Cash	77 000	
Creditors		98 000
Direct materials	456 000	
Factory buildings at cost	2 800 000	
Fuel for vehicles	63 000	
Interest on bank loan	88 000	
Long term bank loan		800 000
Motor lorries – net book value	360 000	
Office expenses	81 000	
Ordinary shares £1		1 000 000
Professional fees	53 000	
Profit and loss account		303 000
Rent on shop premises	102 000	
Sales		2 777 000
Stock of finished goods at 1 January 2009	83 000	
Wages	625 000	
	4 978 000	4 978 000

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Additional information at 31 December 2009:

- Stock of finished goods £85 000.
- Interest on bank loan £8 000 owing.
- Rent on shop premises includes £7 000 paid in advance.
- Wages include:

	£
Shop staff	204 000
Lorry drivers	97 000
Direct factory labour	324 000

- Assuming a nil residual value and using the straight line method, the factory building is to be depreciated over a 40 year life.
- A provision for corporation tax of £175 000 is to be made.

Required:

Final accounts must be prepared using Format 1 as required by the Companies Act 1985. Show all workings clearly labelled in arriving at your figures.

Note:
- Notes required by the Companies Act 1985 are **not** required.
- Ignore all the exemptions permitted for small and medium sized companies.

(a) Prepare for Rajshahi Footwear plc a:

(i) profit and loss account for the year ended 31 December 2009

(24)

(ii) balance sheet as at 31 December 2009.

(16)

(b) Evaluate the usefulness of limited companies preparing their final accounts in accordance with the Companies Act 1985.

(12)

(Total 52 marks)

Answer space for question 1 is on pages 2 to 7 of the question paper.

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SOURCE MATERIAL FOR USE WITH QUESTION 2

2. West Anglian Farms has purchased a farm. The farm consists of four fields of different sizes.

The field sizes are:

Field	A	B	C	D
Size (hectares)	120	100	85	65

The owners have decided to grow four different crops, one crop in each field for the next year.

The information is as follows:

Crop	Wheat	Barley	Sugar	Maize
Output per hectare (tonnes)	8	5	10	3
Variable costs per tonne	£50	£70	£450	£100
Market price per tonne	£150	£160	£800	£200

Required:

(a) (i) Calculate the contribution per hectare for each of the four crops.

(12)

(ii) Arrange the contribution per hectare from each of the four crops in order, starting with the largest.

(2)

(iii) Decide the field in which each of the four crops will be grown to obtain maximum contribution.

(2)

(iv) Calculate the maximum profit for the year for West Anglian Farms if fixed costs for the year are £328 000.

(14)

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The owners estimate that income from all sales will be as follows:

July	August	September
35%	50%	15%

(b) Prepare a **sales budget** for the months July, August and September.

(10)

(c) Evaluate the usefulness to West Anglian Farms of preparing a **cash budget** for the year.

(12)

(Total 52 marks)

Answer space for question 2 is on pages 8 to 15 of the question paper.

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SOURCE MATERIAL FOR USE WITH QUESTION 3

3. BowTie plc is an advertising agency which has the following authorised share capital:

Nominal value £1 shares	Type
900 000	ordinary shares
200 000	8% preference shares

The following balances were available on 1 January 2009:

	£
11% debenture 2014	400 000
Ordinary share capital	700 000
8% preference share capital	150 000
Profit and loss reserve	174 000
Revaluation reserve	90 000

For the financial year ended 31 December 2009, the profit on ordinary activities after tax was £226 000.

In December 2009, the directors of BowTie plc made the following decisions:

(i) Provide a final dividend to ordinary shareholders of 5.2 pence per share. The dividend was paid on 31 December 2009.

(ii) The preference shares are cumulative and during the year ended 31 December 2008 preference shareholders received a 6% dividend. The directors decided to provide for arrears of dividend from last year together with this year's dividend in full.

(iii) Create a general reserve and transfer a sum of £40 000 into the general reserve.

(iv) Revalue the property from £500 000 to a market value of £560 000.

(v) Redeem £75 000 of the preference shares at par.

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Required:

(a) Journal entries to show items (i) to (v) as recorded in the books of BowTie plc. Dates and narratives are **not** required.

(18)

(b) The Capital and Reserves section from the balance sheet after the Journal entries from part (a) have been entered into the books.

(14)

(c) Calculate the gearing ratio for BowTie plc on 31 December 2009, clearly stating the formula used.

(8)

(d) Evaluate the decisions of the directors in 2009 from the point of view of an ordinary shareholder.

(12)

(Total 52 marks)

Answer space for question 3 is on pages 16 to 22 of the question paper.

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SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 4

4. Yasmin Faraz makes tablecloths in her workshop. She has recently introduced a standard costing system.

The following information is available for December 2009:

- Each standard costing period of one month is to be 4 weeks.
- The workshop employs 7 production staff, working 9 hours per day, 5 days per week.
- Production staff are paid a basic wage of £6.50 per hour.
- A production target for each worker is to be introduced and this is to produce one tablecloth every 45 minutes.
- To meet the production target for December, each production worker worked one hour overtime per day, for the final four days of the month.
- Overtime is paid at a rate of £11.00 per hour.

Required:

(a) Calculate for December 2009 the:

(i) standard hours worked, and the actual hours worked **(4)**

(ii) labour efficiency variance **(4)**

(iii) total standard wages cost, and the total actual wages cost **(4)**

(iv) total wages cost variance **(4)**

(v) actual wage rate **(4)**

(vi) wage rate variance. **(4)**

(b) As Yasmin Faraz's accountant, evaluate the likely effects of a standard costing system on the production workers. **(8)**

(Total 32 marks)

Answer space for question 4 is on pages 23 to 26 of the question paper.

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SOURCE MATERIAL FOR USE WITH QUESTION 5

5. SkyeLine Limited produces roof tiles for the building industry. The projected figures for the next quarter (3 months) are as follows:

- Factory rent £6 000 per quarter
- Management salaries £11 000 per quarter
- Material costs 15 pence (£0.15) per tile
- Direct labour costs 10 pence (£0.10) per tile
- Delivery costs 2 pence (£0.02) per tile
- Other fixed costs £4 750 per quarter
- Selling price 85 pence (£0.85) per tile

Normal sales for SkyeLine Limited are 50 000 tiles per quarter. However, the building industry is in a recession, and projected sales for the next quarter are 35 000 tiles.

Required:

(a) Calculate the expected break-even point for the next quarter in:

(i) units of output (tiles)

(ii) sales revenue.

(8)

(b) Calculate the projected profit or loss for the next quarter.

(4)

The Chairman of SkyeLine Limited has set a target profit of £10 000 for the next quarter.

(c) Assuming all costs and selling prices remain the same, calculate the:

(i) units of output (tiles) that must be sold to achieve the target profit of £10 000

(5)

(ii) margin of safety, in units of output (tiles), if the target profit of £10 000 is reached.

(3)

At a board meeting, the Managing Director makes the following suggestions:

- Increase the selling price by 15 pence (£0.15) per tile
- Negotiate a decrease in the rent to £4 000 per quarter
- Reduce the management salaries to £8 000 per quarter
- Pay direct labour 9 pence (£0.09) per tile
- Reduce other fixed costs to £3 750 per quarter
- Ensure sales are 35 000 tiles during the quarter.

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(d) Calculate the expected profit if the Managing Director's suggestions are carried out.

(4)

(e) Evaluate the suggestions of the Managing Director.

(8)

(Total 32 marks)

Answer space for question 5 is on pages 27 to 31 of the question paper.

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SOURCE MATERIAL FOR USE WITH QUESTION 6

6. The senior accountant at Manakopolous plc has prepared the Cash Flow Statement (FRS 1 Revised) for the year ended 31 December 2009. He requires you, the junior accountant, to assist him. You are asked to prepare a reconciliation, which he hopes will agree with the figures he calculated on the Cash Flow Statement.

You are given the following information:

	31 December 2008	**31 December 2009**
	£	**£**
Current assets		
Stocks – finished goods	21 412	20 320
Stocks – work in progress	11 024	15 039
Debtors	4 329	2 135
Prepayments	750	520
Bank	8 904	–
Cash	3 581	1 986
	50 000	40 000
Current liabilities		
Trade creditors	11 896	15 843
Accrued expenses	1 460	1 578
Debenture interest	12 000	12 000
Taxation due	20 644	22 135
Proposed ordinary dividends	4 000	3 000
Bank overdraft	–	5 444
	50 000	60 000

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Additional information:

(i) Net operating profit after interest was £98 438.

(ii) Interest charges on the bank overdraft for the year were £776.

(iii) The debenture interest is payable on a 12% debenture of £200 000 repayable in 2015.

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

(v) Machinery bought on 1 January 2007 had a net book value of £60 000 at 31 December 2008, and was still in the books at 31 December 2009. Depreciation is at a rate of 20% per year, using the straight line method.

(vi) Total depreciation on all other fixed assets for 2009 is £15 000.

(vii) On 12 September 2009, a motor van with a net book value of £18 000 was sold for £15 600.

(viii) On 4 December 2009, furniture with a net book value of £1 250 was sold for £1 675.

Required:

(a) Provide a statement reconciling the net operating profit to the net cash flow from operating activities for the year ended 31 December 2009.

(18)

(b) Give an analysis of the changes in bank and cash balances for the year ended 31 December 2009.

(6)

Maria Manakopolous, the Marketing Director, has studied the figures and said "I am concerned about the liquidity of the business".

(c) Evaluate this statement.

(8)

(Total 32 marks)

Answer space for question 6 is on pages 32 to 35 of the question paper.

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SOURCE MATERIAL FOR USE WITH QUESTION 7

7. MetroTransit plc has been offered a contract by the government to build an underground railway across the city. MetroTransit plc will be able to operate the railway, and collect and retain all fares, for five years before the government takes over the railway. The directors of MetroTransit plc are considering whether to accept the contract and invest in the project.

The following information is available:

(i) Forecasts show that the initial cost of the investment will be £900 million (£900 000 000).

(ii) Depreciation on all fixed assets of the railway is forecast to be £135 million (£135 000 000) per year for each of the five years.

(iii) Operating expenses, including depreciation, for the first two years are forecast to be £228 million (£228 000 000) per year. In year three, operating expenses, including depreciation, are forecast to rise by 5%. In years four and five, operating expenses are forecast to stay at the same level as in year three.

(iv) The railway will run for 365 days of the year.

(v) In years one, two and three, it is forecast that the railway will carry 280 000 passengers per day, paying a fare of £4 each.

(vi) In years four and five, it is forecast that the railway will carry 310 000 passengers a day, and the price of a fare will rise by 10%.

(vii) The company's cost of capital is 11%.

(viii) The following is an extract of the present value table:

	11%
Year 1	0.901
Year 2	0.812
Year 3	0.731
Year 4	0.659
Year 5	0.593

Required:

(a) Calculate the net present value for the project.

(24)

(b) Evaluate the project for MetroTransit plc, using the calculations made and considering any other relevant factors.

(8)

(Total 32 marks)

Answer space for question 7 is on pages 36 to 38 of the question paper.

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