Paper Reference(s)

6002/01

London Examinations GCE

Accounting (Modular Syllabus)

Advanced Subsidiary/Advanced Level

Unit 2: Corporate and Management Accounting

Thursday 26 January 2012 – Afternoon

Source booklet for use with Questions 1 to 7.

Do not return the insert with the question paper.

Printer's Log. No.
P40326RA

W850/6002/57570 1/1/1/1/1/1

Turn over

PEARSON

SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

1. Home Gaming plc had the following balances in the books at December 31 2011, before making some final adjustments.

	Debit	Credit
	£	£
Accruals		3 300
Buildings	1 754 000	
Bank loan		100 000
Cash in hand	3 000	
Computer equipment	649 000	
Copyright purchased	125 000	
Debenture 13% (2016)		800 000
Debenture Interest		52 000
Fittings	117 000	
Furniture	83 000	
General reserve		110 000
Goodwill purchased	85 000	
Interest on bank loan		10 000
Inventories (stocks)	132 000	
Machinery	380 000	
Ordinary £1 share capital		2 000 000
Overdraft		41 000
Patents purchased	165 000	
Prepayments	5 400	
Retained earnings at 1 Jan 2011	214 000	
Rent received	2 000	
Revaluation reserve		15 000
Share premium account		125 000
Trade payables (creditors)		11 000
Trade receivables (debtors)	27 900	

Notes and final adjustments:

- Profit before tax for the year ended December 31 2011, not yet entered above, is £475 000.
- The directors have decided to make a provision for likely Income Tax of £124 000, to be paid on the profit above. The tax authorities require all taxation to be paid by 30 September 2012.
- The directors decided to pay a dividend of 2.2 pence per share, which will be paid in February 2012.
- The bank requires the loan to be repaid in full by 30 April 2013.

Required:

(a) Prepare for Home Gaming plc as at 31 December 2011 **EITHER:**

- the appropriation account as required by the Companies Act 1985 **OR**
- the Statement of Changes in Equity in accordance with International Accounting Standard 1 (Revised).

(6)

(b) Prepare for Home Gaming plc as at 31 December 2011 **EITHER:**

- the balance sheet using Format 1 as required by the Companies Act 1985 **OR**
- the Statement of Financial Position in accordance with International Accounting Standard 1 (Revised).

(34)

The Statement of Financial Position, when drawn up in accordance with International Accounting Standard 1 (Revised), may not show Net Current Assets (Liabilities), also called Working Capital. A Balance Sheet, when drawn up in accordance with the Companies Act 1985, does show Net Current Assets (Liabilities).

Required:

(c) Evaluate whether you think it is beneficial to show Net Current Assets (Liabilities) on the Statement of Financial Position (Balance Sheet) for a company.

(12)

(Total 52 marks)

Answer space for question 1 is on pages 2 to 8 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 2

2. The directors of Bazaar Electricals Limited have purchased a new store. The store contains four departments of different sizes.

The department sizes are:

Department	A	B	C	D
Sales floor space (square metres)	100	80	60	50

The directors have decided to sell four different products, one product in each department, for the next year.

The following information is to be used to determine which product will be sold in each department:

Product	Televisions	Computers	Washing Machines	Freezers
Sales floor space required per item. (square metres)	1	0.5	1	2
Variable costs per item	£200	£250	£125	£150
Average selling price per item	£400	£375	£350	£300

Required:

(a) (i) Calculate the contribution **per square metre** for each of the four products.

(12)

(ii) Arrange the contribution **per square metre** from each of the four products in order, starting with the largest.

(2)

(iii) Decide the department in which each of the four products will be sold, in order to obtain the maximum contribution.

(2)

The fixed costs for the new store are £255 000 for the year.
The rate of stock turnover for each product is 8 times a year.

Required:

(b) Calculate the maximum profit for the year for Bazaar Electricals Limited.

(14)

A salesperson from Homebake Ovens Limited offers to supply the store with ovens to sell. The salesperson wishes to sell the ovens in Department D.

She tells the store manager the following figures are predicted.
- Average selling price per oven £325
- Variable costs per oven £125
- Sales floor space required per oven 1.25 square metres
- Rate of stock turnover 6 times per year

Required:

(c) Calculate the total expected contribution per year that would result if ovens were to be sold in Department D.

(10)

(d) Evaluate whether Bazaar Electricals Limited should sell ovens in Department D.

(12)

(Total 52 marks)

Answer space for question 2 is on pages 9 to 13 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 3

3. Atlantic Foods plc, a large American food producer, agreed to purchase the smaller UK food producer, Rowlands plc. The purchase took place on 6 January 2012. The directors of Atlantic Foods plc agreed to take over all of the assets except bank and cash balances, and to settle all the liabilities.

The balance sheet of Rowlands plc as at 31 December 2011 showed:

All assets £40 800 000
All liabilities £15 900 000
Equity and reserves £24 900 000

The following revaluations took place in the books of Rowlands plc in January 2012, before the takeover:

- Buildings were increased by 10% to a current market value of £10 450 000
- Machinery with a value of £1 500 000 was written down to a scrap value of £180 000
- Computer equipment with a book value of £600 000 was written off to a value of zero
- An exact figure for Trade Payables (Creditors) was agreed at £2 100 000, down from £2 200 000
- Stock was written down by £500 000 to its net realisable value.

Additional information concerning Rowlands plc:

- Bank balance £2 400 000 debit
- Cash balance £300 000
- The Profit and loss reserve balance is £4 900 000
- Equity share capital is £20 000 000, consisting of Ordinary shares of £1.25 each
- For every £1.25 share held in Rowlands plc, each shareholder would receive the following:
  – one £1 share in Atlantic Foods plc at a premium of £0.66 (the trading price is £1.66 a share)
  – £0.59 cash

Required:

(a) Show the Journal entries to close the following accounts in the books of Rowlands plc, **before** any revaluations have taken place. Narratives are not required.

(i) Buildings
(ii) Trade Payables (Creditors)
(iii) Ordinary Shares of £1.25

(8)

(b) Calculate the purchase price paid by Atlantic Foods plc for Rowlands plc.

(8)

(c) Calculate the Goodwill paid by Atlantic Foods plc for Rowlands plc.

(12)

(d) Prepare the Sundry shareholders account in the books of Rowlands plc.

(8)

(e) Explain how the Goodwill paid will be treated in the accounts of Atlantic Foods plc.

(4)

JD Dalton holds shares in Atlantic Foods plc.

(f) Evaluate the take-over on behalf of JD Dalton.

(12)

(Total 52 marks)

Answer space for question 3 is on pages 14 to 18 of the question paper.

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 4

4. Narayang Doors Limited has opened a factory and is to go into business producing doors, which are sold to a major chain of hardware stores. The following information is available.

- Materials for production will be delivered from Week 2 in Month 1. Each week, £3 150 of materials will be delivered. These materials will produce 75 doors a week.
- Production will start in Week 3 in Month 1. In each week, 75 doors will be produced which is the maximum production capacity of the factory.
- Sales are budgeted to be 72 doors a week, starting from Week 4 in Month 1.

  Any doors produced but not sold will be placed into stock in the warehouse.
- Materials are budgeted to be paid for 3 weeks after delivery. For example, materials delivered in Week 1 will be paid for in Week 4.
- Customers are budgeted to pay 4 weeks after a sale. For example, a door sold in Week 4 Month 1 will be paid for in Week 4 Month 2.
- The budgeted selling price of a door is £89.
- Assume 4 weeks in each month.

Required:

(a) Prepare, for the first **three** months of trading for Narayang Doors Limited: (The budgets should show MONTHLY totals and not weekly totals)

(i) A purchases budget in pounds (£s).

(3)

(ii) A purchases budget in units (doors).

(3)

(iii) A production budget in units (doors).

(3)

(iv) A sales budget in units (doors).

(3)

(v) A stock budget in units (doors). The budget should show the number of units going into stock each month, and the total number of units in stock at the end of each month.

(6)

(vi) A trade payables (creditors) budget in pounds (£s) showing the trade payables (creditors) figure at the end of each month.

(3)

(vii) A trade receivables (debtors) budget in pounds (£s) showing the trade receivables (debtors) figure at the end of each month.

(3)

(b) Narayang Doors Limited budgets to pay trade payables (creditors) after three weeks, and allows trade receivables (debtors) to pay after four weeks. Evaluate this method of cash budgeting (credit control).

(8)

(Total 32 marks)

Answer space for question 4 is on pages 19 to 22 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 5

5. You are the Finance Director for Kowloop Water plc. You have to present some important accounting ratios to the next Board Meeting.

The following information is available after the final accounts have been drawn up for the year ended 31 December 2011.

Ordinary shares of £1 each	£10 000 000
6% Preference shares of £1 each	£5 000 000
Profit and loss reserve	£6 000 000
5 year Bank Loan	£7 000 000
13% Debenture (2016)	£12 000 000
Net profit for year after interest and tax	£400 000
Dividend payable for year	£280 000
Market price of share	£1.20

Required:

(a) Calculate the gearing ratio, clearly stating the formula used.

(4)

(b) Evaluate the gearing ratio figure, stating how this figure could be improved.

(4)

(c) Calculate the following:

(i) Earnings per share

(3)

(ii) Price/earnings ratio

(3)

(iii) Dividend cover

(3)

(iv) Dividend yield

(3)

(d) Evaluate the ratios calculated in (c) above.

(4)

(e) State **two** ways in which each of the ratios calculated in (c) above could be improved for the business.

(8)

(Total 32 marks)

Answer space for question 5 is on pages 23 to 26 of the question paper

SOURCE MATERIAL FOR USE WITH QUESTION 6

6. Whirlwind Motorcycles Limited makes top of the range motorcycles. The directors decided to introduce a standard costing system, starting in December 2011.

The following figures were obtained for the month of December 2011.

	BUDGET	ACTUAL
	£	**£**
Sales	96 000	94 800
Less		
Material Costs	26 990	27 840
Labour Costs	32 640	33 660
Variable Overheads	17 970	15 635
= Cost of Goods Sold	77 600	77 135
Gross Profit	18 400	17 665
Less Fixed Overheads	14 430	14 430
Net Profit	3 970	3 235

Required:

(a) Explain the stages in establishing a **standard costing** system.

(4)

(b) Complete the last column in the table to show the variances for the month of December 2011.

(8)

The following information is also available for December 2011:

- A production figure of 6 motorcycles was budgeted and achieved.
- Budgeted labour costs were 20 workers, each working 160 hours in the month, at £10.20 per hour.
- To complete the budgeted production, 10 workers each had to work 5 hours overtime, at "double time" pay rate.

Required:

(c) Calculate the

(i) labour efficiency variance for the month of December, stating the formula used.

(6)

(ii) labour rate variance for the month of December, stating the formula used.

(6)

(d) Evaluate the usefulness of a standard costing system to Whirlwind Motorcycles Limited.

(8)

(Total 32 marks)

Answer space for question 6 is on pages 27 to 29 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 7

7. You are in practice as an accountant and have a meeting with a client, Varnavas Constantinou, who owns a fast food restaurant where meals are cooked and then delivered.

The accounts of Varnavas show:

(i) Rent of premises is £ 1 080 per quarter (per three month period).

(ii) Cost of gas to produce one meal is £0.10.

(iii) Direct labour is £0.25 per meal cooked.

(iv) A motor scooter was purchased for delivery, at a cost of £2 500. The scooter has a life of 4 years and a scrap value of £100. Depreciation is to be charged on a straight line basis.

(v) Delivery costs per meal are £0.35.

(vi) Insurance for the year is £504.

(vii) Cost of electricity is £15 a week plus £0.05 per meal cooked.

(viii) Selling price of a meal is £3.95.

(ix) Sales are 6 200 meals per year.

Note: Assume that there are 4 weeks in a month and 48 weeks in a working year.

Required:

Answer the following questions put forward by Varnavas, using the information above.

(a) "Is profit the same as the margin of safety?" Explain your answer. **(6)**

(b) "How many meals **per month** must I sell in order to break even?" **(12)**

(c) "How much profit do I make in **one year**?" **(6)**

Varnavas says "It is easier to control fixed costs than variable costs."

(d) Evaluate this statement. **(8)**

(Total 32 marks)

Answer space for question 7 is on pages 30 to 33 of the question paper.
