Paper Reference(s)

6002/01

London Examinations GCE

Accounting (Modular Syllabus)

Advanced

Unit 2 – Corporate and Management Accounting

Wednesday 12 June 2013 – Morning

Source booklet for use with Questions 1 to 7.

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SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

1. Hong Kong Cameras plc produces cameras at its factory. The cameras are then delivered to Hong Kong Cameras plc shops, where they are sold to customers.

At 31 March 2013, the following balances were in the books:

	Debit £	Credit £
Bad debts written off	1 850	
Bank	38 762	
Commission on sales	52 750	
Corporation tax provision		90 000
7% Debentures 2018		500 000
Direct materials	320 855	
Directors' salaries	290 000	
Discount allowed	45 997	
Discount received on materials		7 150
Factory buildings (at cost)	3 840 000	
Factory machinery (at cost)	365 000	
Factory power	48 950	
Fuel for lorries	35 460	
Interest on bank balance		2 836
Inventory of finished goods at 1 April 2012	134 800	
Maintenance of machinery	44 780	
Motor lorries (at cost)	172 000	
Office stationery	3 865	
Ordinary shares of £1 each		1 500 000
Promotions and advertising	65 000	
Rent on shop premises	298 000	
Retained earnings		369 629
Revenue (sales)		4 183 693
Running costs of motor lorries	36 880	
Trade payables		21 100
Trade receivables	17 459	
Wages	862 000	
	6 674 408	6 674 408

Adjustments and additional information at 31 March 2013:

- Inventory of finished goods £138 400
- Inventory of office stationery £571
- Interest on bank balance has £242 outstanding
- Directors' salaries include:

Finance director	£95 000
Production director	£95 000
Sales director	£100 000

- Factory power includes £4 000 paid in advance
- Wages include

Accountancy staff	£71 800
Production staff	£339 100
Office staff	£141 200
Shop staff	£197 500
Transport staff	£112 400

- Assuming a nil residual value in each case and using the straight line method:

  – the factory buildings are to be depreciated over a 50 year life
  – factory machinery is to be depreciated over an eight year life
  – motor lorries are to be depreciated over a four year life.

Required:

(a) Using **only** the appropriate balances and adjustments, prepare the Statement of Comprehensive Income for Hong Kong Cameras plc for the year ended 31 March 2013, using International Accounting Standard (IAS) 1.

You must show all workings **clearly labelled** in arriving at your figures to be entered in the Statement of Comprehensive Income.

(40)

(b) Evaluate the usefulness of the Auditors' Report to the users of the published accounts of Hong Kong Cameras plc.

(12)

(Total 52 marks)

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

SOURCE MATERIAL FOR USE WITH QUESTION 2

2. Chandpur Sounds Limited produces speakers for home music systems. It has been normal practice by senior management to ask the accountant to value inventory using both the marginal costing method and the absorption costing method.

The following information is available for the year ended 31 March 2013:

Opening inventory	2 100 units
Opening inventory value:	Marginal costing £25 200
	Absorption costing £33 600
Production	84 000 units per year
Semi-Variable costs	£202 800 fixed element per year plus £0.70 per unit of production
Fixed overheads	£12 500 per month
Direct materials	£6.90 per unit
Direct labour	40 minutes work per unit at a wage rate of £6.90 per hour
Selling price	£25 per unit
Closing inventory	2 450 units

Required:

(a) Prepare for management, in columnar format, a Statement of Comprehensive Income for the year ended 31 March 2013, showing:

(i) marginal costing inventory valuation
(ii) absorption costing inventory valuation

(20)

In March 2013, a possible customer is interested in buying the product, but is only prepared to offer £15 per unit.

Required:

(b) Advise the management of Chandpur Sounds Limited whether this offer should be accepted.

(8)

The semi-variable costs above are charged by a power company. The power company has informed Chandpur Sounds Limited that, from 1 April 2013, the charges for power will change. They have offered Chandpur Sounds Limited the choice of three options.

The three options are:

Option 1 A fixed rate of £23 000 per month
Option 2 An increase in the fixed element of £202 800 per year by 5%, with the variable charge to remain at £0.70 per unit of production.
Option 3 A monthly charge of £16 200, plus a variable charge of £0.90 per unit of production.

Required:

(c) (i) Advise the management of Chandpur Sounds Limited which Option they should accept, if output is expected to be 84 000 units for the year starting 1 April 2013.

(7)

(ii) Which Option would be the best option for Chandpur Sounds Limited, if output were greater or less than 84 000 units for the year starting 1 April 2013?

(5)

(d) Evaluate whether Chandpur Sounds Limited should use marginal costing or absorption costing to value inventory.

(12)

(Total 52 marks)

Answer space for question 2 is on pages 8 to 13 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 3

3. The Statements of Financial Position of Larnaca Distributors plc at 31 March 2012 and 31 March 2013 were as follows:

	31 March 2012	31 March 2013
ASSETS	£	£
Non-current assets		
Non-current assets at cost	800 000	720 000
Provision for depreciation	(400 000)	(388 000)
	400 000	332 000
Current assets		
Inventories	323 000	346 000
Trade and Other receivables	197 000	212 000
Cash and cash equivalents	77 000	71 000
	597 000	629 000
Total Assets	997 000	961 000
EQUITY AND LIABILITIES		
Equity		
Share capital – £1 Ordinary shares	500 000	550 000
Retained earnings	180 000	139 000
Total capital and reserves	680 000	689 000
Non-current liabilities		
8% Debenture 2013	80 000	--------
Current liabilities		
Trade and Other payables	219 000	270 000
Tax payable	18 000	2 000
	237 000	272 000
Total Equity and Liabilities	997 000	961 000

Additional information:

1. Motor vans bought for £140 000 were sold for £36 000 on 1 April 2012. The carry over (net book) value of these motor vans was £42 000.

2. Computers were bought for £60 000 on 1 April 2012 and are expected to last for three years, with no residual value.

3. At 15 May 2012 a final dividend of 5 pence per share was paid to shareholders.

4. An issue of 50 000 £1 Ordinary shares at par was made on 1 October 2012. All shares were purchased and have been fully paid.

5. At 30 March 2013, an interim dividend of 4 pence per share was paid to all Ordinary shareholders.

6. The £80 000 8% Debenture was repaid on 31 March 2013.

7. Operating profit before tax for the year ended 31 March 2013 was £8 000

Required:

(a) Prepare the Statement of Cash Flows for the year ended 31 March 2013 for Larnaca Distributors plc in accordance with International Accounting Standard (IAS) 7 Statements of Cash Flows.
(40)

(b) Evaluate the current liquidity position of Larnaca Distributors plc.
(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. You are in practice as an accountant and have a meeting with a client, Sunny Kipwat, who owns a fruit-growing business.

The accounts of Sunny Kipwat show:

1. Rent of land is £1 560 per quarter (3 months)
2. Direct labour is £1.05 per tray of fruit
3. Water bill is £250 a month plus £0.06 per tray of fruit
4. Insurance for the year is £1 080
5. A motor van was purchased at a cost of £13 160. The motor van has a life of 8 years and a residual value of £200. Depreciation is to be charged on a straight-line basis.
6. Delivery costs per tray are £0.27
7. Loan interest and repayment is £270 per month
8. Selling price of a tray of fruit is £4.15
9. Sales are 283 trays per week. All production is sold.

Assume there are four weeks in a month.

Required:

(a) How many trays of fruit a month must Sunny Kipwat sell, in order to break even?

(12)

(b) How much profit will Sunny Kipwat make in one month?

(4)

Sunny Kipwat stated "I would like to make a profit of £2 000 a month. If all other costs and my selling price remain the same, how much must I pay my workers per tray of fruit, in order to make a profit of £2 000 a month?"

Required:

(c) Calculate how much Sunny Kipwat would need to pay his workers per tray of fruit, to make a profit of £2 000 per month.

(8)

(d) Evaluate whether it would be advisable to pay direct labour a lower rate per tray, for Sunny Kipwat to achieve a profit of £2 000 per month.

(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. Imran Mohammad studies reports and company accounts on the internet, to decide whether to invest in shares in a company. He is considering investing in Bengal Life plc, a life assurance company. Imran has managed to find the following information from the reports and company accounts:

Authorised share capital:
£80 000 000 in Ordinary shares of £2.50 each
£20 000 000 in 4% Redeemable Preference shares of £1each
Issued share capital:
£60 000 000 in Ordinary shares of £2.50 each
£20 000 000 in 4% Redeemable Preference shares of £1each

Profit for the year after tax £3 104 000
Total ordinary dividend paid £960 000
Redeemable Preference share dividend was paid in full.
Market price of Ordinary shares £2.00

Imran would like further information to decide whether to invest in this company.

Required:

(a) Calculate the following ratios, stating the formula used in each case:

(i) Dividend per share **(4)**

(ii) Dividend yield **(4)**

(iii) Dividend cover **(4)**

(iv) Earnings per share **(4)**

(v) Price/Earnings ratio **(4)**

Jahingar, the uncle of Imran, is also interested in investing in shares and has given Imran the following advice.

"Do not buy the shares in Bengal Life plc at a market price of £2.00. You should buy the shares in Oceanic Assurance at £2.25. They have a higher share price, so they must be a better share."

Required:

(b) Advise Imran as to the value of this statement.

(4)

Jahingar also states "There is only one ratio that is important and worth knowing about, and that is the dividend per share".

(c) Evaluate this statement on behalf of Imran.

(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. Venture Vending Limited is to start a business producing vending machines. The following information is available:

- Sales are budgeted to be 5 vending machines a week, starting Week 3 in Month 1. In Month 2, sales are budgeted to be 8 machines a week. In Month 3, sales are expected to rise to 12 machines a week. Sales are expected to stay at this level in future months. Each vending machine sells for £2 450.

- Production will start in Week 2 in Month 1. For Month 1, production will be 7 vending machines per week. In Month 2, production will be 10 machines a week. In Month 3, the number of vending machines produced each week will be equal to sales in the following week. Any vending machines produced but not sold each week will be put into inventory in the warehouse.

- Materials for production will be delivered from Week 1 in Month 1. Each week, the materials delivered are the materials needed for production in the following week. Each vending machine requires £675 of materials.

- Materials are budgeted to be paid for 2 weeks after delivery. For example, materials delivered in Week 1 in Month 1, will be paid for in Week 3 Month 1.

- Customers are budgeted to pay 3 weeks after a sale. For example, a vending machine sold in Week 3 Month 1, will be paid for in Week 2 Month 2.

- Assume 4 weeks in each month.

Required:

(a) Prepare, for the first three months of trading for Venture Vending Limited, the following budgets:

For each of the three months, the budgets should show total figures for EACH month, NOT weekly figures.

(i) A sales budget in units of vending machines sold.

(3)

(ii) A production budget in units of vending machines produced.

(3)

(iii) An inventory budget in units of vending machines. The budget is to show the number of units going to inventory each month, and the total number of units in inventory at the end of each month.

(6)

(iv) A purchases budget in units.

(3)

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

(3)

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

(3)

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

(3)

At the end of Month 1, actual sales of vending machines have only been half (50%) of budgeted sales.

Required:

(b) Evaluate whether Venture Vending Limited should draw up a new set of budgets to replace the existing budgets for Months 2 and 3.

(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. Vandeloos Fencing Limited produces wooden fence panels. Vandeloos Fencing Limited uses a standard costing system and management by exception.

The budget and some actual figures for production for April 2013 were:

	Budget	**Actual**
Production (units)	1 265	1 265
Direct Materials	£4 554	?
Direct Labour	£8 870	?

- Each fence panel was budgeted to use 8 square metres of material in production but the actual usage was 8.14 square metres
- The budgeted price of material was £0.45 per square metre, but the actual price paid was £0.51 per square metre
- 11 workers were employed and each worker produced the budgeted figure of 115 fence panels per month
- To produce the output, each worker was budgeted to work 42 hours per week for each of the 4 weeks in the month. Actual hours worked were 43.5 hours for each of the 4 weeks
- The budgeted labour wage rate was £4.80 per hour, and this was achieved.

Required:

(a) Calculate for the month of April 2013, total expenditure on:

(i) direct material
(ii) direct labour.

(6)

(b) Calculate for the month of April 2013 the:

(i) material usage variance
(ii) material price variance
(iii) total material cost variance.

(10)

(c) Suggest **one** reason for each of the following variances and explain the actions Vandeloos Fencing Limited could take on the:

(i) material usage variance
(ii) material price variance.

(8)

Vandeloos Fencing Limited applied management by exception to the figures for April 2013. The cost accountant decided to ignore the labour variance, but to investigate the material variance.

(d) Evaluate the decision of the cost accountant to ignore the labour variance, but to investigate the material variance.

(8)

(Total 32 marks)

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

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