6002/01 London Examinations GCE Accounting (Modular Syllabus) Advanced Subsidiary/Advanced Level

Unit 2 – Corporate and Management Accounting Tuesday 12 June 2012 – Morning

Source booklet for use with Questions 1 to 7.

Do not return the insert with the question paper.



W850/6002/57570 1/1/1

P 4 0 2 6 7 A

Turn over



SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

1. Columbo Fireworks plc produces fireworks at its factory. The fireworks are then delivered to Columbo Fireworks plc shops, where they are sold to customers.

At 31 March 2012, the following were some of the balances in the books:

	Debit	Credit
	£	£
Bad debts written off	9 450	
Bank interest on overdraft	2 980	
9% Bank loan		500 000
Commission on sales	147 500	
Computers	79 800	
Delivery charges	215 670	
Direct materials	447 760	
Discount allowed	96 432	
Discount received on materials		68 740
Dividends received from shares held in other companies		32 810
Factory buildings at cost	6 300 000	
Factory machinery at cost	1 350 000	
Fees paid to debt collection agency	2 000	
Hire of photocopiers	9 650	
Hire of plant and machinery	24 300	
Insurance	11 120	
Interest on bank balance		4 651
Inventory of finished goods at 1 April 2011	367 000	
Marketing and advertising	37 584	
Rent on shop premises	52 855	
Rent received from property lettings		32 860
Revenue		3 321 765
Sales staff travel and entertaining	32 750	
Wages	989 000	
Warehousing	638 543	

Additional information at 31 March 2012:

- (i) Inventory of finished goods £379 000.
- (ii) Rent received from property lettings account has £4 880 owing.
- (iii) Hire of photocopiers account includes $\pounds 2\ 350$ paid in advance.
- (iv) Wages include:

Administration staff	£289 000
Factory staff	£350 000
Shop staff	£126 000
Accountancy staff	£224 000

(v) Assuming a nil residual value in each case and using the straight line method:

- the factory building is to be depreciated over a 50 year life
- factory machinery is to be depreciated over an 8 year life
- computers are to be depreciated over a 3 year life.
- (vi) A provision for corporation tax is to be made for $\pounds 110\ 000$.

Required:

(a) Prepare a statement of comprehensive income for Columbo Fireworks plc for the year ended 31 March 2012, using International Accounting Standard (IAS) 1. Columbo Fireworks plc analyses expenses by function.

You must show all workings, clearly labelled, in arriving at your figures to be shown in the published statement of comprehensive income.

(40)

The information given includes revenues and expenses for unused shop premises that Columbo Fireworks plc rents out. Next year, Columbo Fireworks plc intends to sell these premises and record this in the accounts as a Discontinued Activity.

(b) Evaluate the usefulness of recording the shop premises as a Discontinued Activity in next year's accounts.

(12)

(Total 52 marks)

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

Question	Answer								Mark
Number									
1(a)	Q1a Mark Scheme Statement of Comprehensive				W1 Cost of Sales				
	Income for Colombo Fireworks plc for Y/e 31st				Direct Materials	447760 (68740	\checkmark		
	March 2012 $$				Less Discount Received)	\checkmark		
		222176			Factory Depreciation	126000	\checkmark	0 v	
	Turnover	532170	\checkmark		Machinery Depreciation	168750	\checkmark	• × √	
					Hire of Plant and machinery	24300	\checkmark		
	Cast of color	103607	./	o /f	Eactory staff	250000	./		
	Cost of sales	0	v	0/1	Stock Adjust Finished	(12000	v √		
		220560			Goods)	\checkmark		
	Gross profit	228569 5		o/f		103607			
			•	-,	W2 Distribution Costs				
	Other Income	75201	\checkmark	o/f	Commission on sales	147500	\checkmark		
					Delivery charges	215670	\checkmark		
	Distribution cost	125090	./	o/f	Markoting and advortising	37594		7 x	
		2	v	0/1	Rent on shon premises	52855	v v	v	
					Sales staff travel and	52055	v		
	Administrative expenses	665902	\checkmark	o/f	entertng	32750	V		
		.=	,		Shop staff wages	126000	V		
	Financial cost	47980	V	o/f	Warehousing	638543 125090 2	V		
	Profit on ordinany activities before tay	306112	./	o/f	W3Administrative				
	Front on ordinary activities before tax	390112	v	0/1	Bad Debts Written Off	9450	\ر		
	Corporation tax	110000			Discount allowed	96432	v √		
		110000	•		Computer depreciation	26600	• √		
			,		Fees to debt collection agency	2000	v		
	Profit on ordinary activities after tax	286112	$\sqrt{0}$	o/f	Hire of photocopiers	7300	\ر	8 x	
	Front on ordinary activities after tax	200112	v	0	Insurance	11120	v √	v	
					Administration staff wages	289000	√		
		12 x							
		V			Accountancy staff wages	224000	V		
						003902			
					W4 Other Income				
					Dividends received	32810	\checkmark		(40)
					Interest on bank balance	4651	\checkmark	2 v	
					Rent received	37740	\checkmark	√	
						75201			
					W5 Financial cost				
	TOTAL 40 marks				Interest on overdraft	2980			
						2900	•	2 x	
					Interest on bank loan	45000	√ ,	\checkmark	
	Discount Allowed also accepted in					47980	\checkmark		
	Distribution Costs								

Question Number	Answer	Mark
1(b)	Answers may include:	
	The fireworks activities should be shown as Continued Operations $$ in the accounts next year. All revenues and expenses relating to these should be shown separately. $$	
	For usefulness This will benefit users of accounts because they can see that profits or losses from the Discontinued Operations will not be expected to be realised in the future $\sqrt{}$ This allows reader to predict more accurately future expected performance. $$ This may help future potential investors / shareholders / creditors $$ etc with decision making. Eg buy more shares/allow credit $$ Should be beneficial if required to be shown $$ by FRS3 / IFRS 5 $$	
	Against usefulness Adds more figures and details to the accounts \checkmark so makes them more difficult to understand. \checkmark especially for those with little accounting knowledge. \checkmark Takes time to add extra detail \checkmark and therefore this means extra expense \checkmark	
	Maximum for arguing only one side $8 \ge = 4$ marks Evaluation Should conclude that it is beneficial to show Discontinued Activities. $\sqrt{}$	(12)

2. Miles of Tiles Limited produces clay tiles for sale to customers. All tiles are produced to orders, and no stocks of tiles are held by the company.

For the month of April 2012, the following information is available.

Budget for April 2012:

- Each tile should use 4 kilograms of clay in production.
- Clay is to be purchased from suppliers at a rate of £0.06 per kilo.
- Workers are to be paid £5.85 per hour, and are to produce 40 tiles per hour.

Actual figures for April 2012:

- 341 120 kilograms of clay used for production at a total cost of $\pounds 17$ 056.
- 2 132 hours of labour used for production at a total cost of £12 792.

The budgeted production target of 83 200 tiles was achieved.

Required:

- (a) Calculate for April 2012 the:
- (i) actual amount of clay in kilograms used to produce each tile (3) (ii) actual cost of clay per kilogram (3) (iii) standard time in hours needed to produce the budgeted output of tiles (3) (iv) actual wage rate per hour. (3) (b) Calculate the following variances for April 2012, stating the formula used in each case: (i) materials usage variance, materials price variance, and total materials variance (12) (ii) labour efficiency variance, labour rate variance, and total labour variance. (12) All tiles were sold at the budgeted price of £0.75 per tile. Fixed costs for April 2012 totalled £12 500. (c) Calculate the actual profit for the month of April 2012. (4)

Bernard Miles, the Chief Executive of Miles of Tiles Limited, has stated "If there is an adverse variance, this must be bad for the business."

(d) Evaluate this statement.

(12)

(Total 52 marks)

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

1		
Question	Answer	Mark
Number		
2(a)	(i) Kilograms of clay per tile = $\frac{341\ 120}{83\ 200}$ = 4.1 kilos $$	
	(ii) Cost per kilogram of clay = $\frac{\pounds 17\ 056}{} = 0.05$ pence	
	341 120 √	
	(iii) Standard time to produce budgeted output = $83200 = 2$ 080 hours $$	
	40 √	(12)
	(iv) Actual wage rate per hour = $\frac{\pounds 12792}{\sqrt{3}} \sqrt{3} = \pounds 6.00$ per hour $\sqrt{3}$	、 — /
	2 132 🗸	

Question Number	Answer	Mark
2(b)(i)	Material Usage Variance = (Actual Usage - Standard Usage) x Standard Price $$	
	= $(4.1 \text{ o/f} - 4.0) \times 83\ 200 \sqrt{\times 0.06}$	
	= £499.20 o/f Adverse $$	
	Materials Price Variance = (Actual Price - Standard Price) x Actual Usage $$	
	= (0.05 o/f - 0.06) $$ x 341 120 $$	
	= £3 411.20 o/f Favourable $$	
	Material Cost Variance = (Actual Usage x Actual Price) - (Standard Usage x Standard Price) $$	(12)
	= $(341\ 120\ \times\ 0.05\ o/f)\ \sqrt{-(332\ 800)}$	
	= £17 056 - £19 968 = £2 912 o/f Favourable $$	

Question Number	Answer	Mark
2(b)(ii)	Labour Efficiency Variance = (Actual Hours - Standard Hours) x Standard Rate $$	
	$= (2 \ 132 \ - \ 2 \ 080 \ \text{o/f}) \ \sqrt{x}$ £5.85 \sqrt{x}	
	= £304.20 o/f Adverse $$	
	Labour Rate Variance $=$ (Actual Rate - Standard Rate) x Actual Hours $$	
	= (£6.00 o/f - £5.85) √ x 2 132 √	
	= (£0.15 x 2 132) = £319.80 o/f Adverse √	
	Total Labour Variance = (Actual Hours x Actual Rate) - (Standard Hours x Standard Rate) $$	(12)
	= $(2\ 132\ x\ \pounds 6.000/f)\ \sqrt{-(2\ 080\ x}$ £5.85) $\sqrt{-}$	(12)
	= £12 792 - £12 168 = £624 o/f Adverse √	

Question	Answer		Mark
Number			
2(c)	Sales (83 200 x 0.75) =	£62 400 √	
	Material cost	£17 056	
	Labour cost	£12 792	
	Fixed cost	£12 500 (√ all 3)	
	Total cost	£42 348	
	Profit for month	£20 052 √o/f√C	(4)

Question Number	Answer	Mark
2(d)	Evaluation	
-(4)	Answers may include:	
	For statement	
	If this is a cost variance $\frac{1}{2}$ then expenditure has been more than	
	avported a	
	expected v	
	If budget is realistic, this is bad v and may be caused by :	
	Workers not working as hard as they could $$	
	Workers being paid more than a market rate wage \checkmark	
	Inefficient machinery $$	
	Materials being wasted $$	
	Paving more than the market rate for materials $$	
	If this is a sales variance, $$ then revenue is less than expected $$	
	This could be caused by:	
	Sales volume being less than expected $\frac{1}{2}$	
	Sales volume being less than expected v	
	Sales price being less than expected v	
	Against statement	
	Budget set may be unrealistic $\sqrt{2}$ and actually the business has	
	nerformed well v/	
	There may be a positive aspect to the adverse variance og:	
	Material prices have rises on the world market of but our human	
	Material prices have rised on the world market, V but our buyers	
	are still getting a comparatively good price v	
	Adverse variances may be due to production being greater than	(12)
	expected \checkmark which is good for the business \checkmark	()
	Maximum of 8 marks for one side of argument.	
	Conclusion	
	Statement is (correct)/not correct $\frac{1}{3}$	

3. The statement of financial position of Jesoree Investments plc at the start of the financial year, 1 April 2011, contained the following information.

Equity and Liabilities

Equity	£m	<u>£m</u>
Ordinary shares of £1	250	
Share premium reserve	50	
8% Preference shares of £1	75	
Retained earnings	38	
General reserve	40	
Capital redemption reserve	25	
Revaluation reserve	<u>30</u>	
		508
Non-Current Liabilities		
6% Debenture 2015	150	
Bank loan	<u>175</u>	
		325

Required:

(a) Briefly state how the following reserves are 1) created and 2) used:

- (i) Retained earnings
- (ii) General reserve
- (iii) Share premium reserve
- (iv) Capital redemption reserve
- (v) Revaluation reserve.

(12)

The directors decided to raise another $\pounds 60$ million to take advantage of a business opportunity. When faced with a choice between a share issue and a debenture issue, the directors decided to issue shares.

During the 12 months to 31 March 2012, the following events occurred relating to share capital.

1. On 1 June 2011, the company offered 50 million £1 ordinary shares at a price of £1.20 on the following terms:

50p on application30p on allotment40p first and final call (including the 20p premium).

- 2. On 16 June 2011, applications for 64 million shares had been received. The directors rejected applications for 4 million shares and allotted shares to the remaining applicants on the basis of 5 shares for every 6 applied for.
- 3. On 26 June 2011 monies were returned to the unsuccessful applicants of the 4 million shares.
- 4. The balances due on allotment were fully received on 31 July 2011.
- 5. The first and final call was made on 1 October 2011 and the amounts were fully received on 31 October 2011.

Required:

- (b) Prepare the following ledger accounts to record the above transactions:
 - (i) Ordinary share capital
 - (ii) Share premium
 - (iii) Application and allotment
 - (iv) First and final call.

You should show the following where possible:

- dates
- opening balances at the start of the year
- closure of any relevant accounts during the year
- closing balances at the end of the year.
- (c) Calculate the gearing ratio on 1 November 2011, clearly stating the formula used.

(8)

(20)

(d) Evaluate the decision to raise further finance by issuing ordinary shares, rejecting the possibility of raising funds by the issue of debentures.

(12)

(Total 52 marks)

Answer space for question 3 is on pages 14 to 17 of the question paper.

Question	Answer				
Number		Cuested by	Llaad fan / Likiliaad		
3(a)		<u>Created by</u>	Used for / Utilised		
	(i) Retained earnings	Trading profits built up over past and present years	Dividends paid to ordinary shareholders		
	(ii) General reserve	Transfer from Retained earnings/ profits	Any, perhaps unspecified, use. Issue bonus shares Transfer back to Retained earnings		
	(iii) Share premium reserve	Issue of ordinary shares above their nominal value	Write off preliminary expenses on formation of company or a share issue. Pay premium on redemption of shares or debentures Issue Bonus Shares		
	(iv) Capital redemption reserve	Transfer from revenue reserves $$ when shares are redeemed. $$	Acts as creditors buffer.		
	(v) Revaluation reserve	Upward revaluation of non-current asset.	When asset is sold $$ transferred to Income statement/ retained earnings. $$	(12)	
	One √ per box for or	ne example, except whe	re shown otherwise.		

Question	Answer						Mark
Number	Oudiners Chara Carital Assessme						
3(D)		<u>Oraina</u>	ary Snar	<u>e Capital</u>	<u>Ralanca h/d</u>	250./	
					Application &	2500	
				16	Allotment	250	
					Annlication &	151/	
				31	Allotment	13 v	
	Mar31	Balance c/d	300	Oct 1	First & Final	10 √	
					Call		
			<u>300</u>			<u> </u>	
				Apr 1	Balance b/d	300	
					 / ;€	halancad off	
		C	correctly		+ V II I	5 5	
		Sh	are Prei	nium Ac	count		
				Apr	Balance b/d	50√	
				1			
	Mar31	Balance c/d	60	Oct	First & final	<u>10</u> √	
			60	⊥	Call	60	
				 Apr	Balance b/d	60	
				1	,		
			correct	ly	+ √ if l	balanced off 3	
		Applicat	tion and	Allotme	nt Account		
	June	Ordinary	25√	June	Bank	32 √	
	16	Share Capital		16			
	June	Bank	2√	July	Bank	10	
	26			31		$\sqrt{+}$	
	1	Ordinary	1			√ for fig	
	JUIY	Ordinary Sharo Capital	15 V				
	51		√ for				
			fia				
			42			42	
					+ √ if l	balanced off	(20)
	correctly 8						
	Oct	Ordinary Share	10v	/ Oct	Bank	201/	
	1	Capital		31			
	Oct	Share Premium	10				
	1						
			<u>20</u>			<u>20</u>	
				+	if balanced	off correctly	
						4	

Question Number	Answer		Mark
3(c)	Gearing ratio =	Prior charge capital \sqrt{x} 100 Capital employed \sqrt{x}	
		$= \frac{75\sqrt{+150}\sqrt{+175}}{568+325} \times 100$	
		= <u>400</u> x 100 = 44.79% √ o/f √ C 893	(8)
		Other formulas are acceptable	

Question	Answer	Mark
Number		
3(d)	Answers may include	
	 Case for Ordinary shares / Case Against Debentures Shareholders do not have to be paid dividends, √ useful when short of funds / making a loss. √ Dividends could be variable √ interest on debentures must be paid √ No "outside" parties having any influence on running of company √ eg place on Board √ No interest has to be paid, √ so profits of company higher. √ No assets offered as security, √ so no claims on assets by debenture holders, if debenture not repaid, or company fails. √ Reduces gearing ratio √ and therefore risk √ Debenture results in higher gearing √which increases risk to company√ Very important here as if debenture used, gearing goes above 50% √ at 51.5% √√ 	
	 Case for Debentures / Case Against Ordinary Shares Interest is allowable for tax, √ so company may be able to retain more funds than if paying dividends. √ Debenture issuer may bring expertise and experience to company, √ and maybe Board. √ No possible dilution of ownership for existing shareholders √ which means earnings per a share will fall √ May be quicker to issue than ordinary shares √ Costs of arranging debenture may be lower √eg no prospectus to issue√ 	(12)
	Conclusion Should relate to above points made. E.g. Ordinary shares are a preferable source of finance. $\sqrt{}$	

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 4

4. A group of business people are thinking of creating a cycling team, Team Minerva, to take part in cycle races over the next four years. The initial investment to create the team will be £1 500 000.

The following figures are estimated for the cycling team:

- (i) Salaries for cyclists will be:
 - 1 star cyclist paid £100 000 per year for 4 years
 - 7 team cyclists each paid £60 000 per year for 4 years.
- (ii) Running costs are £800 000 per year including depreciation.
- (iii) Depreciation is expected to be £260 000 per year.
- (iv) Estimated prize money the team will earn is

Year 1 ±000 000 Year 2 ±850 000 Year 3 ±1 100 000 Year 4	£900 000
--	----------

- (v) A contract with sponsors will result in revenue of £400 000 per year for four years.
- (vi) Television revenue will be

Years 1 + 2 £250 000 per year Years 3 + 4 £300 000 per year.

- (vii) The cost of capital for the project is 9%.
- (viii) The discount factors for 9% are
 - Year 1 0.917 Year 2 0.842 Year 3 0.772 Year 4 0.708

Required:

(a) Calculate the Net Present Value of the project at the end of Year 4.

(b) (i) State the Internal Rate of Return of the project.

- - (ii) Explain your answer given in b (i).
- (c) Evaluate the Internal Rate of Return as a project appraisal method.

(8)

(16)

(2)

(6)

(Total 32 marks)

Answer space for question 4 is on pages 18 to 21 of the question paper.

Question Number	Answer						Mark
4(a)							
	Outflow						
	Salaries	100000	420000		520000 √		
	Running	800000	260000		540000 √√		
					1060000 √		
	<u>Income</u>						
		Prizes	Sponsors	TV	Total		
	1	600000	400000	250000	1250000 √		
	2	850000	400000	250000	1500000 √		
	3	1100000	400000	300000	1800000 √		
	4	900000	400000	300000	1600000 √		
					Discount	Discounted	
	Year	Income	Outflow	Net Cash Flow	Factor	NCF	
	0		-1500000	-1500000	1	-1500000 $\sqrt{}$	
	1	1250000	1060000	190000	0.917	174230 √ o/f	
	2	1500000	1060000	440000	0.842	370480 √o/f	
	3	1800000	1060000	740000	0.772	571280 √ o/f	
	4	1600000	1060000	540000	0.708	382320 √ o/f	
						-1690 √ o/f	
					NPV	√ C	
							(16)

Question	Answer	Mark
Number		
4(b)(i)	The Internal rate of return for the project is very close to 9% $\sqrt{}$	(2)

Question	Answer	Mark
Number		
4(b)(ii)	The IRR is 9% because the NPV is very close to zero. $\sqrt{}$ If the NPV were a large positive figure, $$ then the IRR is greater than 9% $$ If the NPV were a large negative figure, $$ then the IRR is less than 9% $$	(6)

Question Number	Answer	Mark
4(c)	Answers may include:	
	Case For IRR An accurate return can be calculated. \checkmark Takes account of falling value of money over time. \checkmark Can be compared to target value of business \checkmark to decide whether to invest in project. \checkmark Can be calculated fairly easily by computer. \checkmark	
	Case against IRRCalculation of IRR involves use of complicated formula $$ requiringnumerical skill $$ Or calculation may involve much "trial and error" to arrive at theIRR. $$ May need a computer $$ and computing skills to calculate IRR. $$ Maximum of 4 $$'s for arguing one side only.ConclusionIRR is a good / not a good method of project appraisal. $$	(8)

5. Panoramic Cinemas Limited purchased Luxury Cinemas Limited on 1 April 2012.

The directors of Panoramic Cinemas Limited agreed to take over all assets except the cash balance, and to settle all liabilities.

The purchase price was agreed at ± 18590000 . This was settled by the issue of Panoramic Cinemas Limited shares.

Luxury Cinemas Limited shareholders received 11 000 000 Panoramic Cinemas Limited ordinary shares of $\pounds 1$ each at a premium of $\pounds 0.60$ per share, with the balance settled in cash.

The statements of financial position of the two companies on 31 March 2012 were as follows:

	Panoramic Cine	emas Limited	emas Limited	
	£	£	£	£
Assets				
Non-current Assets				
Property, plant and equipment	121 000 000		15 000 000	
Intangible assets	2 000 000			
		123 000 000		15 000 000
Current Assets				
Inventories	656 000		120 000	
Trade receivables	74 000		11 000	
Cash	1 780 000		40 000	
		<u>2 510 000</u>		<u>171 000</u>
Total Assets		<u>125 510 000</u>		<u>15 171 000</u>
Equity and Liabilities	£	£	£	£
Equity				
Ordinary Shares of £1 each	80 000 000		11 000 000	
Share premium	20 000 000		500 000	
Retained earnings	20 342 660		24 690	
		120 342 660		11 524 690
Non-current Liabilities				
Bank loan	5 000 000		2 500 000	
		5 000 000		2 500 000
Current Liabilities				
Loans repayable within 12 months			1 000 000	
Trade payables	167 340		146 310	
		167 340		<u>1 146 310</u>
Total Equity and Liabilities		125 510 000		<u>15 171 000</u>

Additional information at 1 April 2012:

The assets of Luxury Cinemas Limited were revalued as follows:

- Property with a book value of £12 000 000 to a current market value of £12 800 000
- Equipment with a book value of £2 000 000 was reduced by £750 000
- Inventories to a net realisable value of £115 000
- Trade receivables were reduced by 10%.

Required:

(a) Calculate the goodwill paid by Panoramic Cinemas Limited in the purchase of Luxury Cinemas Limited.

(8)

(b) Devran, a shareholder in Luxury Cinemas Limited, received a cheque for £639 for his shares. How many shares in Luxury Cinemas Limited did he hold before the purchase by Panoramic Cinemas Limited?

(4)

(c) Prepare the statement of financial position of Panoramic Cinemas Limited at 1 April 2012, immediately following the purchase of Luxury Cinemas Limited.

(12)

(d) Evaluate the treatment of the goodwill created in the accounts of Panoramic Cinemas Limited following the purchase of Luxury Cinemas Limited.

(8)

(Total 32 marks) Answer space for question 5 is on pages 22 to 25 of the question paper.

Question Number	Answer						Mark
5(a)							
	Calculation of						
	<u>Goodwill</u>						
		12 800		Purchase	18 590		
	Property	000		Price	000	\checkmark	
		1 000		Value of Net	11		
	Plant	000		Assets	528 590	√ o/f	
		1 250	\checkmark		7 061	√ o/f	
	Equipment	000	(3)	Goodwill	410	√C	
		115					
	Inventories	000					
			\checkmark				
	Trade Receivables	9 900	(2)				$\langle 0 \rangle$
		- 2 500					(8)
	Bank Loan	000					
	Loan repayable in	-1 000					
	12 months	000					
		-146	\checkmark				
	Trade Payables	310	(3)				
	Value of Net assets	11 528	\checkmark				
	acquired	590	o/f				

Question Number	Answer	Mark
5(b)	Amount received per share $= \underline{\pounds 18590000} = \pounds 1.69p$ per share $$	
	11 000 000	
	Cash received per share = £1.69 - (£1 + 60p premium) = £0.09 per share \checkmark	
	<u>£639</u> = 7 100 shares √ o/f √ C £0.09	(4)

Question Number	Answer				Mark
5(c)	Statement of Financi as at April 1 st 2012	al Positio	n of F	Panoramic Cinemas Limited	
		T			
	Assets			£	
	Assets				
	Property, plant and equipment	136 050 000	\checkmark		
	Intangible assets (2000000 $\sqrt{+}$ 7061410 o/f $\sqrt{)}$	9 061 410	√√ o/f		
				145 111 410	
	Current Assets				
	Inventories	771 000			
	Trade Receivables	83 900	√ (2)		
	Cash	790 000	$\sqrt{}$		
				1 644 900	
	Total Assets			146 756 310	
	Equity and Liabilities				
	Equity				
	Ordinary Shares of £1 each	91 000 000	\checkmark		
	Share Premium	26 600 000	\checkmark		
	Retained earnings	20 342 660	\checkmark		
				137 942 660	
	Non-current liabilities				
	Bank Loan	7 500 000			(12)
				7 500 000	
	Current Liabilities				
	Loans Repayable within 12 months	1 000 000	√ (2)		
	Trade Payables	313 650	\checkmark		
				1 313	
	Total Fauity and		ļ	650 146 756	
	Liabilities			310	

Question Number	Answer	Mark
5(d)	Correct treatment of goodwill would be to amortize \checkmark over its useful economic life. \checkmark Shown as an intangible non-current asset \checkmark	
	Case For this treatment Likely to derive benefits from the expenditure over a number of years, $$ so spread the cost of this expenditure over a number of years $$ ie matching concept $$ gives a True and Fair view of the accounts. $$ To write off immediately may make profit unrealistically low, $$ and tax charge would be unfairly low. $$ In line with recommended practice $$ ie FRS 10 / IAS 38 $$	
	Case Against this Treatment If written off immediately against reserves, $$ the prudence concept is followed. $$ Maximum of 4 $$'s for arguing one side only. Conclusion Writing off over a number of years is recommended and beneficial	(8)
	as it gives a true and fair view in the accounts. $\sqrt{}$	(0)

6. South American Mining plc is a multinational copper mining company. Every quarter (three months) the directors review the profitability of each copper mine. At present, the market price of copper is £6 500 a tonne, and all production is sold. South American Mining plc would not be able to raise their selling price of copper, as buyers would purchase from other suppliers.

Figures for the four mines in the Western Region, for the three months ended 31 March 2012 are:

	San Pedro	La Rioja	Copresol	Andacalla
Fixed Costs	£105 600	£60 900	£25 000	£20 000
Direct Labour	£1 664 000	£1 050 000	£675 000	£408 000
Direct Materials	£288 000	£315 000	£150 000	£96 000
Production — tonnes	320	210	125	80

Required:

- (a) Calculate the profit or loss for each of the four mines of the Western Region, for the three months ended 31 March 2012.
- (b) Calculate the:
 - (i) profit or loss **per tonne** and
 - (ii) contribution **per tonne**

made by each of the four mines, for the three month period ended 31 March 2012.

(16)

(8)

(c) Evaluate the figures calculated in (b) to make a decision as to the future of each of the four mines.

(8)

(Total 32 marks) Answer space for question 6 is on pages 26 to 28 of the question paper.

Question Number	Answer					Mark	
6(a)							
		San Pedro	<u>La Rioja</u>	<u>Copresol</u>	<u>Andacalla</u>		
	Sales Revenue	2080000√	1365000 🗸	812500 √	520000 🗸		
	Direct Labour	1664000	1050000	675000	408000		
	Direct Materials	288000	315000	150000	96000		
	Fixed Costs	105600	60900	25000	20000		
	Profit (Loss)	22400√	(60900)√	(37500)√	(4000) √		
		o/f	o/f	o/f	o/f	(8)	

Question	Answer					Mark	
Number							
6(b)(i)							
6(b)(ii)	Per tonne	San Pedro	<u>La Rioja</u>	<u>Copresol</u>	<u>Andacalla</u>		
	Sales Revenue	6500	6500	6500	6500		
	Direct Labour	5200	5000	5400	5100		
	Direct Materials	900 √	1500 √	1200 🗸	1200 √		
		(2)	(2)	(2)	(2)		
	Fixed Costs	330 √	290 √	200 √	250 √		
	Profit (Loss)	70 √ o/f	(290)√ o/f	(300)√ o/f	(50) √		
					o/f	(16)	
						(-0)	
	Contribution	400 √ o/f	0 √ o/f	(100)√ o/f	200 √ o/f		

Question Number	Answer					Mark
6(c)						
		San Pedro	La Rioja	Copresol	Andacalla	
	Short Term	Open	Open/close √	Close	Open √	
		\checkmark either ST or		\checkmark either ST or		
		LT		LT		
	Long Term	Open	Close √	Close	Close √	
	La Rioja and $$ if mention $$ if reason ging future expect future.	Andacalla must r made for positive iven for supportions price of copper	make mention e contribution , ng decision in ; to rise or exp	to time period fo / or negative cor ST for La Rioja e pect to reduce co	r√ itribution e.g. in sts in	(8)

7. The directors of Chittagong Stores plc have prepared a statement of cash flow in accordance with International Accounting Standard (IAS) 7, as shown below.

Statement of Cash Flow for year ended 31 March 2012		
	£	£
Cash Flows from Operating Activities		
Profit after tax	213 657	
Taxation charge for year on profit	42 784	
Add Depreciation of non-current assets	75 000	
Add Loss on sale of property, plant and equipment	20 000	
Less Profit on sale of intangible asset	(45 000)	
Operating cash flow before working capital changes	30 6441	
Increase in inventories	(13 745)	
Decrease in trade receivables	7 360	
Increase in trade payables	<u>6 320</u>	
Cash generated from operations	306 376	
Add Interest received	2 171	
Less Interest noid	(16.162)	
Less Tax paid	$(10\ 102)$	
Net Cash generated from Operating Activities	<u>(33 708)</u>	256 617
Net Cash generated from Operating Activities		230 017
Cash Flow from Investing Activities		
Payments to acquire tangible fixed assets	(215 000)	
Proceeds from sale of tangible fixed assets	65 000	
Proceeds from sale of intangible fixed asset	135 000	
Dividends received	<u>6 000</u>	
Net Cash Used in Investing Activities		(9 000)
Cash Flow from Financing Activities		
Issue of ordinary shares	120.000	
Redemption of preference shares	(100,000)	
Repayment of debenture	(200,000)	
Dividends paid	17 000	
Net Cash used in Financing Activities		(163 000)
Net increase in cash and cash equivalents		84 617
Cook and apph aquivalants at the basinging of the surger		(24 470)
Cash and cash equivalents at the beginning of the year		(34 4/6)
Cash and cash equivalents at the end of the year		50 141

(1)

(1)

(2)

(4)

(2)

Required:

- (a) Prepare answers to the following questions:
 - (i) How much was the tax charged on profit for the year ended 31 March 2011?
 - (ii) What happened to the level of unsold goods during the year ended 31 March 2012?
 - (iii) If £22 654 was owed to suppliers on 31 March 2011, how much was owed to suppliers on 31 March 2012?
 - (iv) The interest on an overdraft was £4 162. All other interest paid relates to the debenture, which was repaid on 31 December 2011. What was the interest rate of the debenture?
 - (v) A patent was sold in January 2012. What was the book value of the patent when sold?
 - (vi) All of the preference shares were redeemed on 1 April 2011 and received no dividends. The ordinary share dividends included:
 - Year ended 31 March 2011 £8 000 paid May 2011
 - Year ended 31 March 2012 £7 000 proposed.

Calculate the interim dividend paid in November 2011.

- (2)
- (vii) At 1 April 2011, Chittagong Stores plc had £12 473 cash. What was the bank balance at 1 April 2011?

(2)

(viii) At 1 April 2012, Chittagong Stores plc had £13 685 cash. What was the movement on the bank balance in the year ended 31 March 2012?

(4)

- (ix) If customers owed £16 799 on 31 March 2012, how much did they owe on 1 April 2011? (2)
- (b) Explain **two differences** between a statement of cash flow and a cash budget.

(4)

Henna Mahmood, a director of Chittagong Stores plc, has stated at a board meeting "liquidity is more important than profitability".

Required:

(c) Evaluate this statement.

(8)

(Total 32 marks)

Answer space for question 7 is on pages 29 to 32 of the question paper.

Question Number	Answer		Mark
7(a)(i)	£35 768	\checkmark	(1)

Question Number	Answer	Mark
7(a)(ii)	Increased by 13 745 \checkmark	(1)

Question Number	Answer	Mark
7(a)(iii)	$(\pounds 22\ 654\ +\ \pounds 6\ 320)\ =\ \pounds 28\ 974\ $	(2)

Question Number	Answer		Mark
7(a)(iv)	$(\pounds 16\ 162\ -\ \pounds 4\ 162)\ =\ \pounds 12\ 000\ 6\%\ $	$\underline{\pounds 12\ 000}\ \sqrt{\ x100} =$ $\pounds 200\ 000\ \sqrt{\ x100}$	(4)

Question	Answer	Mark
7(a)(v)	$(\pounds 135\ 000\ -\ \pounds 45\ 000)\ =\ \pounds 90\ 000\ $	(2)

Question	Answer	Mark
Number		
7(a)(vi)	$(\pounds 17\ 000 - \pounds 8\ 000)\ \sqrt{\ =\ }\pounds 9\ 000\ \sqrt{\ }$	(2)

Question Number	Answer			Mark
7(a)(vii)	(£12 473	+ £34 476)√	= £46 949 overdraft $$	(2)

Question Number	Answer	Mark
7(a)(viii)	Bank balance at 31 March 2012 = $(\pounds 50\ 141 - \pounds 13\ 685)\sqrt{=}$ $\pounds 36\ 456\ $ Movement in year = $(\pounds 46\ 949\ +\ \pounds 36\ 456\ o/f)\sqrt{=}\ \pounds 83\ 405$ increase $$	(4)

Question	Answer	Mark
Number		
7(a)(ix)	$(\pounds7\ 360\ +\ \pounds16\ 799)\ =\ \pounds24\ 159\ $	(2)

Number	Answer	Mark
7(b)	A statement of cash flow is for the past 12 months $$ and includes mostly exact figures $$ prepared for external users $$ A cash budget is for a future period, $$ and involves figures that are mostly estimates $$ prepared for mainly internal use. $$ Maximum of 2 $$'s for each.	(4)

Question	Answer	Mark
	Answers may include the following:	
7(6)	Answers may include the following:	
	Max 4 \mathbf{v} available for arguing only one side.	
	Profit most important	
	Without profit, business would close down $$ in the long run, $$	
	If short term liquidity problem, $\sqrt{\text{many sources are available as}}$	
	source of finance $$	
	eq banks, shareholders, debt factoring etc (need two sources). $$	
	No/low profits may result in firm unable to attract finance $$ or	
	investors/shareholders. $$	
	No/low profits may see share price fall, $$ as investors lose	
	confidence. $$	
	Liquidity most important (or both equally important)	
	Liquidity problems result in unable to pay daily bills $$ eg wages,	
	electricity (need two) $$	
	Unable to pay some bills may result in closure of business $$ eg tax	
	bill √	
	Unable to pay some bills may mean business unable to operate $$	
	eg electricity cut off $$	
	Can survive short term losses $$ if previous profits have been built	(8)
	up √	
	$2 \sqrt{10}$ for Conclusion eg Profit more important	