Paper Reference(s)
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.

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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 £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 £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 Number	Answer	Mark
1(a)	See below	**(40)**

Q1a Mark Scheme
Statement of Comprehensive Income for Colombo Fireworks plc for Y/e 31st March 2012 √

Turnover	3321765	√	
Cost of sales	1036070	√	o/f
Gross profit	2285695	√	o/f
Other Income	75201	√	o/f
Distribution cost	1250902	√	o/f
Administrative expenses	665902	√	o/f
Financial cost	47980	√	o/f
Profit on ordinary activities before tax	396112	√	o/f
Corporation tax	110000	√	
Profit on ordinary activities after tax	286112	√o/f √C	
	12 x √		

TOTAL 40 marks

Discount Allowed also accepted in Distribution Costs

W1 Cost of Sales

Direct Materials	447760	√	
Less Discount Received	(68740)	√	
Factory Depreciation	126000	√	
Machinery Depreciation	168750	√	**8 x √**
Hire of Plant and machinery	24300	√	
Factory staff	350000	√	
Stock Adjust Finished Goods	(12000)	√ √	
	1036070		

W2 Distribution Costs

Commission on sales	147500	√	
Delivery charges	215670	√	
Marketing and advertising	37584	√	**7 x √**
Rent on shop premises	52855	√	
Sales staff travel and entertng	32750	√	
Shop staff wages	126000	√	
Warehousing	638543	√	
	1250902		

W3Administrative Expenses

Bad Debts Written Off	9450	√	
Discount allowed	96432	√	
Computer depreciation	26600	√	
Fees to debt collection agency	2000	√	
Hire of photocopiers	7300	√	**8 x √**
Insurance	11120	√	
Administration staff wages	289000	√	
Accountancy staff wages	224000	√	
	665902		

W4 Other Income

Dividends received	32810	√	
Interest on bank balance	4651	√	
Rent received	37740	√	**3 x √**
	75201		

W5 Financial cost

Interest on overdraft	2980	√	
Interest on bank loan	45000	√	**2 x √**
	47980	**√**	

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√√ 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 √ so makes them more difficult to understand. √ especially for those with little accounting knowledge. √ Takes time to add extra detail √ and therefore this means extra expense √ Maximum for arguing only one side 8 x √ = 4 marks **Evaluation** Should conclude that it is beneficial to show Discontinued Activities. √√	**(12)**

SOURCE MATERIAL FOR USE WITH QUESTION 2

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 £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.

Question Number	Answer	Mark
2(a)	(i) Kilograms of clay per tile = <u>341 120</u> √ = 4.1 kilos √ 83 200 √ (ii) Cost per kilogram of clay = <u>£17 056</u> √ = 0.05 pence per kilo √ 341 120 √ (iii) Standard time to produce budgeted output = <u>83 200</u> √ = 2 080 hours √ 40 √ (iv) Actual wage rate per hour = <u>£12 792</u> √ = £6.00 per hour √ 2 132 √	**(12)**

Question Number	Answer	Mark
2(b)(i)	Material Usage Variance = (Actual Usage - Standard Usage) x Standard Price √ = (4.1 o/f - 4.0) x 83 200 √ x 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) √ = (341 120 x 0.05 o/f) √ - (332 800 x 0.06) √ = £17 056 - £19 968 = £2 912 o/f Favourable √	**(12)**

Question Number	Answer	Mark
2(b)(ii)	Labour Efficiency Variance = (Actual Hours - Standard Hours) x Standard Rate √ = (2 132 - 2 080 o/f) √ x £5.85 √ = £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) √ = (2 132 x £6.00o/f) √ - (2 080 x £5.85) √ = £12 792 - £12 168 = £624 o/f Adverse √	**(12)**

Question Number	Answer	Mark
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 Answers may include: **<u>For statement</u>** If this is a cost variance √ then expenditure has been more than expected √ If budget is realistic, this is bad √ and may be caused by : Workers not working as hard as they could √ Workers being paid more than a market rate wage √ Inefficient machinery √ Materials being wasted √ Paying 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 √ Sales price being less than expected √ **<u>Against statement</u>** Budget set may be unrealistic √ and actually the business has performed well. √ There may be a positive aspect to the adverse variance eg: Material prices have risen on the world market, √ but our buyers are still getting a comparatively good price √ Adverse variances may be due to production being greater than expected √ which is good for the business √ Maximum of 8 marks for one side of argument. **<u>Conclusion</u>** Statement is (correct)/not correct √√	**(12)**

SOURCE MATERIAL FOR USE WITH QUESTION 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	£m
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	30	
		508
Non-Current Liabilities		
6% Debenture 2015	150	
Bank loan	175	
		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 £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 application
   30p on allotment
   40p 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.

(20)

(c) Calculate the gearing ratio on 1 November 2011, clearly stating the formula used.

(8)

(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 Number	Answer			Mark
3(a)		Created by	Used for / Utilised examples	
	(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 one example, except where shown otherwise.			

Question Number	Answer	Mark
3(b)	Ordinary Share Capital Account	

			Apr 1	Balance b/d	250√
			June 16	Application & Allotment	25√
			July 31	Application & Allotment	15√
Mar31	Balance c/d	300	Oct 1	First & Final Call	10 √
		300			300
			Apr 1	Balance b/d	300

+ √ if balanced off correctly 5

Share Premium Account

			Apr 1	Balance b/d	50√
Mar31	Balance c/d	60	Oct 1	First & final call	10 √
		60			60
			Apr 1	Balance b/d	60

+ √ if balanced off correctly 3

Application and Allotment Account

June 16	Ordinary Share Capital	25√	June 16	Bank	32 √
June 26	Bank	2√	July 31	Bank	10 √+ √ for fig
July 31	Ordinary Share Capital	15 √ + √ for fig			___
		42			42

+ √ if balanced off correctly 8

(20)

First and Final Call Account

Oct 1	Ordinary Share Capital	10√	Oct 31	Bank	20√
Oct 1	Share Premium	10 √			_____
		20			20

+ √ if balanced off correctly 4

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

Question Number	Answer	Mark
3(d)	Answers may include **<u>Case for Ordinary shares / Case Against Debentures</u>** • Shareholders do not have to be paid dividends, √ useful when short of funds / making a loss. √ Dividends could be variable √ interest on debentures <u>must</u> 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% √√ **<u>Case for Debentures / Case Against Ordinary Shares</u>** • 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√ Maximum of 8 marks for arguing one side **<u>Conclusion</u>** Should relate to above points made. E.g. Ordinary shares are a preferable source of finance. √√	**(12)**

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 £600 000 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.
(16)

(b) (i) State the Internal Rate of Return of the project.
(2)

(ii) Explain your answer given in b (i).
(6)

(c) Evaluate the Internal Rate of Return as a project appraisal method.
(8)

(Total 32 marks)

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

Question Number	Answer	Mark
4(a)	see table below	**(16)**

Outflow					
Salaries	100000	420000		520000 √	
Running	800000	260000		540000 √√	
				1060000 √	
Income					
	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 √√
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
				NPV	-1690 √ o/f √ C

Question Number	Answer	Mark
4(b)(i)	The Internal rate of return for the project is very close to 9% √√	**(2)**

Question Number	Answer	Mark
4(b)(ii)	The IRR is 9% because the NPV is very close to zero. √√ 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: **<u>Case For IRR</u>** An accurate return can be calculated. √ Takes account of falling value of money over time. √ Can be compared to target value of business √ to decide whether to invest in project.√ Can be calculated fairly easily by computer. √ **<u>Case against IRR</u>** Calculation of IRR involves use of complicated formula √ requiring numerical skill √ Or calculation may involve much "trial and error" to arrive at the IRR. √ May need a computer √ and computing skills to calculate IRR. √ Maximum of 4 √ 's for arguing one side only. **<u>Conclusion</u>** IRR is a good / not a good method of project appraisal. √√	**(8)**

SOURCE MATERIAL FOR USE WITH QUESTION 5

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 £18 590 000. 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 £1 each at a premium of £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 Cinemas Limited		Luxury Cinemas 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	
		2 510 000		171 000
Total Assets		125 510 000		15 171 000
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		1 146 310
Total Equity and Liabilities		125 510 000		15 171 000

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)	(see table below)	**(8)**

Calculation of Goodwill					
Property	12 800 000		Purchase Price	18 590 000	√
Plant	1 000 000		Value of Net Assets	11 528 590	√ o/f
Equipment	1 250 000	√ (3)	Goodwill	7 061 410	√ o/f √ C
Inventories	115 000				
Trade Receivables	9 900	√ (2)			
Bank Loan	- 2 500 000				
Loan repayable in 12 months	-1 000 000				
Trade Payables	-146 310	√ (3)			
Value of Net assets acquired	11 528 590	√ o/f			

Question Number	Answer	Mark
5(b)	Amount received per share = £18 590 000 / 11 000 000 = £1.69p per share √ Cash received per share = £1.69 - (£1 + 60p premium) = £0.09 per share √ £639 / £0.09 = 7 100 shares √ o/f √ C	**(4)**

Question Number	Answer	Mark
5(c)	**Statement of Financial Position of Panoramic Cinemas Limited as at April 1st 2012**	(12)

Assets			£	
Non-current Assets				
Property, plant and equipment	136 050 000	√		
Intangible assets (2000000 √ + 7061410 o/f √)	9 061 410	√√ o/f		
			145 111 410	
Current Assets				
Inventories	771 000			
Trade Receivables	83 900	√ (2)		
Cash	790 000	√√		
			1 644 900	
Total Assets			**146 756 310**	
Equity and Liabilities				
Equity				
Ordinary Shares of £1 each	91 000 000	√		
Share Premium	26 600 000	√		
Retained earnings	20 342 660	√		
			137 942 660	
Non-current liabilities				
Bank Loan	7 500 000			
			7 500 000	
<u>Current Liabilities</u>				
Loans Repayable within 12 months	1 000 000	√ (2)		
Trade Payables	313 650	√		
			1 313 650	
Total Equity and Liabilities			**146 756 310**	√

Question Number	Answer	Mark
5(d)	Correct treatment of goodwill would be to amortize √ over its useful economic life. √ Shown as an intangible non-current asset √ **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 as it gives a true and fair view in the accounts. √√	**(8)**

SOURCE MATERIAL FOR USE WITH QUESTION 6

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.

(8)

(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)

(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)	see table below	**(8)**

	San Pedro	La Rioja	Copresol	Andacalla
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√ o/f	(60900)√ o/f	(37500)√ o/f	(4000) √ o/f

Question Number	Answer	Mark
6(b)(i) **6(b)(ii)**	see table below	**(16)**

Per tonne	San Pedro	La Rioja	Copresol	Andacalla
Sales Revenue	6500	6500	6500	6500
Direct Labour	5200	5000	5400	5100
Direct Materials	900 √ (2)	1500 √ (2)	1200 √ (2)	1200 √ (2)
Fixed Costs	330 √	290 √	200 √	250 √
Profit (Loss)	70 √ o/f	(290)√ o/f	(300)√ o/f	(50) √ o/f
Contribution	400 √ o/f	0 √ o/f	(100)√ o/f	200 √ o/f

Question Number	Answer	Mark
6(c)	<table><tr><td></td><td><u>San Pedro</u></td><td><u>La Rioja</u></td><td><u>Copresol</u></td><td><u>Andacalla</u></td></tr><tr><td>Short Term</td><td>Open</td><td>Open/close √</td><td>Close</td><td>Open √</td></tr><tr><td></td><td>√ either ST or LT</td><td></td><td>√ either ST or LT</td><td></td></tr><tr><td>Long Term</td><td>Open</td><td>Close √</td><td>Close</td><td>Close √</td></tr></table> La Rioja and Andacalla must make mention to time period for √ √ if mention made for positive contribution / or negative contribution √ if reason given for supporting decision in ST for La Rioja e.g. in future expect price of copper to rise or expect to reduce costs in future.	**(8)**

SOURCE MATERIAL FOR USE WITH QUESTION 7

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	6 320	
Cash generated from operations	306 376	
Add Interest received	2 171	
Less Interest paid	(16 162)	
Less Tax paid	(35 768)	
Net Cash generated from Operating Activities		256 617
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	6 000	
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
Cash and cash equivalents at the beginning of the year		(34 476)
Cash and cash equivalents at the end of the year		50 141

Required:

(a) Prepare answers to the following questions:

(i) How much was the tax charged on profit for the year ended 31 March 2011?
(1)

(ii) What happened to the level of unsold goods during the year ended 31 March 2012?
(1)

(iii) If £22 654 was owed to suppliers on 31 March 2011, how much was owed to suppliers on 31 March 2012?
(2)

(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?
(4)

(v) A patent was sold in January 2012. What was the book value of the patent when sold?
(2)

(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 √	**(1)**

Question Number	Answer	Mark
7(a)(ii)	Increased by 13 745 √	**(1)**

Question Number	Answer	Mark
7(a)(iii)	(£22 654 + £6 320) √ = £28 974 √	**(2)**

Question Number	Answer	Mark
7(a)(iv)	(£16 162 - £4 162) √ = £12 000 <u>£12 000</u> √ x100 = 6% √ £200 000 √	**(4)**

Question Number	Answer	Mark
7(a)(v)	(£135 000 - £45 000) √ = £90 000 √	**(2)**

Question Number	Answer	Mark
7(a)(vi)	(£17 000 - £8 000) √ = £9 000 √	**(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 = (£50 141 - £13 685) √ = £36 456 √ Movement in year = (£46 949 + £36 456 o/f) √ = £83 405 increase √	**(4)**

Question Number	Answer	Mark
7(a)(ix)	(£7 360 + £16 799) √ = £24 159 √	**(2)**

Question 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 Number	Answer	Mark
7(c)	Answers may include the following**:** Max 4 **√** available for arguing only one side**.** **<u>Profit most important</u>** Without profit, business would close down√ in the long run. √ If short term liquidity problem, √ many sources are available as source of finance √ eg 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. √ **<u>Liquidity most important (or both equally important)</u>** 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 up √ **2 √** for Conclusion eg Profit more important	**(8)**