

Paper Reference(s)

**6002/01**

# **London Examinations GCE**

**Accounting (Modular Syllabus)**

**Advanced Subsidiary/Advanced Level**

**Unit 2 – Corporate and Management Accounting**

**Friday 5 June 2009 – Morning**

**Source booklet for use with Questions  
1 to 7.**

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## SECTION A

### SOURCE MATERIAL FOR USE WITH QUESTION 1

1. Oceanic Fruit Trading plc had the following balances in the books at 31 March 2009, subject to final adjustments.

	<b>Debit</b>	<b>Credit</b>
	<b>£</b>	<b>£</b>
Buildings	725 000	
Bank loan		50 000
Called-up share capital not paid	1 200	
Cash at bank	24 500	
Cash in hand	8 600	
Creditors		57 000
Debtors	6 000	
Debenture 16% 2014		200 000
Debenture Interest		16 000
Foreign exchange reserve		87 000
Goodwill purchased	120 000	
Interest on bank loan		800
Licences and Patents purchased	150 000	
Machinery	115 000	
Ordinary share capital called up		598 800
Prepayments	3 300	
Profit and loss account		730 300
Rent received		1 100
Share premium account		240 000
Ships and vehicles	890 000	
Stocks of consumables	8 400	
Taxation provision		71 000

**Notes and final adjustments:**

- (i) The buildings are to be revalued by £50 000 to a market value of £775 000, on 31 March 2009.
- (ii) The bank requires the loan to be repaid in full on 31 July 2009.
- (iii) Oceanic Fruit Trading plc has made a provision for tax to be paid. The tax authorities require all taxation to be paid by 31 December 2009.

**Required:**

- (a) Prepare the balance sheet for Oceanic Fruit Trading plc as at 31 March 2009 **in accordance with format one of the Companies Act 1985.** (40)
- (b) “A company’s balance sheet is more important than its profit and loss account”. Evaluate this statement. (12)

**(Total 52 marks)**

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

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## SOURCE MATERIAL FOR USE WITH QUESTION 2

2. RichGrain Mills Limited produces loaves of bread. A budget is used each month to estimate sales and the cost of production.

The following figures relate to the month of April 2009.

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Sales	168 000	159 750	
Less			
Material Costs	27 000	30 160	
Labour Costs	29 440	29 016	
Variable Overheads	12 310	13 358	
= Cost of Goods Sold	68 750	72 534	
<b>Gross Profit</b>	<b>99 250</b>	<b>87 216</b>	
Fixed Overheads	58 500	58 500	
<b>Net Profit</b>	<b>40 750</b>	<b>28 716</b>	

The following information is also available.

- A production figure of 400 000 loaves of bread for April was budgeted and achieved.
- Each loaf of bread was budgeted to use 0.5 kilos of material at 13.5 pence a kilo.
- Due to an increase in the world price of wheat, the actual material price paid for April was 14.5 pence a kilo.
- Budgeted labour costs were based on 32 workers, each working 160 hours in the month, at £5.75 per hour.
- Due to a pay rise awarded on 1 April 2009, the 32 workers were paid £5.85 per hour.
- Variable overheads include electricity, gas and water bills.
- Fixed overheads include rent of factory and managers' salaries.
- All 400 000 loaves of bread produced were sold.

**Required:**

- (a) In the answer book, complete the column to show the Variances, clearly stating whether Adverse or Favourable, for the month of April 2009. (8)
- (b) Calculate for the month of April each of the following:
- (i) the quantity of material used in the actual production of **one** loaf (4)
  - (ii) the material usage variance, stating the formula used (6)
  - (iii) the material price variance, stating the formula used. (6)
- (c) Calculate for the month of April each of the following:
- (i) the number of hours worked by **each** of the 32 workers (4)
  - (ii) the labour efficiency variance, stating the formula used (6)
  - (iii) the labour rate variance, stating the formula used. (6)

The directors of RichGrain Mills Limited have set a target of £40 000 net profit for May 2009.

**Required:**

- (d) Study the budget and actual figures, and the information given for April 2009. Evaluate the most appropriate actions to achieve the £40 000 net profit target required by the directors. (12)

**(Total 52 marks)**

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

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### SOURCE MATERIAL FOR USE WITH QUESTION 3

3. Highway Connections Limited, which builds roads, and Wessex Quarries Limited, which mines stone used in the construction industry, have merged. The new company is called Roadworks Limited and has an Authorised Share Capital of 2 500 000 ordinary shares of £1 each. The new company was formed on 1 April 2009.

The balance sheets of the two companies on 31 March 2009 were as follows:

	<b>Highway Connections Limited</b>		<b>Wessex Quarries Limited</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<u>Fixed Assets</u>				
Buildings	200		120	
Machinery	950		480	
Furniture	70		37	
Vehicles	<u>550</u>		<u>186</u>	
		1 770		823
<u>Current Assets</u>				
Stock	58		43	
Debtors	22		39	
Bank	36		12	
Cash	<u>21</u>		<u>2</u>	
	137		96	
<u>Current Liabilities</u>				
Creditors	<u>(46)</u>		<u>(72)</u>	
Working capital		91		24
<b>Net Assets</b>		<b>1 861</b>		<b>847</b>
Ordinary shares of £1 each	800		800	
Share premium	200		50	
Profit & loss reserve	<u>861</u>		<u>(3)</u>	
<b>Capital Employed</b>		<b>1 861</b>		<b>847</b>

Roadworks Limited settled the purchase consideration by issuing to shareholders of Highway Connections Limited and Wessex Quarries Limited, £1 ordinary shares in Roadworks Limited. These shares were valued at £1.50 each, which included a premium of £0.50 per share.

Roadworks Limited took over the assets and liabilities of Highway Connections Limited and Wessex Quarries Limited at book value, with the following exceptions:

- Buildings were revalued:  
Highway Connections Limited to £280 000  
Wessex Quarries Limited to £160 000
- Machinery of Wessex Quarries Limited was valued at £380 000
- Furniture of Highway Connections Limited was valued at £60 000
- Vehicles of Wessex Quarries Limited were valued at £145 000
- Net realisable value of the stock was:  
Highway Connections Limited £55 000  
Wessex Quarries Limited £25 000
- Debtors £17 000 of Wessex Quarries Limited were written off as bad debts.

**In addition:**

- Goodwill was valued at £274 000 for Highway Connections Limited and at £30 000 for Wessex Quarries Limited
- The purchase price of Highway Connections Limited was £2 202 000.

**Required:**

(a) Calculate:

- (i) the purchase price of **Wessex Quarries Limited** (8)
- (ii) how many shares the members of **Wessex Quarries Limited** received in **Roadworks Limited**. (4)

(b) In the books of **Highway Connections Limited**, prepare the:

- (i) Realisation account (8)
- (ii) Sundry shareholders account. (6)

(c) Prepare the balance sheet of **Roadworks Limited** as at 1 April 2009. (14)

Angelina was a shareholder in **Highway Connections Limited**.

(d) Evaluate the merger from the point of view of Angelina. (12)

**(Total 52 marks)**

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**Answer space for question 3 is on pages 14 to 21 of the question paper.**

## SOURCE MATERIAL FOR USE WITH QUESTION 4

4. Eezysnooze Limited is to go into business producing beds. The following information is available.
- Materials for production will be delivered from Week 1 in Month 1. Each week, £2 400 of materials will be delivered. These materials are the quantity required to produce 60 beds.
  - Production will start in Week 2 in Month 1. In each week, 60 beds will be produced, which is the maximum production capacity of the factory.
  - Sales are budgeted to be 55 beds a week, starting from Week 3 in Month 1. Any beds produced but not sold will be placed into stock in the warehouse.
  - Materials are budgeted to be paid for 3 weeks after delivery, e.g. materials delivered in Week 1 will be paid for in Week 4.
  - Customers are budgeted to pay 4 weeks after a sale, e.g. a bed sold in Week 3 Month 1 will be paid for in Week 3 Month 2.
  - The budgeted selling price of beds is £300 per bed.
  - Assume 4 weeks in each month.



**Required:**

- (a) Prepare, for the first **three** months of trading for Eezysnooze Limited:  
(For each of the three months, the budgets should show total figures for **EACH** month, **NOT** weekly figures)
- (i) A purchases budget in pounds (£s) (3)
  - (ii) A purchases budget in units (beds) (3)
  - (iii) A production budget in units (beds) (3)
  - (iv) A sales budget in units (beds) (3)
  - (v) A stock budget in units (beds). 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 creditors budget in pounds (£s) showing the creditors figure at the end of each month. (3)
  - (vii) A debtors budget in pounds (£s) showing the debtors figure at the end of each month. (3)
- Production is determined by the maximum production capacity of the factory, **NOT** by the number of beds ordered by customers.
- (b) Evaluate the decision to produce a quantity determined by the maximum capacity of the factory instead of producing a quantity determined by customers' orders. (8)

**(Total 32 marks)**

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**Answer space for question 4 is on pages 22 to 25 of the question paper.**

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## SOURCE MATERIAL FOR USE WITH QUESTION 5

5. Junaed Choudhury has invested in Oriental Tea plc and holds 8 000 shares. He uses the published accounts and newspapers to see how his investment is performing.

The following information concerning Oriental Tea plc was available at the end of the **previous** financial year, **31 March 2008**.

- Number of £1 ordinary shares issued: 2 500 000
- Net profit for year after interest and tax: £400 000
- Total Ordinary dividend paid for the year: £350 000
- Share price: £1.85

### Required:

(a) Calculate, for the year ended **31 March 2008**:

- (i) Earnings per ordinary share (3)
- (ii) Dividend paid per share (3)
- (iii) Price/Earnings ratio (3)
- (iv) Dividend cover. (3)

The following information concerning Oriental Tea plc is available at the end of the **latest** financial year, **31 March 2009**.

- Number of £1 ordinary shares issued: 3 000 000
- Dividend paid per share: 4.8 pence
- Earnings per share: 4.32 pence
- Price/Earnings ratio: 20
- Dividend Cover: 0.9 times

**Required:**

(b) Calculate, for the year ended **31 March 2009**:

- (i) Total ordinary dividend paid for the year (3)
- (ii) Share price at 31 March 2009 (3)
- (iii) Net profit for the year after interest and tax (3)
- (iv) Dividend yield. (3)

Junaed wants to know how his investment has performed.

**Required:**

(c) Evaluate the performance of Oriental Tea plc in the year ended 31 March 2009, compared to the year ended 31 March 2008. (8)

**(Total 32 marks)**

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**Answer space for question 5 is on pages 26 to 29 of the question paper.**

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## SOURCE MATERIAL FOR USE WITH QUESTION 6

6. The directors of Sunshine Theme Parks Limited are considering opening a new theme park in the holiday resort of Utopious. They have leased land for five years, and have been granted a licence to operate the theme park for five years.

The following information is available:

- Forecasts show that the initial cost of the investment will be £6 000 000.
- The investment of £6 000 000 includes 6 rides, costing £150 000 each. The rides are to be depreciated over 5 years using the straight line depreciation method at a rate of 20% per year.
- Running expenses, including depreciation for the rides, for the first three years are forecast to be £1 000 000 per year. In year four, running expenses, including depreciation, are forecast to rise by £200 000. In year five, running expenses are forecast to stay at the same level as in year four.
- For the first three years it is forecast that the theme park will operate for 210 days per year, with an average of 500 visitors per day, each paying a £20 entrance fee.
- In year four, it is forecast that the theme park will operate for 210 days, with an average of 600 visitors a day, each paying a £25 entrance fee. These figures are expected to stay the same for year five.
- It is company policy to have a payback period of five years on investment projects.
- It is company policy only to invest in projects achieving an average rate of return of 10% per year.

### Required:

(a) Calculate for the project the:

(i) payback period, showing your answer in years and months (14)

(ii) average rate of return. (10)

(b) Evaluate the project for the company, considering both financial and non-financial factors. (8)

**(Total 32 marks)**

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**Answer space for question 6 is on pages 30 to 33 of the question paper.**

## SOURCE MATERIAL FOR USE WITH QUESTION 7

7. The directors of TransZiberian Gas plc review their operations regularly. The world price of gas has risen to £24 per British Thermal Unit (BTU) and is expected to stay at this level. As a result, the directors of TransZiberian Gas plc are considering whether to reopen the three fields in the Northern Region that had been shut down because they were making a loss. TransZiberian Gas plc cannot sell at a price above £24 per BTU as customers would purchase from other suppliers.

Estimated figures for the three fields in the Northern Region for June 2009 are:

	<b>Nevgrad</b>	<b>Ostorov</b>	<b>Yutanga</b>
Direct labour	£1 620 000	£1 080 000	£1 265 000
Direct materials	£630 000	£680 000	£ 605 000
Fixed costs	£270 000	£320 000	£440 000
Production (BTUs)	90 000	80 000	110 000

### Required:

- (a) (i) Calculate the estimated profit or loss for **each of the fields** of the Northern Region for June 2009.
- (ii) If all three fields are to be reopened, calculate the **total** estimated profit for the Northern Region. (12)
- (b) Calculate the estimated profit or loss, and the contribution, made by **each** of the three gas fields, **per BTU**, for the month of June 2009. (12)
- (c) Evaluate the figures to make a decision as to the future of each of the three gas fields, using marginal costing. (8)

**(Total 32 marks)**

**Answer space for question 7 is on pages 34 to 38 of the question paper.**

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