

Paper Reference(s)

**6002/01**

# **London Examinations GCE**

**Accounting (Modular Syllabus)**

**Advanced Subsidiary/Advanced Level**

**Unit 2 – Corporate and Management Accounting**

**Tuesday 20 January 2009 – 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. Standard Bicycles plc produces bicycles at its factory. The bicycles are then delivered to Standard Bicycles plc shops, where they are sold to customers.

At 31 December 2008, the following were some of the balances in the books.

	Debit £	Credit £
Bad debts	2 250	
Corporation tax provision		210 000
11% Debentures 2014		500 000
Direct labour	724 000	
Direct materials	520 000	
Directors' salaries	196 000	
Factory buildings at cost	6 420 000	
Factory canteen sales		75 000
Factory overheads	375 000	
Interest on bank balance		3 850
Motor lorries at cost	475 000	
Rent for shop premises	295 000	
Rent received		22 770
Sales		4 255 000
Sales promotions and advertising	58 000	
Stock of finished goods at 1 January 2008	115 000	
Wages	686 000	
Warehouse expenses	188 000	

#### Additional information at 31 December 2008

- Stock of finished goods £99 000.
- Directors' salaries are broken down as follows:

Finance director	£65 000
Sales director	£68 000
Production director	£63 000

- Rent for shop premises includes £4 200 paid in advance.
- The Rent received account has £2 070 owing on rented office space.
- Wages include:

Office staff	£222 000
Transport staff	£176 000
Shop staff	£288 000

- Assuming a nil residual value in each case and using the straight line method: the factory building is to be depreciated over a 30 year life; motor lorries are to be depreciated over a 5 year life.

**Required:**

- (a) Prepare the profit and loss account for Standard Bicycles plc for the year ended 31 December 2008, using format 1 as required by the Companies Act 1985.

You must show all workings clearly labelled in arriving at your figures to be shown in the published profit and loss account.

Note:

- It is **not** necessary to show any of the notes required by the Companies Act 1985.
- Ignore any exemptions permitted for small and medium sized companies.

**(40)**

As part of their business plan, the directors of Standard Bicycles plc intend to reorganise and restructure its workforce in the next financial year, ending 31 December 2009. The reorganising and restructuring of the workforce will be treated in the accounts for the year ending 31 December 2009 as an Exceptional Item.

- (b) Evaluate the usefulness of this treatment to the users of the published accounts of Standard Bicycles plc.

**(12)**

**(Total 52 marks)**

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**Answer space for question 1 is on pages 2 to 6 of the question paper.**

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## SOURCE MATERIAL FOR USE WITH QUESTION 2

2. The balance sheets of Sunset plc as at 1 January 2008 and 31 December 2008 were as follows:

	<u>1 January 2008</u> £	<u>31 December 2008</u> £
Fixed assets		
Buildings	2 300 000	2 160 000
Machinery	400 000	390 000
Furniture	100 000	80 000
Investments	<u>200 000</u>	<u>200 000</u>
	3 000 000	2 830 000
Current assets		
Stock	85 000	97 000
Debtors	66 000	81 000
Bank	-----	27 000
Cash	<u>12 000</u>	<u>18 000</u>
	163 000	223 000
Current liabilities		
Creditors	(74 000)	(54 000)
Taxation due	(26 000)	-----
Proposed dividends	(35 000)	(15 000)
Bank overdraft	(11 000)	-----
	(146 000)	(69 000)
Long term liabilities		
15% Bank Loan	(750 000)	(850 000)
Net assets	<u>2 267 000</u>	<u>2 134 000</u>
Share capital and reserves		
Ordinary shares of £1 each	1 750 000	1 850 000
10% Preference shares of £1 each	250 000	250 000
General reserve	30 000	30 000
Profit and loss reserve	<u>237 000</u>	<u>4 000</u>
Total capital and reserves	<u>2 267 000</u>	<u>2 134 000</u>

The profit and loss appropriation account for the year ended 31 December 2008 was as follows.

	£
Net operating profit/(loss)	(178 000)
Taxation	-----
Loss after tax	(178 000)
Dividends	(55 000)
Retained earnings for year	(233 000)
Retained earnings brought forward	<u>237 000</u>
Retained earnings carried forward	4 000

**Additional information**

- (i) At 1 January 2008, dividends of £35 000 were owed to ordinary shareholders.
- (ii) An issue of 100 000 £1 Ordinary shares was made on 30 June 2008.  
On the same date, an additional £100 000 was borrowed from the bank.
- (iii) An interim dividend was paid to ordinary shareholders during July 2008.
- (iv) Preference shareholders have been paid in full for the year ended 31 December 2008.
- (v) Interest on the overdraft for the year was £1 000.
- (vi) Included in the Net operating profit/(loss) figure are Dividends Received worth £20 000 from an Investment in another company.
- (vii) On 27 December 2008, furniture costing £40 000 was purchased. No depreciation is to be provided on this new furniture for the year ended 31 December 2008.

**Required:**

- (a) A statement reconciling the Net operating profit/(loss) to the net cash flow from operating activities for the year ended 31 December 2008. (14)
  - (b) A cash flow statement for the year ended 31 December 2008 in accordance with Financial Reporting Standard (FRS) 1 Cash Flow Statements (revised). (20)
  - (c) An analysis of the changes in bank and cash balances for the year ended 31 December 2008. (6)
- When the Cash Flow Statement is presented to the Board Meeting, the Marketing Director comments “We should not be worried. Liquidity, not profitability, is important for the short term survival of the business”.
- (d) Evaluate this comment, with reference to Sunset plc. (12)

**(Total 52 marks)**

**Answer space for question 2 is on pages 7 to 11 of the question paper.**

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### SOURCE MATERIAL FOR USE WITH QUESTION 3

3. Mrs Yeungs Cakes Limited (Ltd) will start production on 1 February 2009. The company will use four machine types. Production involves each cake being processed by each of the four machine types:

mixer, oven, decorator, wrapper.

The production capacity and the cost of each machine type is shown below.

<u>Machine</u>	<u>Production Capacity</u> (Cakes per hour)	<u>Cost per machine</u>
Mixer	60	£2 450
Oven	90	£1 880
Decorator	30	£1 630
Wrapper	120	£2 740

The directors plan to have ALL the machines operating continuously for 24 hours a day, five days a week.

**Required:**

- (a) Calculate the minimum number of each machine type required to ensure continuous operation, once production is underway. (6)

The directors of Mrs Yeungs Cakes Ltd have a budget of £100 000, ALL of which they plan to spend on the machinery.

**Required:**

- (b) Calculate
- (i) the number of each machine type to be purchased by the company.
  - (ii) the amount to be spent on each machine type by the company. (10)

The cakes are wrapped into packs of six.

**Required:**

- (c) Prepare a production budget for Mrs Yeungs Cakes Ltd for the four weeks in February 2009. The production budget should show:
- the number of packs of six cakes produced each week
  - total production figure of packs of six cakes for the four week period. (10)

The packs are delivered and all are sold to stores immediately for £0.90 per pack.

**Required:**

(d) Prepare a sales budget for Mrs Yeungs Cakes Ltd for the four weeks in February 2009. The sales budget should show:

- the value of sales in pounds (£) for each of the four weeks
- a total sales figure in pounds (£) for the four week period.

**(6)**

It is estimated that 75% of customers will buy on credit, and take 30 days or more to pay the amount due.

**Required:**

(e) Prepare a debtors budget for Mrs Yeungs Cakes Ltd for the four weeks in February 2009. The debtors budget should show:

- the value of debtors in pounds (£) generated for each of the four weeks
- a total debtors figure for each week of the four week period.

**(8)**

(f) Evaluate whether it would be useful for Mrs Yeungs Cakes Ltd also to prepare a cash budget for the first four weeks of trading.

**(12)**

**(Total 52 marks)**

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**Answer space for question 3 is on pages 12 to 17 of the question paper.**

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## SECTION B

### SOURCE MATERIAL FOR USE WITH QUESTION 4

4. CoolShades Ltd produces curtains. A standard costing system is used to prepare the production budget for the following month. The budget and actual figures for production for December 2008 are given below.

	Budget	Actual
Production (units)	2 400	2 400
Direct Materials	£79 200	£85 800
Direct Labour	£54 600	£59 160

- Each curtain was budgeted to use 12 metres of material.
- The budgeted price of material of £2.75 per metre was achieved.
- Each curtain was budgeted to use 3.5 hours of labour.
- The budgeted labour wage rate was £6.50 per hour, but an actual rate of £5.80 per hour was paid.

#### Required:

- (a) Calculate for the production of one curtain:
- (i) the actual amount of material used
  - (ii) the actual time taken.
- (8)**
- (b) Calculate for the month of December 2008:
- (i) the materials usage variance
  - (ii) the total material cost variance
  - (iii) the labour rate variance
  - (iv) the labour efficiency variance
  - (v) the total labour cost variance.
- (16)**

The Production Manager of CoolShades Ltd has said, “If you decide to pay a low wage rate, the business does not always benefit”.

- (c) Evaluate this statement.
- (8)**

**(Total 32 marks)**

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



## SOURCE MATERIAL FOR USE WITH QUESTION 5

5. Himalaya Ltd produces cables for the telecommunications industry. It has been normal practice by senior management to ask the accountant to value stock using both the marginal costing method and the absorption costing method.

The following information is available for the year ended 31 December 2008.

Opening Stock	1 900 units
Opening stock value	Marginal costing £41 800 Absorption costing £60 800
Production	70 000 units per year
Semi-Variable costs	£325 000 fixed element per year plus £1.50 per unit
Fixed overheads	£28 000 per month
Direct materials	£13 per unit
Direct labour	2 hours work per unit at a wage rate of £4.75 per hour
Sales price	£45 per unit
Closing stock	2 150 units

### Required:

- (a) Prepare for management, two profit and loss statements for the year ended 31 December 2008, using:
- (i) marginal costing stock valuation.
  - (ii) absorption costing stock valuation.

(20)

A potential new customer is interested in buying the product, but is only prepared to offer £30 per unit.

### Required:

- (b) Advise the management of Himalaya Ltd whether this offer should be accepted.
- (c) Evaluate on behalf of the management of Himalaya Ltd which method of stock valuation, marginal costing or absorption costing, should be used.

(8)

(Total 32 marks)

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Answer space for question 5 is on pages 22 to 25 of the question paper.

## SOURCE MATERIAL FOR USE WITH QUESTION 6

6. Multinational fast food chain Uncle Jacks plc agreed to purchase the smaller fast food chain Whistle Stopz plc, on 5 January 2009. The directors of Uncle Jacks plc have agreed to take over all of the assets and liabilities except debtors, cash and bank overdraft. The purchase price, including goodwill, was agreed and for every Ordinary £2 share held in Whistle Stopz plc, each shareholder would receive:
- one £1 share in Uncle Jacks plc at a premium of £0.45 (the trading price is £1.45 a share).
  - £0.65 cash.

The balance sheet of Whistle Stopz plc as at 31 December 2008 is shown below:

	£	£	£
<b>Fixed Assets</b>			
Buildings			8 270 000
Machinery			700 000
Fixtures and Fittings			1 800 000
Furniture			<u>400 000</u>
			11 170 000
<b>Current Assets</b>			
Stock	135 000		
Debtors	3 000		
Cash	<u>16 000</u>		
		154 000	
<b>Current Liabilities</b>			
Creditors	(64 000)		
Overdraft	<u>(82 000)</u>		
		<u>(146 000)</u>	
Working capital			8 000
Long Term Loan			(1 000 000)
<b>Net Assets</b>			<u>10 178 000</u>
Ordinary Shares of £2 each			10 000 000
Profit & Loss Reserve			<u>178 000</u>
<b>Capital Employed</b>			<u>10 178 000</u>

### Additional information:

The assets of Whistle Stopz plc were revalued as follows before the takeover:

- Buildings to a current market value of £8 500 000
- Machinery to a value of £500 000
- Fixtures and fittings to a value of £1 600 000
- Furniture to a value of £300 000
- Stock to a net realisable value of £75 000.

**Required:**

- (a) Prepare the Journal entries to close the following accounts in the books of Whistle Stopz plc, **after** any revaluations have taken place.
- (i) Machinery.
  - (ii) Creditors.
  - (iii) Ordinary Shares of £2.

(6)

- (b) Calculate the purchase price paid by Uncle Jacks plc for Whistle Stopz plc.

(8)

- (c) Calculate the goodwill paid by Uncle Jacks plc in the purchase of Whistle Stopz plc.

(10)

KC Jones bought three hundred (300) £2 shares in Whistle Stopz plc in the stock market for £2.50 each, one year ago. The shares are now trading on the stock market at £2.03.

- (d) Evaluate the merger on behalf of KC Jones.

(8)

**(Total 32 marks)**

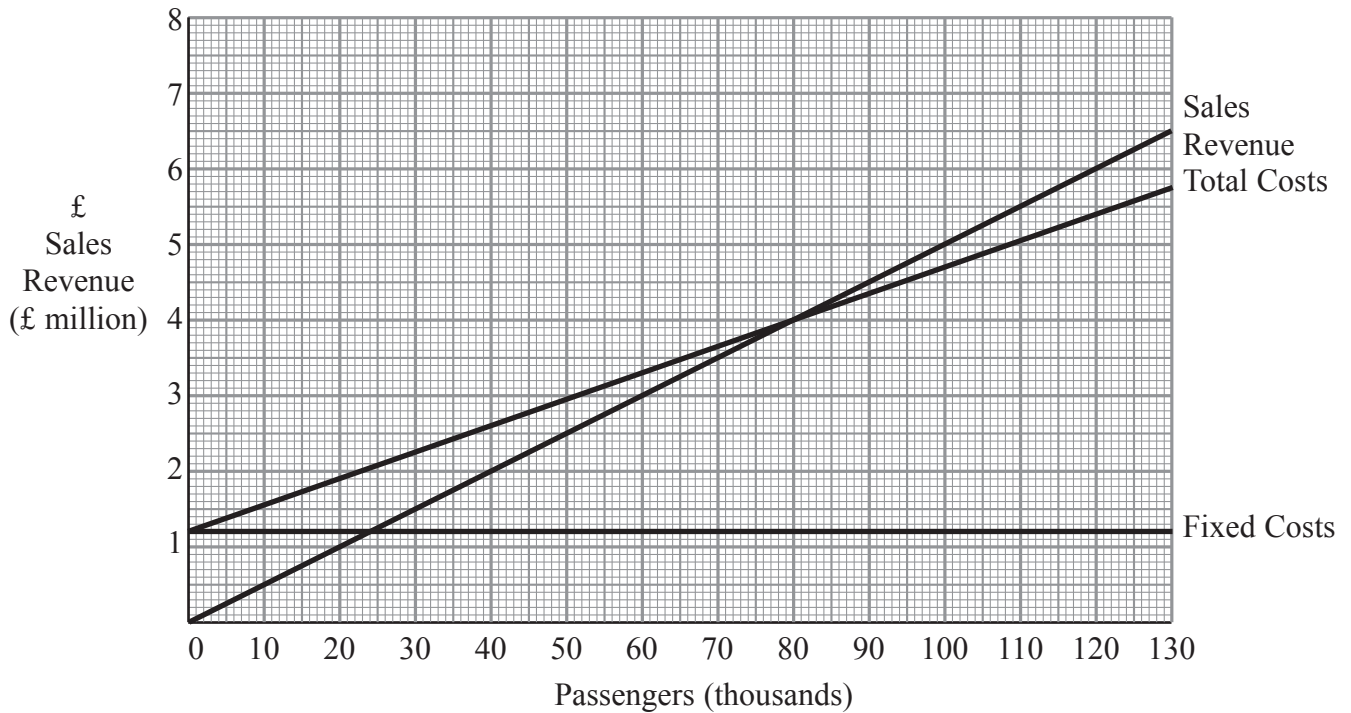
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**Answer space for question 6 is on pages 26 to 29 of the question paper.**

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**SOURCE MATERIAL FOR USE WITH QUESTION 7**

7. As the Finance Director of Arachne Airlines plc, you addressed a shareholders' meeting one year ago, hoping to raise finance for a proposed route to a new destination. To persuade the shareholders to invest further funds, a budget break-even chart was used (see graph) in the presentation. The budget predicted passenger numbers of 120 000 for the year.



After one year of operation, the **actual** figures were as follows:

Fixed Costs	£1 400 000
Variable costs per passenger	£40
Selling price per passenger	£55
Number of passengers	130 000

**Required:**

- (a) Draw the **actual** figures on the **blank** break-even chart in the answer booklet, for passenger numbers between 0 and 130 000:
- fixed costs
  - total costs
  - sales revenue.

(4)

Indicate the following on your break-even chart in the answer booklet for the **actual** figures:

- break even point, in pounds (£) **and** in passenger numbers
- margin of safety in passenger numbers
- angle of incidence.

(8)

Shade in the **actual** area of profit.

(2)

- (b) **Calculate**, showing all workings, the
- **actual** profit
  - **actual** number of passengers required to break even.

(10)

- (c) Evaluate the financial success of the route to the new destination by comparing the actual and budget figures.

(8)

**(Total 32 marks)**

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

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