

Paper Reference(s)

6002/01

London Examinations GCE

Accounting (Modular Syllabus)

Advanced Level

**Unit 2: Corporate and Management
Accounting**

Thursday 24 January 2013 – Afternoon

**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. Channel Oil plc drills for oil. Channel Oil plc had the following balances in the books at 31 December 2012, subject to some final adjustments.

	Debit £	Credit £
Buildings	974 000	
Bank	114 000	
Bank loan		500 000
Cash in hand	17 000	
Computer equipment	495 000	
8.5% Debenture (2017)		1 200 000
Debenture interest payable		51 000
Fittings	187 000	
Foreign exchange reserve		600 000
Furniture	64 000	
General reserve		75 000
Interest on bank loan payable		3 750
Investment property	750 000	
Non-oil inventories	116 000	
Land	3 150 000	
Patents purchased	45 000	
Machinery	685 000	
Oil drilling licence purchased	2 000 000	
Oil drilling plant	4 550 000	
Oil inventories	2 320 000	
Oil refining plant	1 930 000	
Ordinary £1 share capital		13 000 000
Other payables		16 500
Other receivables	7 000	
Retained earnings	929 250	
Share premium account		2 500 000
Taxation		460 000
Trade payables		24 000
Trade receivables	97 000	

Notes and final adjustments:

- The bank loan is due to be repaid in March 2015
- Buildings are to be revalued upwards by 5%
- Investment property is to be revalued upwards by 4%
- Oil inventories are to be revalued downwards by 7% to reflect a falling oil price
- Taxation due includes £198 000 to be paid within 30 days. The remainder is to be paid on 31 March 2014.

Required:

- (a) Prepare the Statement of Financial Position for Channel Oil plc at 31 December 2012 in accordance with International Accounting Standard 1 (Revised).

(40)

At a board meeting at the end of the year, the Marketing Director stated “I am concerned about the liquidity position of the company”.

Required:

- (b) Evaluate the statement of the Marketing Director, concerning the liquidity position of Channel Oil plc, at 31 December 2012.

(12)

(Total 52 marks)

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

SOURCE MATERIAL FOR USE WITH QUESTION 2

2. Khulnar Carpets Limited produces carpets. All carpets are produced to order, with no stocks held.

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

Budget:

- Each carpet is to use 16 sq m of material in production
- Material is to be purchased from suppliers at a rate of £7.50 per sq m
- Workers are to be paid £8.60 per hour, and are to produce 2 carpets per day
- 12 workers are to work 8 hours per day, five days per week, for four weeks.

Actual:

- 7 920 sq m of material were used for production at a total cost of £58 608
- Each carpet took 4.25 hours to produce
- Workers were paid £8.50 per hour.

The budgeted sales target of 480 carpets at £299 per carpet was achieved.

Required:

(a) Calculate the:

(i) budgeted cost of producing **one** carpet (4)

(ii) actual cost of producing **one** carpet. (4)

(b) Calculate, stating the formula used in each case, for the month ended 31 December 2012 the:

(i) labour efficiency, labour rate, and total labour variance for **one** carpet (12)

(ii) materials usage, materials price, and total materials variance for **one** carpet. (14)

Fixed costs for the month totalled £12 300.

(c) Calculate the actual profit for the month of December. (6)

The directors of Khulnar Carpets Limited expect higher costs to apply in January 2013, but have decided not to charge these extra costs to customers, i.e. they will **not** increase the price of each carpet sold.

Required:

(d) Evaluate the decision not to charge the extra production costs to the customer. (12)

(Total 52 marks)

Answer space for question 2 is on pages 8 to 12 of the question paper.

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SOURCE MATERIAL FOR USE WITH QUESTION 3

3. Med Isle Travel plc sells holidays. The Statement of Changes in Equity of Med Isle Travel plc for the year ended 31 December 2012 is nearing completion and is shown below.

	£1 Ordinary Share Capital £m	Share Premium £m	Retained Earnings £m	General Reserve £m	Capital Redemption Reserve £m	Non-current Asset Replacement Reserve £m	Total Equity £m
Balance at 1 January 2012	800	200	11	75	40	50	1176
Issue of Share Capital (September)	100	150	--	--	--	--	250
Dividends	--	--	(69)	--	--	--	(69)
Comprehensive Income for the Year	--	--	37	--	--	--	37
Transfer	--	--	75	(75)	--	--	--
Transfer	--	--	(50)	--	--	50	--
Balance at 31 December 2012							

You are the accountant for Med Isle Travel plc.

Required:

- (a) Complete the row in the Answer Booklet to show the figures for the Balance at 31 December 2012. (6)

The published accounts were presented to the shareholders' meeting on 6 January 2013. You are required to answer the following points raised by shareholders.

- (b) (i) "Could you explain **one** example for which the funds in the Non-current asset replacement reserve may be used?" (2)
- (ii) "Please explain the transfer of £75 million shown on line 6." (2)
- (iii) A new shareholder states "I know the Statement of Changes in Equity shows dividends paid only in the year. I did not receive an interim dividend of 3 pence per share in June, as I purchased my shares in the September issue. How much was the final dividend per share paid to ALL shareholders in December 2012?" (6)

(iv) “How much did the shareholders pay for each share issued before 1 January 2012?” (4)

“How much did the shareholders pay for each share issued in September 2012?” (4)

“Can you explain the difference between the amount paid by shareholders to buy each share before 1 January 2012, and the amount to buy each share in September 2012?” (4)

(v) “I am unhappy about the low level of dividend paid. I can see a large figure in the Total Equity column – could we use that to pay dividends?” (12)

Another shareholder stated at the meeting. “I think that the company should have issued bonus shares in September instead of a rights issue. This would have been better for Med Isle Travel plc.”

(c) Evaluate this statement on behalf of Med Isle Travel plc. (12)

(Total 52 marks)

Answer space for question 3 is on pages 13 to 17 of the question paper.

SECTION B

SOURCE MATERIAL FOR USE WITH QUESTION 4

4. Kim Seng plans to go into business opening a factory on 1 February 2013, to produce cartons of soft drink. These will be sold and delivered to retail customers.

Kim Seng has £15 000 of his own money to put into the business. He also has a loan of £15 000 from his mother. The loan is to be repaid at a later date, not yet agreed.

Additional information

1. In the first week of February, Kim Seng plans to pay for the following:
 - machinery £12 400
 - a delivery vehicle £9 500
 - three months rent on the factory at £1 199 per month.
2. Production will start in Week 2 of February. The factory can produce 1 400 cartons per day.
3. Kim Seng will purchase raw materials for the drinks, at the start of each week, at a cost of £0.04 per carton. All material purchases will be paid for in cash on the day of purchase.
4. The water charge for the factory will be £640 per month, paid on the last day of every month.
5. Cartons will be delivered to retail customers on the day of production. Delivery costs are expected to be £280 per week, payable at the end of each week.
6. All output is sold on the day of production. Retail customers will pay Kim Seng £0.22 per carton. All sales will be on credit. 70% of retail customers will pay one month after the sale. The other 30% will pay two months after the sale.
7. Kim Seng will take drawings of £400 per week, starting from 1 February 2013.
8. Assume that the factory will operate **five** days per week and **four** weeks per month.

Required :

- (a) Prepare a monthly Cash Budget for each of the three months February to April 2013. (24)
- (b) Evaluate the level of drawings that Kim Seng is taking out of the business each month. (8)

(Total 32 marks)

Answer space for question 4 is on pages 18 to 20 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 5

5. Metro Clean plc is considering bidding for a contract to dispose of household waste in the city of Valettori. The contract will last for five years, and the city authorities will pay the company to dispose of household waste.

The following information is available.

1. The initial cost of the contract to Metro Clean plc will be £1 900 000. This will include six specialist lorries costing £145 000 each. These lorries will last for five years when they will be sold for £5 000 each.
2. Running expenses, including depreciation of the lorries, for the first three years are forecast to be £850 000 per year. In year four running expenses, including depreciation, are forecast to rise by £50 000. In year five, running expenses are expected to stay at the same level as in year four.
3. The City of Valettori authorities will pay Metro Clean plc £1 200 000 for the first year. The payment for year two will rise by 5%. The payment for year three will be the same as year two. The payment for year four will increase by a further 5%. The payment for year five will be the same as year four.
4. It is Metro Clean plc policy to have a payback period of three years on investment projects.
5. It is Metro Clean plc policy only to invest in projects achieving an average rate of return of at least 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 (accounting rate of return). (10)
- (b) Evaluate the project for Metro Clean plc, using the calculations made and considering any other relevant factors. (8)

(Total 32 marks)

Answer space for question 5 is on pages 21 to 24 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 6

6. Shajah Music Limited owns two stores in the centre of Ashman. These are at the Higher End and the Lower End of the centre. The two stores are facing competition from supermarkets and the internet. Over the last few years, the financial performance of both stores has declined. The directors of Shajah Music Limited have decided to close one store.

Information and figures for the two stores for the year ended 31 December 2012 are shown below:

Higher End

- The store building is owned by Shajah Music Limited.
- The store has two staff members who are each paid a salary of £6 350 per year.
- Other fixed costs total £12 500 per year.
- Variable costs are purchasing CDs for £3 each.
- The store sells the CDs for a full price of £11 each.
- Last year the store sold 3 342 CDs.

Lower End

- This store is rented at a cost of £900 per month.
- The store employs three staff: a manager whose salary is £9 500 per year, a full time staff member whose salary is £6 500 per year, and a part time staff member whose salary is £2 500 per year.
- Other fixed costs total £11 800 per year.
- Variable costs are purchasing CDs for £3 each.
- The store heavily discounts the CDs and sells each CD for £6.
- Last year the store sold 14 784 CDs.

When making a decision as to which store will close, the directors consider the break even point, the margin of safety, and the profit or loss of each store.

Required:

Two fixed costs of the stores are given as rent and salaries.

- (a) (i) State **four** other examples of fixed costs faced by the stores. (2)
- (ii) Define the term **semi-variable costs** and give **two** examples. (4)
- (b) Calculate for **each** store, for the year ended 31 December 2012, the:
- (i) break-even point figure in the number of CDs sold (8)
- (ii) margin of safety in the number of CDs sold (4)
- (iii) profit or loss. (6)
- (c) Evaluate the information and figures calculated in (b) to decide which store should stay open, and which store should close. (8)

(Total 32 marks)

Answer space for question 6 is on pages 25 to 28 of the question paper.

SOURCE MATERIAL FOR USE WITH QUESTION 7

7. The directors of AED Engineering plc have agreed to purchase Machine Tools Limited, on 8 January 2013. The directors of AED Engineering plc agreed to take over all of the assets except the bank balance, and to settle all of the liabilities.

The balance sheet of Machine Tools Limited at 31 December 2012 showed:

All assets £22 200 000

All liabilities £14 800 000

The following revaluations took place in the books of Machine Tools Limited on 6 January 2013, before the takeover:

- Inventory was written down by £620 000 to its net realisable value
- Land was increased by 5% to a current market value of £4 410 000
- Motor vehicles with a carry over (net book value) of £310 000 were written down to a value of £185 000
- Equipment with a carry over (net book value) of £175 000 was written down by £125 000
- An exact figure for Current Taxation Payable was agreed at £40 500, down from £49 800.

Additional information concerning Machine Tools Limited:

- Bank balance £123 000
- Equity share capital £6 000 000, consisting of Ordinary shares of £1.20 each
- For every £1.20 share held in Machine Tools Limited, each shareholder should receive:
 - one £1 share in AED Engineering plc at a premium of £0.58 (the trading price is £1.58 a share)
 - £0.27 cash.

Required :

- (a) Show the Journal entries to close the following accounts in the books of Machine Tools Limited, **before** any revaluations have taken place. Narratives are **not** required.
- (i) Land
- (ii) Current Taxation payable
- (iii) Ordinary Shares of £1.20. (8)
- (b) Calculate the purchase price paid by AED Engineering plc for Machine Tools Limited. (6)
- (c) Calculate the goodwill paid by AED Engineering plc in the purchase of Machine Tools Limited. (10)
- (d) Evaluate the appropriateness of revaluing assets and liabilities before a takeover. (8)

(Total 32 marks)

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

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