AH National Qualifications 2024

X800/77/11 Accounting

MONDAY, 22 APRIL

9:00 AM – 11:30 AM

Total marks — 140

SECTION 1 — 80 marks

Attempt ALL questions.

SECTION 2 — 60 marks

Attempt ALL questions.

You may use a calculator.

You must show your working fully and label it clearly. You will receive no marks for any incorrect figures not supported by working.

Write your answers clearly in the answer booklet provided. In the answer booklet you must clearly identify the question number you are attempting.

Use **blue** or **black** ink.

Before leaving the examination room you must give your answer booklet to the Invigilator; if you do not, you may lose all the marks for this paper.

SECTION 1 — 80 marks

Attempt ALL questions

1. Open Roads plc is a specialist running shoe retailer, with shops located around the UK. The company's trial balance at 31 March Year 3 is given below:

	£000	£000
Purchases and Sales Revenue	38,595	61,500
Inventory at 1 April Year 2	7,500	
Sales staff salaries and commission	6,675	
Administration salaries	1,500	
General administration expenses	1,140	
Advertising costs	825	
Directors' remuneration	900	
Debenture finance cost paid	60	
Property: cost	14,400	
Property: depreciation at 1 April Year 2		1,200
Shop Fittings: cost	9,000	
Shop Fittings: depreciation 1 April Year 2		3,240
Trade Receivables and Payables	9,585	11,184
Cash and Cash Equivalents	7,860	
6% Debentures — repayable Years 4–7		2,250
Ordinary Shares of £1 each		12,000
Share Premium		1,905
Retained Earnings at 1 April Year 2		6,561
Suspense Account	750	
Ordinary dividend paid	1,050	
	99,840	**99,840**

1. (continued)

Additional information

1. Inventory at 31 March Year 3 consisted of three models of running shoe, each of which were valued as follows:

	Cost	Net Realisable Value
	£000	**£000**
Cloud 9	2,565	3,495
Trailblazer	3,345	2,925
Race Lite	2,940	3,900
	8,850	**10,320**

2. The Suspense Account refers to the payment of £750,000 for a redemption of debentures. The payment has only been recorded in the company's bank account. No interest was payable in the year of redemption. Of the remaining debentures, 10% will fall due for redemption in Year 4.

3. Directors' remuneration is to be apportioned to Cost of Sales, Administration, and Selling and Distribution in the ratio of 2:2:1 respectively.

4. Included in property is land at a cost of £2,400,000. The board of directors, having sought the advice of an independent surveyor, wish to revalue the land at £3,600,000.

5. Company depreciation policy is as follows:

Property (excluding land)	5% per annum, on a straight line basis
Shop Fittings	20% per annum, on a reducing balance basis

   Depreciation on property is to be split 70% to Cost of Sales, 20% to Administration and 10% to Selling and Distribution expenses.

   In December of Year 3 Open Roads plc agreed the sale of one of its retail sites for £1,500,000. These buildings had originally cost £1,800,000 and had a net book value at the date of sale of £1,620,000. Cash proceeds from the sale were received after the production of the trial balance and are still to be recorded in the ledger.

   There is no depreciation charged in the year of sale.

   Depreciation on shop fittings is all charged to selling and distribution expenses.

6. Corporation Tax for the year is estimated to be £1,380,000.

In accordance with IAS 1, Presentation of Financial Statements, prepare the following for Open Roads plc.

(a) An Income Statement for the year ended 31 March Year 3. **18**

(b) A Statement of Retained Earnings for the year ended 31 March Year 3. **2**

(c) A Statement of Financial Position as at 31 March Year 3. **20**

MARKS

2. PART A

Avantis Ltd manufactures a component for electronic products. They are considering a proposal to replace machinery on their production line.

Due to the pace of technology, the new machinery is only being considered for a period of 3 years, after which time it would be replaced.

Information on producing the component on both the existing machinery and proposed new machinery is as follows:

	Current machinery (£ per unit)	New machinery (£ per unit)
Selling Price	36.00	36.00
Direct Materials	12.00	12.00
Direct Labour	9.00	7.00
Overheads	12.00	11.50

Note: overheads include depreciation of £1.00 per unit for the current machinery and £5.50 per unit for the new machinery.

Projections for the next 3 years are as follows:

- Direct material and direct labour costs are to increase by 12% at the start of year 2 and will then remain constant for the following year.
- Maintenance costs on the current machine will be £18,000 per annum.
- The directors estimate that maintenance costs for the new machine will be £3,000 for the first year and that this will increase by £1,000 for each subsequent year.
- Avantis Ltd currently produce 50,000 units per annum and sell all production. If the new machinery was purchased, Avantis estimate they could increase production by 8% and that there is sufficient demand to ensure all the extra units produced are sold.

(a) Calculate the net cash inflows from production for both machines for each of the 3 years. **9**

2. PART A (continued)

The following information is also available:

1. The new machinery would cost £1,500,000 and have a residual sales value of £609,000.

2. If the proposal to install new machinery went ahead, current machinery would be scrapped and raise £15,000 in scrap value.

3. Avantis Ltd has a cost of capital of 11% and discount factors are:

   Year 1 – 0.901

   Year 2 – 0.812

   Year 3 – 0.731

(b) Calculate (to the nearest whole number) the Net Present Value (NPV) of the cash flows that could be realised by both sets of machinery. **5**

(c) Based on your answer to (b), recommend whether the current machinery should be retained or if new machinery should be installed. Justify your answer. **1**

A third option is available which involves purchasing new machinery from a different supplier. The following data is available.

NPV at 11% – £320,000

NPV at 20% – (£73,000)

(d) Calculate the Internal Rate of Return (IRR) for this option. **4**

(e) Outline what is meant by the term 'Cost of Capital'. **1**

[Turn over

2. PART B

Gardiner and Ross were in partnership sharing profits and losses in proportion to equity invested.

They decided to dissolve the partnership due to a disagreement on 31 December Year 4. The Statement of Financial Position as at that date was as follows:

	£	£
Non-current Assets		
Land		400,000
Vehicles		25,000
Equipment		75,000
		500,000
Current Assets		
Inventory	5,000	
Trade Receivables	15,000	20,000
Total Assets		**520,000**
Current Liabilities		
Trade Payables	7,500	
Cash and Cash Equivalents	15,000	22,500
Non-current Liabilities		
Loan from Gardiner	15,000	15,000
Total Liabilities		**37,500**
Net Assets		**482,500**
Equity		
Equity Account – Gardiner	259,000	
Equity Account – Ross	111,000	370,000
Current Account – Gardiner	62,500	
Current Account – Ross	50,000	112,500
		482,500

2. PART B (continued)

The details relating to the dissolution are:

1. Land was taken over by Gardiner at a value of £320,000.

2. Ross agreed to take over the following assets:
   Vehicles: £22,000
   Equipment: £65,000

3. The remainder of the equipment and vehicles were sold for scrap at 50% of their value.

4. Inventory sold for £3,800.

5. Trade Receivables were sold to a debt recovery specialist and realised 80% of their value.

6. Trade Payables, paid by bank transfer, were allowed a discount of £400.

7. The loan was repaid to Gardiner.

8. Dissolution expenses amounted to £800.

Prepare:

(a) the Realisation Account **9**

(b) the Equity Accounts of both partners **6**

(c) the Cash and Cash Equivalents Account. **5**

[Turn over

SECTION 2 — 60 marks

MARKS

Attempt ALL questions

3. Numbers plc manufactures calculators. The following Year 2 information has been made available for its best seller, the 'Counter'.

Unit Costs per calculator:

Materials – £2.00
Labour – £1.20
Variable Overheads – £0.80
Selling Price per box of 10 calculators – £80.00

Unit sales and production figures are shown below:

	January	February	March
Sales	8,000	5,000	6,000
Production	10,000	8,000	8,500

Closing Inventory for December is expected to be 10% of the next month's sales.

Estimated Fixed Overheads per annum (based on expected annual production of 100,000 units)		£40,000
Actual Fixed Overheads	January	£4,200
	February	£4,000
	March	£3,200

(a) Calculate the Opening and Closing Inventory for January to March. **3**

(b) Prepare a Profit Statement for January to March Year 2 using Absorption Costing. **12**

Numbers plc purchased 90% of the equity of Digits plc for £2,000,000 on 31 December Year 2. At that date the following information was provided:

	Numbers plc	Digits plc
	£000	**£000**
Tangible Non-current Assets	5,200	1,200
Current Assets	3,600	1,000
Current Liabilities	2,400	600
10% Debentures	500	50
Ordinary Shares of £1 each	7,000	1,400
Share Premium	500	
Retained Earnings	400	150

It is Group policy to write off goodwill over 5 years, with the first charge being immediately written off on acquisition.

(c) (i) Calculate the value of goodwill on acquisition. **3**

(ii) Calculate the value of non-controlling interest on acquisition. **1**

(iii) Prepare the Consolidated Statement of Financial Position of Numbers Group as at 31 December Year 2. **11**

MARKS

4. Vermeer Construction are in Year 3 of a 4-year development project. Information is as follows:

	£000	£000
Balances at 31 December	**Year 2**	**Year 3**
Value of Work Certified	8,300	19,600
Cost of Uncertified Work		1,630
Value of Materials on site	840	1,050
Value of Machinery on site	5,200	6,750
Wages & Salaries owing		75
Direct Expenses prepaid		15

Year 3 Costs	**£000**
Purchase of Materials	4,970
Materials issued from stores	1,160
Wages & Salaries paid	545
Direct Expenses paid	305
Amounts paid to subcontractors	480
Value of Machinery sent to site	4,000
Construction Overheads	20%
Share of Total Head Office Costs	60%

Additional information

1. Construction Overheads are recovered based on Direct Material Costs, plus Subcontracting Costs.
2. Total Head Office Costs are split with a second project Vermeer Construction is undertaking. The second project recorded Head Office Costs of £620,000.
3. During Year 3 a machine that had been used exclusively in the construction of this development had to be scrapped. It had a net book value of £200,000 and the scrap proceeds raised £50,000.
4. The contract price is £24,500,000.

Vermeer Construction recognises profits on uncompleted contracts using the formula:

Notional Profit × Value of Work Certified/Contract Price

(a) Prepare the Contract Account at 31 December Year 3. **25**

(b) Outline reasons why profits on uncompleted contracts are reduced using the above formula. **2**

The client makes contract price payments in equal instalments for each year of the contract. The contract allows the client to retain 15% of the value of work certified at the end of each year for a period of 6 months.

(c) Calculate the amount which will have been paid in total to Vermeer Construction by the end of Year 3. **3**

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