2 Holborn Products manufactures parts for the motor industry. The following balances were extracted from the books on 30 April 2016.

	£
Inventories at 1 May 2015:	
Raw material	23 400
Work in progress	52 000
Finished goods	72 000
Purchases of raw materials	97 800
Carriage inwards	8 450
Manufacturing wages	81 400
Production management salaries	59 500
Non-current assets:	
Manufacturing equipment	
Cost	280 000
Provision for depreciation	160 000
Computing equipment	
Cost	150 000
Provision for depreciation	90 000
Computing technician wages	40 000
Factory consumables	45 200
Rent and rates	16 000
Electricity and water charges	15 600
General expenses	21 000
Property maintenance expenses	11 000
Provision for unrealised profit	12 000

Additional information at 30 April 2016

(1) Inventories:

Raw materials	£16 950
Work in progress	£58 000
Finished goods	£90 000

(2) Manufacturing wages of £2 600 were owing.

(3) All of the costs of computing are charged 60% to manufacturing and 40% to administration.

(4) Depreciation is charged on all non-current assets using the reducing balance method:

(i) manufacturing equipment at the rate of 20% per annum

(ii) computing equipment at the rate of 30% per annum.

(5) Factory consumables of £35 300 are direct.

(6) Half of the general expenses relate to manufacturing.

(7) Property maintenance expenses of £1 800 are owing.

(8) Rent and rates, electricity and water, property maintenance expenses are allocated 75% to manufacturing and 25% to administration.

(9) Production is transferred to finished goods at cost plus 20%.

Required

(a) Prepare, for the year ended 30 April 2016, the:

(i) Manufacturing Account

(21)

(ii) Provision for Unrealised Profit on Manufactured Goods Account

(5)

(iii) Manufacturing Wages Account.

(5)

The owner of Holborn Products is proposing changes to the way in which financial statements are prepared. There are four proposals.

Proposal 1
Include a sum for the skill of the workforce as a non-current asset in the Statement of Financial Position.

Proposal 2
Charge the full cost price of non-current assets to the year in which they are purchased.

Proposal 3
No longer provide for unrealised profit by removing the provision for unrealised profit on manufactured goods from the accounts.

Proposal 4
Charge the drawings of the owner to the Statement of Profit or Loss and Other Comprehensive Income.

(b) State, giving reasons for your answer, an accounting principle or concept that would **not** be complied with if **each** of the proposals 1, 2, 3 and 4 were introduced.

(12)

(c) Evaluate the use of International Accounting Standards (IAS) in the preparation of financial statements.

(12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS