2012 Accounting

Higher − Solutions

Finalised Marking Instructions

2012 Accounting

Higher – Solutions

Question 1

Profit and Loss and Appropriation Account of Carluke plc for the year ended 31 December Year 3 ✓

		£000		£000		
	Gross Profit			142	***(1)***	
Add	Dividends due on Long Term Investments			15	***(2)***	
				157		
Less	**Expenses**					
	Office Expenses	60	***(1)***			
	Office Salaries due	2	***(1)***			
	Discounts	6	***(1)***			
	Advertising (4 / 5 * 10)	8	***(2)***			
	Increase in Provision for Bad Debts	2	***(1)***			
	Debenture Interest (10% * 100)	10	***(2)***			
	Provision for Depreciation:					
	Fixtures and Equipment (20% * (150 – 70))	16	***(2)***			
	Vehicles (10% * 90)	9	***(2)***	113	***(12)***	***(15)***
✓	**Net Profit**			44		
Less	Corporation Tax			11	***(1)***	
	Net Profit after Tax			33		
Add	Profit and Loss Balance 1 January Year 3			25	***(1)***	
				58		
Less	Preference Dividend:					
	Interim	8	***(1)***			
	Final	8	***(2)***			
	Ordinary Dividend:					
	Interim	10	***(1)***			
	Final (10% * 150)	15	***(2)***			
	Goodwill written off	10	***(1)***	51		***(9)***
✓	**Unappropriated Profit 31 December Year 3**			7		
						(24)

Balance Sheet of Carluke plc as at 31 December Year 3 ✓

	Fixed Assets	**Cost**		**Depr**		**NBV**	
		£000		£000		£000	
	Premises	280		15		295	***(1)***
	Fixtures and Equipment	150		86		64	***(1)***
	Vehicles	90		27		63	***(1)***
						422	
Add	Long Term Investments					150	***(1)*** ***(4)***
Add	**Currents Assets**						
	Stock			13	***(2)***		
	Debtors	22					
Less	Provision for Doubtful Debts	3		19	***(2)***		
	Prepaid Expenses			2	***(1)***		
	VAT			14	***(1)***		
	Dividends due on Long Term Investments			15	***(1)***		***(7)***
				63			
Less	**Current Liabilities**						
	Preference Dividend Proposed	8	***(1)***				
	Ordinary Dividend Proposed	15	***(1)***				
	Creditors	21	***(1)***				
	Accrued Expenses	2	***(1)***				
	Debenture Interest Accrued	10	***(1)***				
	Corporation Tax	11	***(1)***				
	Bank Overdraft	51	***(1)***	118			***(7)***
	Working Capital Deficit					-55	
						517	
	Financed By:			£000		£000	
	Issued Share Capital:						
	200,000 8% Preference Shares of £1					200	***(1)***
	300,000 Ordinary Shares of 50p each					150	***(1)***
	50,000 Bonus Shares of 50p each					25	***(1)***
						375	
Add	**Reserves**						
	Profit and Loss Balance 31/12/Year 3			7	***(1)***		
	Share Premium (75 – 25 **(1)** – 30 **(1)**)			20	***(2)***		
	Revaluation Reserve			15	***(1)***	42	
Add	**Long Term Liabilities**					100	***(1)***
	10% Debentures					517	***(8)***
							(26)
							(50)

Question 2

(a) Statement of Accumulated Fund

	Fixed Assets					
	Premises			50		
	Lighting Equipment (10 – 2)			8	***(1)***	58
Add	Current Assets					
	Stock of Refreshments			4		
	Subscriptions in Arrears			4	***(1)***	
	Bank			15	***(1)***	(for Premises, Stock and Bank)
				23		
Less	Current Liabilities					
	Subscriptions in Advance	3	***(1)***			
	Creditors for Refreshments	2	***(1)***	5		18
	Accumulated Fund					76 ***(5)***

(b) Refreshments Trading Account for year ended 31 December Year 5

		£000		£000		
	Sales			13	***(1)***	
Less	Cost of Sales					
	Opening Stock	4	***(1)***			
Add	Purchases (11 – 2 **(1)** + 4 **(1)**)	13	***(2)***			
		17				
Less	Closing Stock	2	***(1)***	15		
	Loss			-2		***(5)***

(c) Income and Expenditure Account of the Law Amateur Dramatic Society for the Year ended 31 December Year 5 ✓

		£000		£000		
	Income					
	Subscriptions (12 + 3 **(1)** – 4 **(1)** – 2 **(1)** + 1**(1)**)			10	***(4)***	
	Ticket Sales			30	***(1)***	
	Raffle Surplus (4 **(1)** – (2 + 1 **(1)**))			1	***(2)***	
	Fund Raising (6 **(1)**– 1 **(1)**)			5	***(2)***	
				46		***(9)***
Less	**Expenditure**					
	Loss on Refreshments	2	***(1)***			
	Hire of Scenery and Costumes	12	***(1)***			
	Secretary's Honorarium	3	***(1)***			
	Advertising (3 + 1)	4	***(2)***			
	Insurance (2 - 1)	1	***(2)***			
	Repairs to Premises	8	***(1)***			
	Depreciation – Sound and Lighting Equipment	3	***(2)***			
	Loss on Sale of Sound and Lighting Equipment	1	***(3)***	34		
	Surplus			12		***(13)***

(22)

Working

		£000		
	Subscriptions	12		
Add	In Advance for Year 5	3	***(1)***	
		15		
Less	In Arrear for Year 4	4	***(1)***	
		11		
Less	In Advance for Year 6	2	***(1)***	
		9		
Add	In Arrear for Year 5	1	***(1)***	
		10		***(4)***
	Depreciation – Sound and Lighting Equipment = 20% * (10 – 5 + 10)	3		***(2)***
	Sound and Lighting Equipment at Cost	5		
	Depreciation = 20% * 5	1		
	NBV	4	***(2)***	
	Sold for	3	***(1)***	
	Loss on Sale	1		***(3)***

Marks to be applied in Income and Expenditure Account

(d)	**Surplus from Income and Expenditure Account**			12		
Add	Credit Note for Damaged Scenery			1	***(1)***	
				13		
Less	Invoice for Repairs			2	***(1)***	
				11		
Less	Loss of Stock			2	***(1)***	
				9		
Add	Further Ticket Sales			4	***(1)***	
				13		***(4)***

(e) Closing Bank Balance

	Opening Balance		15		
Add	Receipts	68		***(1)***	
	Refund	1		***(1)***	
Add	Ticket Sales	4	73	***(1)***	
			88		
Less	Payments		53	***(1)***	
	Closing Bank Balance		35		***(4)***

(40)

Question 3

(a) (i) Appropriation Account for the Year ended 31 December Year 3 ✓

		£		£		£	
	Net Profit					54,000	
Add	Interest on Drawings:						
	Anne			1,500	*(2)*		
	Robert			500	*(2)*	2,000	
						56,000	
Less	Interest on Capital:						
	Anne	6,000	*(1)*				
	Robert	2,000	*(1)*	8,000			
Less	Salary - Anne			15,000	*(1)*	23,000	
	Residual Profit					33,000	
	Share of Profit:						
	Anne			24,750	*(1)*		
	Robert			8,250	*(1)*	33,000	*(9)*

(ii) Current Account – Anne

	Debit		Credit		Balance		
Balance	1,200				1,200 Dr		
Interest on Capital			6,000	*(1)*	4,800 Cr		
Salary			15,000	*(1)*	19,800 Cr		
Share of Profit			24,750	*(1)*	44,550 Cr		
Interest on Loan			2,000	*(2)*	46,550 Cr		
Drawings	30,000	*(1)*			16,550 Cr		
Interest on Drawings	1,500	*(1)*			15,050 Cr	*(1)*	
							(8)

(b) (i) New profit sharing ratio

	Anne		Robert		Sylvia	
Current Profit Sharing Ratio	3/4		1/4			
On Admission	3/4 x 2/3		1/4 x 2/3			
	1/2	*(1)*	1/6	*(1)*	1/3	*(2)*
OR	50%		17%		33%	

(ii) Calculation of New Capital Balances

	£		£		£		
Original Balances	60,000		20,000		24,000	*(2)*	(for line)
Share of Goodwill	4,500	*(1)*	1,500	*(1)*			
	64,500		21,500		24,000		
Share of Revaluation Surplus	2,700	*(1)*	900	*(1)*			
	67,200		22,400		24,000		
Goodwill written down	3,000	*(1)*	1,000	*(1)*	2,000	*(1)*	
New Capital Balances	64,200		21,400		22,000		
							(9)

(c) (i) Fittings

Depreciation:	£	
Year 2 – ½ * (20% * £20,000)	2,000	***(1)***
Year 3 – 20% (£20,000 - £2,000)	3,600	***(1)***
Year 4 – 20% * (£20,000 - £5,600)	2,880	***(1)***
Total Depreciation	8,480	

NBV = £20,000 - £8,480 = £11,520 ***(1)*** ***(4)***

(ii) Delivery Van

Depreciation:	£	
Year 2 – 1/4 * (25% * £50,000)	3,125	***(1)***
Year 3 – 25% £50,000	12,500	***(1)***
Year 4 – ½ * (25% * £50,000)	6,250	***(1)***
Total Depreciation	21,875	

NBV = £50,000 - £21,875 =	28,125		
Selling Price	24,000	***(2)***	
Loss on Sale	4,125		***(6)***

(1)

(iii) Depreciation Year 4

Depreciation:	£		
Fittings	2,880	***(1)***	
Delivery Van	6,250	***(1)***	
	9,130		***(2)***

(40)

Question 4

(i) Royalties

A royalty is a fee paid for the right to use an original idea or an asset ***(1)*** which has been given a patent or copyright. ***(1)***

The amount of royalty will usually depend on the usage ***(1)*** as agreed in advance by the parties concerned. Royalties are charged as a direct cost in the Manufacturing Account ***(1)*** thereby increasing the cost price of the product. ***(1)***

Royalties are part of Prime Cost ***(1)*** **<u>or</u>** is a direct cost ***(1)*** ***(Max 2)***

(ii) Manufacturing Profit

This is calculated by finding the difference between the Factory Cost of Production and the Market Value of goods manufactured. ***(1)*** Manufacturing Profit is calculated to see whether it is more profitable for the firm to manufacture the goods themselves or to purchase them from an outside supplier. ***(1)***

The Trading Account shows the transfer of the Factory Cost of Production at Market Value. ***(1)***

The Manufacturing Profit is added to the Gross Profit in the Trading Account. ***(1)*** ***(Max 2)***

(iii) Work-In-Progress

Work-In-Progress represents (the value) of the stock of items which are incomplete (at the end of the financial year). ***(1)*** Towards the end of the financial year raw materials will have been started on the production line and some work carried out but these goods will still be in an unfinished condition. ***(1)*** A value is placed on the Work-In-Progress by taking into account the materials, labour and overheads to take the production to its current state of completion. ***(1)*** The Factory Cost of Production includes adjustments for the opening and closing stocks of Work-In-Progress. ***(1)*** ***(Max 2)***

(iv) Warehouse Expenses

The completed production will be transferred to a warehouse. ***(1)*** Warehouse Expenses are shown in after the Trading Account ***(1)*** and represent the costs of storing the stock of finished goods before they are sold ***(1)*** eg Warehouse Rent ***(1)***.

(Max 2 - give max of 1 for examples)

(v) Factory Overheads

Factory Overheads represent those costs incurred in the factory which cannot be directly identified with the product being manufactured ***(1)*** eg Factory Supervisor's Salary ***(1)***. Factory Overheads are also known as indirect costs ***(1)***. The overheads are totalled and added to the Prime Cost in the Manufacturing Account ***(1)***. Time based rather than based on output. ***(1)***

(Max 2 - give max of 1 for examples)

(10)

Question 5

(a) Limitations of Ratio Analysis

- The results must be compared with firms of equal size or the ratios are meaningless.
- The results must be compared with the previous year's ratios – the ratios on their own are meaningless.
- If being used for comparison purposes from year to year then the final accounts must be prepared consistently and in accordance with FRSs and the Companies' Acts.
- Not all firms calculate their ratios in the same way.
- Internal changes within the organisation such as changes in the method of production are not taken into account in ratio analysis.
- Factors external to the organisation may change from year to year eg taxes, inflation, exchange rages, PESTEC **(once only)**
- Based on historical information
- Non-financial information eg staff morale, staff turnover, product life cycle **(once only)**
- Must be compared to business in the same industry. **(1 point each)** ***(Max 6)***

(b) (i) Current Ratio

The Current Ratio is a liquidity ratio.

The Current Ratio is calculated by the formula $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ ***(1)***

The Current Ratio shows the ability of the business to meet its Current Liabilities when they fall due for payment ***(1)***. The ideal Current Ratio is 2:1 ***(1)***. If the Current Ratio falls eg to 1:1 then it may find it difficult to meet its short term debts ***(1)***. If the Current Ratio is too high eg 4:1 then indicates that the business has too much capital tied up in stock ***(1)***. ***(Max 3)***

(ii) Mark-up Ratio

The Mark-up Ratio is a profitability ratio ***(1)*** and is calculated by the formula

$\frac{\text{Gross Profit}}{\text{Cost of Sales}} \times 100$ ***(1)***

The Mark-up Ratio represents the amount added to the cost price in order to calculate the Selling Price ***(1)***. A change in the cost price of the purchases may require a change in the mark-up ***(1)***. ***(Max 3)***

(10)

Question 6

PART A Production Budget

		June	July	August		
	Sales	4300	5800	6500		
Less	Opening Stock	430	580	650	***(3)***	line
		3870	5220	5850		
Add	Closing Stock	580	650	700	***(2)***	line
	Production	4450	5870	6550		***(5)***

PART B Brewing Process Account

	Quantity	£		Value		Quantity		£		Value	
Opening WIP	4,000	2.50	***(2)***	10,000	Transfer to bottling	46,800		3.20		149,760	
					Closing WIP	6,500		1.48		9,620	***(1)***
Materials	50,000	2	***(1)***	100,000					***(4)***		line
Labour	(4,000)	7	***(1)***	28,000	Normal Loss	540		0.20		108	***(1)***
Variable Overheads		3	***(1)***	12,000	Abnormal Loss	160	***(1)***	3.20		512	
Fixed Overheads			***(1)***	10,000							
	54,000			£160,000		54,000				£160,000	

Unit Cost per litre = $\frac{£160{,}000 - £9{,}728}{46{,}800 + 160}$ ***(2)*** = £3.20 ***(2)***

Abnormal Loss Account

	Quantity	£	Value ***(1)***		Quantity	£	Value	
Brewing	160	3.20	512	Cash	160	0.20	32	***(1)***
				To Profit/Loss			480	***(1)***
			£512				£512	

ALTERNATIVE SOLUTION – PART B

Brewing Process Account

	Qty	£	Value		Qty	£	Value	Qty	£	Value
Opening WIP	4,000	2.50	10,000	*(1)*				4,000		10,000
Materials	50,000	2	100,000	*(1)*				54,000		110,000
Labour			28,000	*(1)*						138,000
Variable Overheads			12,000	*(1)*						150,000
Fixed Overheads			10,000	*(1)*						160,000
Closing WIP					6,500 *(1)*	1.48	9,620	47,500		150,380
Normal Loss					540 *(1)*	0.20	108 *(1)*	46,960	3.20	150,272
Transfer to Bottling					46,800	3.20	149,760	160	3.20	512
Abnormal Loss					160	3.20 *(4)*	512 *(1)*	0	0	0

Unit Cost per litre = $\frac{150{,}272\ (2)}{46{,}960\ (2)}$ = 3.20

Abnormal Loss Account

	Qty	£	Value		Qty	£	Value	Qty	£	Value
From Brewing	160	3.20	512	*(1)*				16	3.20	512
Bank					160	0.20	32 *(1)*			480
To Profit/Loss							480 *(1)*			0

(16)

PART C

Working: Foodstuffs: £4 x 80 employees (1) = £320 x 5 days (1) = £1600 x 4 weeks (1) = £6400 ***(3)***

Labour: Chef = £26,000/52 weeks (1) = £500 x 4 weeks (1) = £2000 ***(2)***

Servers = 4 hours x 5 days (1) = 20 hours x 4 weeks (1) = 80 hours x 2 servers (1) = 160 hours x £6 (1) = £960 ***(4)***

O/time = 4 hours x 2 days (1) = 8 hours x 4 weeks (1) = 32 hours x 2 servers (1) = 64 hours x £9 (1) = £576 ***(4)***

Overheads: £7,280/13 (1) = £560 (1) **or** £7,280/52 (1) x 4 (1) = £560 ***(2)***

Dep. Equipment: £49,672 - £1,000 (1) = £48,672/6 years (1) = £8,112/52 weeks (1) = £156 x 4 weeks (1) = £624 ***(4)***

Dep. Furniture: £7,800 x 10% (1) = £780/52 = £15 (1) x 4 weeks = £60 ***(2)***

Dep. Cut: £260/52 (1) = £5 (1) x 4 weeks = £20 ***(2)***

No of meals: 80 employees x 5 days = 400 meals x 4 weeks – 1600 meals

(a) Cost Statement

Foodstuffs	£6,400	***(3)***
Labour	£3,536	***(10)***
O/heads	£560	***(2)***
Dep. Equip	£624	***(4)***
Dep. Furn	£60	***(2)***
Dep. Cut	£20	***(2)***
Total Cost	£11,200	

(b) Cost per meal £11,200 ***(1)*** / 1,600 ***(2)***

	£7.00	
Profit (25%)	£1.75	***(3)***

(c) Selling Price per meal £8.75

Question 7

(a) Profit Statement for Year 8

	Product A		Product B		Product C		Total	
	£		£		£		£	
Selling Price	49		42		36			*(1)* line
- Variable Costs	39	*(1)*	29	*(1)*	20	*(1)*		
Contribution p.u	10		13		16			
- Fixed Costs £2 per hour *(2)*	4		4		8			
(i) Profit p.u	6	*(1)*	9	(1)	8	*(1)*		
Units Sold	6,000		8,000		5,000			
(ii) Total Profit	36,000		72,000		40,000		**148,000**	*(3)*

Working:

	Total Labour Hours	Fixed Costs Recovery Rate
A	12,000	*(1)* *(1)*
B	16,000	96,000/48,000 = £2 per hour
C	20,000	
	48,000	

(12)

(b) Revised Profit Statement – Year 8

	Product B	Product C		
Contribution p.u	13	16	*(1)* line	Revised FC Recovery Rate
New Fixed Costs p.u	5	10	*(1)* line	New Fixed Costs = 90,000 *(2)*
				New Hours 36,000 *(2)*
Revised Profit p.u	8	6		New rate = £2.50 p. hr
Units Sold	8,000	5,000		
Total Profit	64,000	30,000	=	**£94,000**

(1) *(1)*

Advice: Do not halt production as Profit would be reduced by £148,000 - £94,000 = **£54,000**

(c) Identification of Product to be increased

	A	B	C	
Contribution per unit	£10	£13	£16	*(1)* line
Labour Hours	2	2	4	
Contribution per hour	£5 *(1)*	£6.50 *(1)*	£4.00 *(1)*	

(1) *(1)*

Increase **Product B** by 2000 hours/2 = **1000 units**

(1)

(d) Increase in profit in Year 9 = 1000 x £13 = **£13,000**

(1)

Estimated Profit Year 9 = £148,000 + £13,000 = **£161,000**

(e) 1,500 more units of C = 6,000 hours x £4 contribution per hour = £24,000 profit *(1)* *(1)*
BUT 6,000 hours more of C = 6,000 hours less of A x £5 *(1)* = £30,000 loss *(1)*

Net effect = **£6,000 loss** *(1)*

Effect on estimated profit for Year 9 = £161,000 - £6,000 = **£155,000** *(1)*

(f) Special Order

Selling price	£30	**(1)**	
- Overheads	£26		
Profit p.u	£4	*(1)*	
Sales	50		
Notional profit	£200		
Opportunity Cost of A	£1,000	*(1)* *(1)*	(50 x 4 hours = 200 hours x £5 = £1,000)
LOSS	**(£800)**	*(1)*	

Do **NOT** Accept *(1)*

Alternative Solution – Special Order

Sales (£30 x 50)	£1,500	*(1)*	
- Variable Cost (£26 x 50)	£1,300	*(1)*	
Notional profit	£200		
Opportunity Cost of A	£1,000	*(1)* *(1)*	(50 x 4 hours = 200 hours x £5 = £1,000)
LOSS	**(£800)**	*(1)*	

Do **NOT** Accept *(1)*

Question 8

PART A

(a) **(i)** BEP = 3000 units *(1)* and £18,000 revenue *(1)*

(ii) Fixed Costs = £12,000 *(1)*

(iii) Total Costs = £24,000 *(1)* ***(4)***

(b) **(i)** Selling Price per unit = £36,000/6,000 = £6 *(1)*

(ii) Variable Cost per unit = £24,000 – £12,000 = £12,000/6,000 = £2 *(1)* *(1)*

(iii) Contribution per unit = £6 - £2 = £4 *(1)*

(iv) P/V Ratio = £4/£6 x 100 = $66\frac{2}{3}$% ***(2)***

(v) M of S = 6,000 – 3,000 = 3,000 units *(1)* and £36,000 - £18,000 = £18,000 revenue *(1)*

(vi) Profit or Loss on sale of 5,000 units = 5,000 – 3,000 = 2,000 x £4 = £8,000 Profit **(1)** *(1)* *(1)*

(vii) Sales Value to make £12,000 profit = £12,000/80% = £15,000/£4 = 3750 units **(1)** ***(3)*** ***(1)*** ***(16)***

or 1750 units **(5) or** 750 units **(5)**

PART B

(a) Overhead Analysis Sheet

	Basis of Apportionment	Total	Machining	Assembly	Maintenance	
Indirect Labour	allocated	£8,000	£2,080	£1,920	£4,000	***(1) line***
Administration	employees	£10,000	£5,000	£4,000	£1,000	***(1) line***
Light and Heat	area	£2,100	£1,050	£700	£350	***(1) line***
Machine insurance	value of machinery	£1,250	£650	£500	£100	***(1) line***
Power	kw hours	£4,000	£2,000	£1,500	£500	***(1) line***
Rent	area	£12,000	£6,000	£4,000	£2,000	***(1) line***
Supervision	employees	£5,000	£2,500	£2,000	£500	***(1) line***
		£42,350	£19,280	£14,620	£8,450	***(7)***

(b) Share of maintenance

	per mach hour	£8,450	£5,070 ***(1)***	£3,380 ***(1)***
		£42,350	£24,350	£18,000 ***(2)***

(c) Overhead Recovery Rate

	£24,350	X 100	£18,000	
	£60,875		4,000	
		= **40%** ***(2)***	= **£4.50** ***(2)***	***(4)***

(d) Overheads Over/Under Absorbed

		MACHINING	ASSEMBLY	
	Overheads Recovered	£64,000 x 40%	3,500 x £4.50	
		£25,600 ***(2)***	£15,750 ***(2)***	
Less	Actual Overheads	£24,000	£17,000	***(1) line***
		£1,600 over (1)	**£1,250 under (1)**	

(7)

Question 9

(a) 3 methods of pricing stores issues:

First-in-First-out Last-in-First-out Average Cost **(1) line**

FIFO – stock is charged out to production on the notional basis that issues are made in chronological order of receipt from suppliers. ***(2)***

Advs
1. satisfactory if purchases prices are relatively stable
2. easy to understand as it can be viewed as corresponding to actual flow of stock
3. ensures use of stock inventory cards = better stock control
4. provides a closing stock figure for the final accounts which will reflect current prices.

(Max 1)

Disadvs
1. cost of sales may be compromised if relatively old prices
2. it may be time consuming to operate = increase in staff costs
3. if purchases prices are rising, stock costs will rise with no corresponding rise in stock quantities
4. results of different accounting periods may be difficult to compare

(Max 1)

LIFO – stock is priced out to production on the notional basis that issues are made from stock most recently acquired. ***(2)***

Advs
1. necessitates the use of stock record cards = better stock control
2. prices charged to production are related to current price levels
3. useful when using 'cost' as the basis for estimating sales price to customer
4. the issue price is a more realistic indicator of the cost of replenishing stocks

(Max 1)

Disadvs
1. the balance on the stock record card assumes that 'older' stock items form significant part of actual stock held – this may not be acceptable to the accountant
2. it is not accepted by the UK Inland Revenue for corporation tax purposes
3. it may be time consuming to operate = increased staff costs
4. comparisons between accounting periods may be difficult
5. it may inflate stock turnover ratios

(Max 1)

AVCO – stock is priced to production based on the average price ***(1)*** paid for the items currently in stock, allowing for quantities held at each price ***(1)***. New averages may be calculated on receipt of each new delivery ***(1)*** of stock or calculated weekly or monthly to minimise the work involved. **(Max 2)**

Advs
1. necessitates the use of stock record cards = accurate stock control
2. less clerical work than FIFO/LIFO
3. stock values are usually acceptable to the accountant
4. it tends to smooth out price fluctuations

(Max 1)

Disadvs
1. calculation of averages can be time consuming if price changes are regular

(Max 1) ***(5)***

(b) 3 methods of paying wages are:

Time rates Piece Rates Bonus Scheme Commission **(1) line**

Time Rates – wages are paid according to the amount of hours worked ***(1)*** x the rate per hour ***(1)*** or x weekly wage or x an annual salary with records being kept of the hours worked via clock cards ***(1)***. **(Max 2)**
Example: 40 hours @ £5 per hour = £200.

Advs
1. where quality of work is important
2. where the amount of work cannot be measured
3. where speed of work is determined by machines

(Max 1)

Disadvs
1. increased supervision costs – to ensure work is being done
2. increased clerical costs – to record hours worked
3. less quantity of work – no incentive to produce more

(Max 1)

Piece Rates – wages are paid according to the quantity of work being produced ***(1)*** x the rate per piece ***(1)***. The quantity may be 1 unit, a stated no. of units (batch), or an operation ***(1)***. **(Max 2)**

Advs
1. increased production – incentive to work harder
2. faster work-rate – due to the (usually) repetitive nature of work being done
3. cheaper unit cost – fixed costs are spread over larger no. of units produced

(Max 1)

Disadvs
1. reduced quality of work – due to workers rushing to increase their output
2. increase in spoilage/wastage – workers become careless
3. increased inspection costs – to maintain quality standards

(Max 1)

Bonus Schemes – these can be based either on time or piece-work ***(1)***.

Time based: – workers are given a bonus according to the amount of time saved in doing a certain job of work for which a fixed time is allowed, eg if 10 hours are allowed and 8 hours taken, the bonus would be calculated at 2 hours x hourly rate of pay. **(Max 1)**

Piece-work based: – workers are given a bonus according to the quantity of units produced up to or over a fixed target, eg if target is set at 100 units and 120 units are produced, the bonus would be calculated at 20 units x rate per unit. **(Max 1)**

Advs/Disadvs 1. As per time and piece rates above **(Max 1 each)** ***(5)***

Commission

(10)

Question 10

(a) A Cash Budget is an estimate of the receipts and payments ***(1)*** for a given period based on the forecasts for sales and production ***(1)*** for the same period and taking into account future capital and revenue expenditure ***(1)***. When balanced, the Budget will show when there is a surplus or shortage of funds ***(1)***. **(Max 2)**

Reasons for preparing a Cash Budget:

aids decision-making, eg capital expenditure
anticipates possible shortages, eg cash
enables target setting, eg to achieve objectives
allows for comparisons, eg actual results with expected results
facilitates corrective action, eg when differences occur **(Max 3)**

(5)

(b) Advantages of using spreadsheets to prepare a Cash Budget:

calculations with the use of formulae are more accurate
production of graphs/charts for presentations are easier
a computer based system is more secure with the use of passwords
forecasting is easier using the "What if" scenario
multiple access
use of templates for each period
changes can be made easily as the formulae will mean everything changes as a result **(Max 5)**
use of linked multiple worksheets

(5)

(10)

[END OF MARKING INSTRUCTIONS]