

[C001/SQP036]

Intermediate 2
Accounting
and Finance
Specimen Question Paper

Time: 2 hours

NATIONAL
QUALIFICATIONS

Candidates should attempt **five** questions as follows:

Question 1 and **one** other from Section A

plus

Question 5 and **one** other from Section B

plus

any **one** question from Section C

Answers must be in ink. Answers in pencil will **not** be accepted, though incidental working may be in pencil.

All working should be shown fully and clearly. Attention is drawn to the note at the start of each question requiring calculations—candidates using calculators should pay particular heed.

Marks will be deducted for untidy and badly arranged work.

SECTION A

Marks

You should attempt Question 1 and ONE other question from this Section.

Any incorrect figure not supported by adequate working will receive no marks.

1. The following balances were taken from the books of Newton Grange plc for the year ended 30 September 1998, together with the notes listed below.

	Dr £000	Cr £000
Purchases	340	
Debtors	100	
Creditors		68
Premises at cost	205	
Cash at Bank	71	
Sales		600
Office Equipment at cost	30	
Provision for Doubtful Debts at 1 October 1997		3
Provision for Depreciation of Office Equipment		12
Bad debts	4	
Purchases returns		10
General expenses	53	
Insurance	18	
Stock at 1 October 1997	115	
180,000 Ordinary Shares of £1 each (fully paid)		180
40,000 5% Preference Shares of £1 each (fully paid)		40
VAT	10	
Sales Returns	16	
General Reserve		34
Profit and Loss Account (1 October 1997)		15
	£962	£962

NOTES:

- 1 Stock on 30 September 1998 was valued at £108,000
- 2 General expenses unpaid were £5,000
- 3 Insurance paid in advance was £7,000
- 4 Provision for doubtful debts at 30 September 1998 is to be 6% of Debtors.
- 5 Provide for depreciation of Office Equipment at 10% on cost
- 6 Provide for Corporation Tax of £42,000
- 7 The directors propose the following at 30 September 1998:
 - (i) a dividend on Ordinary Shares of 15%;
 - (ii) to pay the preference dividend;
 - (iii) to transfer £23,000 to the General Reserve.

You are required to prepare the Trading and Profit and Loss Accounts (including appropriation of available profits) for the year ended 30 September 1998 and a Balance Sheet as at that date.

(20)

2. PART A

Joseph and Gerard are in partnership as plumbers. The following information is available regarding their partnership:

	<u>Joseph</u>	<u>Gerard</u>
Capital Account Balances at 1 January 1997	£90,000	£60,000
Current Account Balances at 1 January 1997	£12,000 (Dr)	£8,500 (Cr)
Drawings during year to 31 December 1997	£36,100	£19,700

Net profit for year ended 31 December 1997 was £70,000.

The partnership agreement provides that:

- (i) Joseph will receive a salary of £15,000 per annum;
- (ii) both partners will receive interest on capital of 10% per annum;
- (iii) residual profits will be shared as follows:

Joseph	60%
Gerard	40%

- (a) Draw up the Appropriation Account of the partnership at 31 December 1997. 5½
- (b) Prepare the Current Account of Joseph at 31 December 1997. 3

PART B

On 1 January 1998 Gerard introduced additional capital into the business. This consisted of cash, £5,000, and a vehicle valued at £15,000.

- (a) Calculate the new capital balance of Gerard at 1 January 1998. 1½

Also, on 1 January 1998, Joseph and Gerard agreed to admit Grant as a new partner under the following conditions.

- (i) Grant is to bring a cheque for £30,000 into the business as his capital;
- (ii) interest will be allowed on capital;
- (iii) residual profits will be shared as follows:

Joseph	50%
Gerard	30%
Grant	20%

On 31 December 1998, the Current Account of Grant was as follows:

	Dr	Cr	Balance
	£	£	£
Dec 31 Interest on Capital		2,400	2,400
Share of Residual Profit		12,000	14,400

Calculate

- (a) the rate of interest given on capital in the new partnership. 2
- (b) the amount of interest on capital credited to Joseph for the year ended 31 December 1998. 1
- (c) the value of residual profit earned by the partnership during the year ended 31 December 1998. 2

(15)

4. (a) The following table provides accounting information for 5 firms—Dawson, Johnston, Kinghorn, Kelly and Thomson.

Certain items are missing from the table and are identified by the letters A to H.

FIRM	BALANCES AT 1.1.98	BALANCES AT 31.12.98						Drawings During 1998	Net Profit for 1998
	Capital	Capital	Fixed Assets	Current Assets	Current Liabilities	Working Capital	Long Term Liabilities		
Dawson	22,200	EXAMPLE	21,880	13,200	2,470	A	10,000	6,190	6,600
Johnston	42,000	40,275	B	20,775	6,000	14,775	15,000	C	16,200
Kinghorn	23,800	13,440	24,750	D	15,810	690	12,000	13,800	E
Kelly	F	21,300	16,700	15,600	G	12,600	8,000	4,800	8,100
Thomson	24,000	25,600	30,800	25,000	15,400	9,600	H	6,400	8,000

You are required to calculate each of the missing figures (A to H) and show your answers in the following form:

Example solution:

$$\begin{aligned}
 \text{Capital at 31.12.98} &= \text{Capital 1.1.98} + \text{Net Profit} - \text{Drawings} \\
 &= \pounds 22,200 + \pounds 6,600 - \pounds 6,190 \\
 &= \pounds 22,610
 \end{aligned}$$

11½

Do not copy out the table in your answer book

- (b) (i) Calculate the Return on Capital earned by Thomson.
- (ii) Give two reasons why the owner of a business calculates Return on Capital.

1½

2

(15)

SECTION B

Marks

You should attempt Question 5 and ONE other question from this Section.

Any incorrect figure not supported by adequate working will receive no marks.

5. The Pittodrie Trading Company makes and sells 3 products, A, B and C, to which the following details relate:

	A	B	C
Selling price per unit	£20	£35	£40
Direct material per unit	£6	£10	£5
Direct labour per unit	£8	£16	£24
Direct expenses per unit	£2	£3	£5

(a) Calculate for each product:

- (i) the total variable cost per unit;
 (ii) the contribution per unit.

3

Last year the company made and sold 5,000 units of each product and incurred fixed costs of £25,000.

The labour rate per hour was £8.

(b) Calculate for each product:

- (i) the number of labour hours required per unit;
 (ii) the contribution per labour hour.

3

(c) Next year it is expected that demand for **each** product will remain at 5,000 units. However, there will be a shortage of skilled labour which will result in the company having to reduce production.

- (i) State which product is the least profitable to produce. Give a reason for your answer.
 (ii) If the total hours available are estimated at 24,000, calculate the number of units of each product that should be made in order to maximise profits.
 (iii) Calculate the profit which would be achieved from the product mix you have suggested in (c) (ii) above.

9

(15)

Any incorrect figure not supported by adequate working will receive no marks.

6. Rattray plc produces and sells only one product. The following details are available:

(i)	Product Data	per unit
	Selling Price	£40
	Material Cost	£20
	Labour Cost	£8
	Variable Overhead Cost	£4

(ii) The budgeted production and sales in units are as follows:

August	September	October	November	December
1,000	1,000	1,200	1,400	1,600

In any month half the sales are for cash and half are on credit terms. Credit Sales are paid for in full in the month following sale.

- (iii) Material is paid for 2 months after production.
- (iv) Wages and variable overheads are paid for in the same month as they are incurred.
- (v) A new machine is to be purchased for £30,000. A deposit of £10,000 is required in November followed by monthly instalments of £5,000. The machine which it is replacing is being sold for £800, to be received in December.
- (vi) Fixed costs of £6,000, including £1,000 depreciation, will be incurred each month.
- (vii) Rattray plc has arranged to receive a loan in November equal to half the price of the new machine.
- (viii) The company will have a bank balance on 30th September 1998 of £10,000.
- (a) **Prepare** a Cash Budget for the 3 months October, November and December 1998. 12
- (b) Rattray plc are planning an extension in the early months of 1999 which it is estimated will cost approximately £100,000. **Suggest 3** possible methods by which Rattray could finance the extension. 3

(15)

Any incorrect figure not supported by adequate working will receive no marks.

7. The following data relate to Calandro plc:

<u>Overheads</u>	<u>Total Cost</u>
	£
Factory rates	5,250
Factory administration	6,500
Equipment insurance	1,000
Lighting	500
Factory repairs	3,000
Equipment depreciation	4,000

The factory consists of 2 production cost centres, Machining and Assembly, and 2 service cost centres, Maintenance and Canteen. Relevant information relating to these cost centres is as follows:

	Machining	Assembly	Maintenance	Canteen
Floor area (sq m)	1,200	1,600	400	800
No of employees	30	20	10	5
Value of equipment	£40,000	£30,000	£8,000	£2,000

(a) **Prepare** an Overhead Analysis Sheet apportioning the overheads listed above among the 4 cost centres. Indicate clearly for each overhead the basis of apportionment. 10

(b) **Re-apportion** the total overheads of the 2 service cost centres, basing the apportionment on the following percentages:

	Machining	Assembly	Maintenance	Canteen
(i) Canteen Overheads	40%	40%	20%	Nil
(ii) Maintenance Overheads (including share of canteen overheads)	60%	40%	Nil	Nil

2

(c) What is the difference between apportioning overheads to cost centres and allocating overheads to cost centres? 3

(15)

Any incorrect figure not supported by adequate working will receive no marks.

8. Jardine Products plc, who produces a range of garden shed, charges its costs to 2 cost centres—Construction and Finishing.

The firm has been asked to quote a price for an order, information for which is as follows:

	Construction	Finishing
Direct Material	80 metres of wood at £10 per metre	10 sq metres of felt at £5 per sq metre
	4 sq metres of glass at £20 per sq metre	8 litres of paint at £5 per litre
Direct Expenses	£30	£34
Variable Overheads	£110	£100
Labour	20 hours at £6 per hour	10 hours at £8 per hour

The labour hours include 4 hours overtime in each department, paid at double time.

Jardine Products plc aims to make a profit of 20% on cost.

- (a) **Prepare** a detailed Job Quotation, showing clearly the following:

Total material cost
Total labour cost
Total cost of the job
Profit on the job

13

- (b) Explain the difference between time rates and piece rates as methods of calculating wages.

2

(15)

SECTION C

Marks

You should attempt ONE question from this section.

9. (a) The Memorandum of Association is one of the key documents which is required in the formation of a limited company. **List 4** items included in this document. 4
- (b) **Name** the other document which is necessary in the formation of a limited company. 1
- (c) **Name** the **2** types of share that are available to public limited companies and **state 4** main differences between them. 6
- (d) Explain the difference between a Bank Loan and a Debenture. 4
- (15)
10. (a) (i) **State** the difference between Capital and Revenue expenditure and explain why it is important to distinguish between them in the accounts of a firm. 4
- (ii) **Give 2** examples of capital expenditure and **2** examples of revenue expenditure. 4
- (b) John Smart has been employed for a number of years as an electrician and has now accumulated enough capital to go into business. He is considering 2 options:
- (i) go into business totally on his own as a **sole trader**; or
- (ii) team up with his cousin who is also an experienced electrician and **form a partnership**.
- Outline** for John the advantages of being a sole trader and the advantages of going into partnership. 6
- State one** disadvantage which is common to both sole traders and partnerships. 1
- (15)
11. (a) **Explain** the terms FIFO and LIFO in relation to raw material stock valuation. 4
- (b) **Name** the other **2** types of stock which a manufacturing company might hold. 2
- (c) **Name** the document used to record the movements of raw material to and from the store. 1
- (d) **State 4** pieces of information which should be recorded on this document. 4
- (e) **Explain** the difference between clock cards and time sheets. 4
- (15)
12. (a) **Outline** the difference between Job Costing and Process Costing. 4
- (b) For each of the above methods of costing, **state 2** examples of industries which would use them. 4
- (c) **Name** the main cost inputs you would expect to see in a process account. 3
- (d) **Explain** the difference between Normal and Abnormal Loss. 4
- (15)

[END OF QUESTION PAPER]

[C001/SQP036]

Intermediate 2
Accounting
and Finance
Specimen Marking Instructions

NATIONAL
QUALIFICATIONS

Question 1 Solution

NEWTON GRANGE PLC

Marks

Trading and Profit and Loss Accounts (including Appropriation of Profits) for the year ended 30 September 1998

	£000	£000	£000
Sales		600	
Less: Sales Returns		<u>16</u>	584
Less: Opening Stock		115	
Add: Purchases	340		
Less: Purchases Returns	<u>10</u>		
		<u>330</u>	
		445	
Less: Closing Stock		<u>108</u>	
COST OF GOODS SOLD			<u>337</u>
GROSS PROFIT			247
Less: Increase in Provision for Doubtful Debts		3	
Bad Debts		4	
General Expenses (53 + 5)		58	
Insurance (18 - 7)		11	
Depreciation of Office Equipment (10% x 30)		<u>3</u>	
			<u>79</u>
NET PROFIT FOR YEAR			168
Less: Corporation Tax			<u>42</u>
			126
Transfer to General Reserve		23	
Dividend on Ordinary Shares (180,000 x 15%)		27	
Dividend on Preference Shares (40,000 x 5%)		<u>2</u>	
			<u>52</u>
			74
Add: Unappropriated Profit - at 1 October 1997			<u>15</u>
UNAPPROPRIATED PROFIT AT 30 SEPTEMBER 1998			<u>89</u>

10½

NEWTON GRANGE PLC**Balance Sheet as at 30 September 1998**

Marks

	£000	£000	£000
	COST	AGG DEPN	NBV
FIXED ASSETS			
Premises	205	0	205
Office Equipment	<u>30</u>	<u>15</u>	<u>15</u>
	<u>235</u>	<u>15</u>	220
CURRENT ASSETS			
Stock		108	
Debtors	100		
Less: Provision for Bad Debts	<u>6</u>	94	
Insurance prepaid		7	
VAT		10	
Cash at Bank		<u>71</u>	
		290	
Less: CURRENT LIABILITIES			
Creditors	68		
Corporation Tax due	42		
Ordinary dividend due	27		
Preference dividend due	2		
Unpaid General Expenses	<u>5</u>		
		<u>144</u>	
WORKING CAPITAL			
			<u>146</u>
			<u>366</u>
FINANCED BY:			
Issued Capital:			
180,000 Ordinary Shares of £1 each fully paid		180	
40,000 5% Preference shares of £1 each fully paid		<u>40</u>	
			220
Reserves			
Profit and Loss Balance		89	
General Reserve		<u>57</u>	
			<u>146</u>
			<u>366</u>

9½
(20)

Question 2 (Part A) Solution

Marks

(a)
Appropriation Account of Joseph and Gerard for the year ended 31 December 1997

	£	£	£
Net Profit for the year			70,000
Less: Partner's Salary - Joseph		15,000	
Interest on Capital:			
Joseph (10% x £90,000)	9,000		
Gerard (10% x £60,000)	<u>6,000</u>		
		<u>15,000</u>	
			<u>30,000</u>
RESIDUAL PROFIT			<u>40,000</u>
 Share of Profit:			
Joseph (60% x £40,000)		24,000	
Gerard (40% x £40,000)		<u>16,000</u>	
			<u>40,000</u>

5½

(b)

CURRENT ACCOUNT - JOSEPH		Dr	Cr	Balance
1 Jan 97	Balance	12,000		12,000 (Dr)
31 Dec 97	Partner's Salary		15,000	3,000 (Cr)
	Interest on Capital		9,000	12,000 (Cr)
	Share of Profit		24,000	36,000 (Cr)
	Drawings	36,100		100 (Dr)

3

Question 2 (Part B) Solution**Marks**

(a)	Gerard		
	Opening balance	£60,000	
	Cash	5,000	
	Vehicle	15,000	
	New Total	<u>£80,000</u>	1½
(b)	Rate of interest on capital	= £2,400/£30,000 x 100	
		= <u>8%</u>	2
(c)	Joseph's interest on capital	= 8% of £90,000	
		= <u>£7,200</u>	1
(d)	Residual Profit	= £12,000 x 5	
		= <u>£60,000</u>	2
			(15)

Question 3 Solution

Marks

(a)

H ATKINS

MANUFACTURING ACCOUNT FOR THE YEAR ENDED 31 OCTOBER 1998

	£	£	£
RAW MATERIALS:			
Stock at 1 November 1997		45	
Add: Purchases	575		
Carriage on Raw Materials	<u>15</u>		
		<u>590</u>	
		635	
Less: Stock at 31 October 1998		<u>50</u>	
COST OF RAW MATERIALS CONSUMED		585	
 DIRECT LABOUR:			
Production Wages		<u>200</u>	
PRIME COST			785
 FACTORY OVERHEADS:			
Rates (8 - 2)		6	
Insurance		9	
Management Salaries (Factory)		18	
Indirect Expenses (20 + 5)		25	
Repairs to Machinery		3	
Depreciation on Factory Machinery (10% x 180)		<u>18</u>	
			<u>79</u>
			864
 Add: Work in Progress at 1 November 1997		60	
Less: Work in Progress at 31 October 1998		<u>54</u>	
 FACTORY COST OF GOODS MANUFACTURED			<u>6</u> 870
			12

(b) Factory Cost of Goods Manufactured/No of Units

£870,000/100,000 = **£8.70 per unit** 1

3 (continued)

Marks

(c)	Direct Costs	Indirect Costs	2
	Can be identified with items being produced	Can only be linked with products as a whole	
	Traceable to a unit of goods being made	Known as overheads	
	Forms part of Prime Cost	Cannot be easily directly identified with the individual items being produced	
	Arises solely from existence of item being manufactured	Existence of this cost does not solely depend on the units being manufactured	
		This type of cost is common or shared by 2 or more things being manufactured	
			(15)

Question 4 Solution

Marks

(a)

Example:	Capital at 31.12.98	=	Capital at 1.1.98 + Net Profit for Year – Drawings
		=	22,200 + 6,600 – 6,190
		=	£22,610
A	Working Capital	=	Current Assets – Current Liabilities
		=	13,200 – 2,470
		=	£10,730
B	Fixed Assets	=	Capital at 31.12.98 + Long Term Liabilities
		=	– Working Capital
		=	40,275 + 15,000 – 14,775
		=	£40,500
C	Drawings during 1998	=	Capital at 1.1.98 + Net Profit for Year – Capital at
		=	31.12.98
		=	42,000 + 16,200 – 40,275
		=	£17,925
D	Current Assets	=	Current Liabilities + Working Capital
		=	15,810 + 690
		=	£16,500
E	Net Profit for 1998	=	Capital at 31.12.98 + Drawings for Year – Capital at
		=	1.1.98
		=	13440 + 13,800 – 23,800
		=	£3,440
F	Capital at 1.1.98	=	Capital at 31.12.98 + Drawings for Year – Net Profit
		=	for Year
		=	21,300 + 4,800 – 8,100
		=	£18,000
G	Current Liabilities	=	Current Assets – Working Capital
		=	15,600 – 12,600
		=	£3,000
H	Long Term Liabilities	=	Fixed Assets + Working Capital – Capital at 31.12.98
		=	30,800 + 9,600 – 25,600
		=	£14,800

11½

Question 4 (a) - ALTERNATIVE SOLUTION

BALANCE SHEETS at 31 December 1998

	Dawson	Johnston	Kinghorn	Kelly	Thomson
	£	£	£	£	£
Fixed Assets	21,880	40,500	24,750	16,700	30,800
Current Assets	13,200	20,775	16,500	15,600	25,000
Less: Current Liabilities	<u>2,470</u>	<u>6,000</u>	<u>15,810</u>	<u>3,000</u>	<u>15,400</u>
Working Capital	10,730	14,775	690	12,600	9,600
	<u>32,610</u>	<u>55,275</u>	<u>25,440</u>	<u>29,300</u>	<u>40,400</u>
Capital at 1 January 1998	22,200	42,000	23,800	18,000	24,000
Add: Net Profit for Year	<u>6,600</u>	<u>16,200</u>	<u>3,440</u>	<u>8,100</u>	<u>8,000</u>
	28,800	58,200	27,240	26,100	32,000
Less: Drawings for Year	<u>6,190</u>	<u>17,925</u>	<u>13,800</u>	<u>4,800</u>	<u>6,400</u>
Capital at 31 Dec 1998	22,610	40,275	13,440	21,300	25,600
Add: Long Term Liabilities	<u>10,000</u>	<u>15,000</u>	<u>12,000</u>	<u>8,000</u>	<u>14,800</u>
	<u>32,610</u>	<u>55,275</u>	<u>25,440</u>	<u>29,300</u>	<u>40,400</u>

4 (continued)

Marks

(b)

(i) Return on Capital = Net Profit/Opening Capital x 100

$$\begin{aligned} \text{Thomson} &= 8,000/24,000 \times 100 \\ &= 33.3\% \end{aligned}$$

1½

(ii) Return on Capital

To ensure that profit is sufficient for the amount of effort put into the business by the owner.

To compare with rates of interest which could be obtained if the capital was invested elsewhere.

To give an indication of how efficiently the business is managed.

Etc

2

(15)

Question 5 Solution

Marks

(a)		<u>A</u>	<u>B</u>	<u>C</u>	
(i)	Direct Material per unit	£6	£10	£5	
	Direct Labour per unit	£8	£16	£24	
	Direct Expenses per unit	<u>£2</u>	<u>£3</u>	<u>£5</u>	
	<u>Total Variable Cost per unit</u>	<u>£16</u>	<u>£29</u>	<u>£34</u>	
(ii)	Selling Price per unit	£20	£35	£40	
	Variable Cost per unit	<u>£16</u>	<u>£29</u>	<u>£34</u>	
	<u>Contribution per unit</u>	<u>£4</u>	<u>£6</u>	<u>£6</u>	3

(b)					
(i)	<u>No of Labour Hours per unit</u>	<u>£8</u>	<u>£16</u>	<u>£24</u>	
		£8	£8	£8	
		<u>=1</u>	<u>=2</u>	<u>=3</u>	
(ii)	<u>Contribution per labour hour</u>	<u>£4</u>	<u>£6</u>	<u>£6</u>	
		1	2	3	
		<u>=£4</u>	<u>=£3</u>	<u>=£2</u>	3

(c)
 (i) C - least contribution per unit of limiting factor ie labour.

(ii) Hours required for A - 5000 x 1 = 5,000
 Hours required for B - 5000 x 2 = 10,000
 15,000

∴ Hours remaining for C = 9,000
 Total Available 24,000

Units to be produced A - 5000
 B - 5000
 C - 9000
 3 = 3000

(iii) Contribution A - 5000 x £4 = £20,000
 B - 5000 x £6 = £30,000
 C - 3000 x £6 = £18,000
 Total Contribution £68,000
 less: Fixed Costs £25,000
 £43,000

9

(15)

Question 6 Solution

Marks

Rattray plc

(a) Cash Budget for 3 months October - December 1998

	<u>October</u> £	<u>November</u> £	<u>December</u> £
Balance (start)	10,000	14,600	29,800
Receipts			
Cash Sales	24,000	28,000	32,000
Credit Sales	20,000	24,000	28,000
Sale of Machine	-	-	800
Loan	-	15,000	-
	<u>£54,000</u>	<u>£81,600</u>	<u>£90,600</u>
Payments			
Material	20,000	20,000	24,000
Labour	9,600	11,200	12,800
Overheads	4,800	5,600	6,400
Machine	-	10,000	5,000
Fixed Costs	5,000	5,000	5,000
	<u>£39,400</u>	<u>£51,800</u>	<u>£53,200</u>
Balance (end)	14,600	29,800	37,400

12

- (b)** Issue shares
 Issue debentures
 Arrange bank loan

3

(15)

Question 7 Solution

Marks

(a) Overhead Analysis Sheet

Overhead	Basis	Machinery £	Assembly £	Maintenance £	Canteen £
Factory Rates	Area	1,575	2,100	525	1,050
Factory Admin	Employees	3,000	2,000	1,000	500
Equip Insurance	Value	500	375	100	25
Lighting	Area	150	200	50	100
Factory Repairs	Area	900	1,200	300	600
Equip Depreciation	Value	<u>2,000</u>	<u>1,500</u>	<u>400</u>	<u>100</u>
		8,125	7,375	2,375	2,375

10

(b)

(i)	Canteen	<u>950</u>	<u>950</u>	<u>475</u>	-
		9075	8325	2850	
(ii)	Maintenance	<u>1710</u>	<u>1140</u>	<u>-</u>	<u>-</u>
		<u>£10785</u>	<u>£9465</u>	<u>-</u>	<u>-</u>

2

- (c) Apportionment - divided between cost centres on a selected basis eg area
- Allocation - actual amount of overhead incurred in each cost centre is known.

**3
(15)**

Question 8 Solution

Marks

(a)

Job Quotation

	<u>Construction</u>	<u>Finishing</u>	<u>£</u>
Direct Material:	£ 800 <u>80</u> 880	£ 50 <u>40</u> 90	970
Direct Labour:			
Basic	96	48	
Overtime	<u>48</u>	<u>64</u>	
	144	112	256
Direct Expenses	30	34	64
Overheads	110	100	<u>210</u>
Total Cost			1500
Profit: 20% on cost			<u>300</u>
Selling Price			<u>1800</u>

13

(b) Time Rates - Wages based on actual hours worked multiplied by a wage rate.
Enhanced rates may be paid for overtime.

Piece Rates - Wages based purely on number of items produced.
No relation to time spent.

2
(15)

Question 9 Solution

Marks

(a) Contents of the Memorandum of Association

- Name of Company
- If a public company, this must be stated
- Where Registered Office is located in the UK
- Statement that the members' liability is limited
- Details of Authorised Capital
- Objects Clause
- Details of the company's intended trading activities, such as its powers.

4

(b) The other key document is Articles of Association

(c) The 2 types of share available to a limited company are:

1

Ordinary Shares	Preference Shares
Dividends paid out depend on level of profits earned	Carry a fixed dividend
In periods of high profits, ordinary shareholders stand to gain more dividends	Preference shareholders do not benefit when profits are high
Seen as more risky since in periods of low profits - may not get any share of profit at all	Less risky than ordinary shares
Receive dividend <i>after</i> dividend has been paid out to Preference shareholders	Preference shareholders must receive their dividend in full before the ordinary shareholders receive anything
Seen as risky since, in the event of the company being wound up, Preference shareholders are repaid first and there is no liability to repay investments in ordinary shares	Preference shareholders have priority over ordinary shareholders in the repayment of capital in the event of winding up the company
If dividends are not paid out to ordinary shareholders in any one year, they have no right to expect the dividends to be carried over to the next or subsequent years.	May be cumulative or non-cumulative
Right to attend and vote at all meetings of the company	Do not have voting rights unless dividends are in arrears
	May be redeemable or non- redeemable

6

(d)

Marks

Bank Loan	Debenture
Loan given to company by Bank	Loan given to a company
May be secured against fixed assets	May be secured on specific fixed assets
Interest paid on full amount at agreed rate	Interest paid on fixed basis
Interest on Bank Loan charged against profits in profit and loss account	Interest on debentures charged against profits in profit and loss account
May be agreed for a fixed period of time	Usually for an agreed period of time - repayable at a fixed date
	Issued in same way as shares to anyone who wishes to invest in the company
	Can be converted to ordinary shares
	Seen as safer investment compared to shares - ordinary or preference

4
(15)

Question 10 Solution

Marks

(a) (i) Capital Expenditure:

Spending on items to last more than one year
 Spending on fixed assets
 Benefit from this spending will be felt for more than one year

Revenue Expenditure:

Spending on items which will be used up within a year
 Spending on items such as expenses, purchases of stock
 Spending on the restoration of fixed assets (no increase in value)

Capital expenditure increases the value of fixed assets and is shown in the Balance Sheet.

Revenue expenditure relates to the day to day running expenses of a business and is recorded in the Trading and Profit and Loss Accounts.

4

(ii) Examples:

Capital Items

Purchase of asset
 Improvement of asset eg
 Extension to premises
 Etc

Revenue Items

Restoration of asset
 Spending on electricity bill

4

(b)

ADVANTAGES OF SOLE TRADER	ADVANTAGES OF PARTNERSHIP
Own boss	Shared liabilities/losses
Makes all decisions	Easier to take time off
Takes all profits	Shared workload
Sets all the objectives of the business	More capital available
	Shared decision making – “2 heads better than one”
	Specialization may take place

6

One disadvantage common to both Sole Traders and Partnerships is unlimited liability.

1

(15)

Question 11 Solution**Marks**

- a) Both terms refer to assumptions made about the physical issue of stock, for the purpose of pricing the issues.

FIFO - First-In-First-Out

- assumes the oldest are issued first
- therefore value of stock will be at up-to-date prices

LIFO - Last-In-First-Out

- assumes the most recently received are issued first
- therefore value of stock will tend to be at older, out-of-date prices

4

- (b) **Work-in-Progress**
Finished Goods

2

- (c) **Bin Card**

1

- (d) **Date**

Description/code for material

Quantity received

Quantity issued

Balance remaining

4

- (e) **Clock cards** - record the time spent by employee at work by recording time he enters and leaves the workplace
- used to calculate wages due
 - does not relate time spent to actual work done
- Time sheets** - example of labour booking system
- records time spent working on different items

4
(15)

Question 12 Solution

Marks

(a) Both are methods of costing designed to arrive at the cost of producing the cost unit.

They differ because of the different nature of the cost unit in each instance.

Job Costing - all units are separately identifiable
- costs can be allocated to each cost unit

Process Costing - produces a flow of identical cost units
- costs of the process are divided by the total number of units produced in a period to produce in effect an average cost per unit

4

(b) **Job Costing** - Builder
Motor car repair
etc

Process Costing - Brewery
Food processing
etc

4

(c) **Raw Material**
Direct Wages
Overheads

3

(d) **Normal Loss** - expected, unavoidable
- costs not allocated to normal loss
- any scrap value used to reduce costs of process

Abnormal Loss - not expected, exceeds normal loss
- should have been avoidable
- has full cost attributed to it

4
(15)

[END OF MARKING INSTRUCTIONS]

