

2003 Accounting & Finance

Advanced Higher

Finalised Marking Instructions

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Advanced Higher – Special

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2003 Advanced Higher Grade

Accounting and Finance

Special Instructions

1. The instructions which follow must be strictly adhered to except where amendments are agreed upon at the markers meeting.
2. Assess pencil figures and workings. If the script is predominantly in pencil mark it and then refer to the Principal Assessor.
3. A maximum of 10% of marks gained on any individual question may be deducted for untidy work and poor style. The penalty should **only be applied in exceptional circumstances**.
4. Work which has been deleted gains no marks even if it is correct. Exceptional cases may be drawn to the attention of the Principal Assessor.
5. Consequential errors **MUST NOT** be penalised, subject to the marking instructions for each question.
6. Mark workings whether or not they are incorporated into the final answer. Deduct a penalty of **1 mark per question** for working which is not incorporated into the final answer.
7. Incorrect figures, supported by adequate workings – award marks for any correct operations performed.
8. Extraneous items – SEE INSTRUCTIONS FOR SPECIFIC QUESTIONS.
9.
 - (a) Indicate awards given got each item beside the appropriate figures.
 - (b) Sub-totals must be shown for each sub section $\frac{3}{5}$ at the end of that section.
 - (c) Encircle the final total for each question. $\frac{14}{20}$
Marks should be easy to check.
10. When marking theory questions put the award mark at the end of each point made by the candidate, **not** at the end of the line **nor** in the margin.

QUESTION 1 (i) K Bush Trading and Profit and Loss Account – 17 MARKS	Award marks lost	Penalties
Calculation of Sales 3 ½ marks		
Payments from debtors wrong/not added	½	
Debtors 31.3.03 wrong/not added	½	
Discount allowed wrong/not added	½	
Bad debts wrong/not added	½	
Debtors 1.4.02 wrong/not subtracted	½	
Credit sales wrong/not cons	½	
Cash sales not added	½	
Cash sales paid as wages not added	½	
Calculation of Purchases – 3 marks		
Payments to creditors wrong/not added	½	
Creditors 31.03.03 wrong/not added	½	
Discount received wrong/not added	½	
Purchases returns wrong/not added	½	
Creditors 1.4.02 wrong/not subtracted	½	
Drawings wrong/not subtracted	½	
Commission received omitted	½	
Trading Account		
Either opening or closing stock wrong or omitted	½ once	
Gross Profit label wrong or omitted		½

	Award marks lost	Penalties
Profit and Loss Account		
Discount received or commission received wrong or omitted	½ once	
Advertising any component missing, wrong, wrong effect	½ each item	
Electricity component missing, wrong, wrong effect	½ each item	
Depreciation of Motor Van wrong or omitted	½	
Depreciation of Fixtures and fittings: NBV not £50,000	½	
NBV of £45,000 at end not deducted	½	
Loan Interest not 10% of £20,000	½	
Loan Interest not calculated for half year	½	
Loss on sale of Motor van: must be netted to gain award Cost not £4,000 or added to gross profit	½	
Cash received not £1,200 or shown as an expense	½	
Loss treated as gain (no penalty)	1	
Any one of Rates, Telephone or Discount Allowed wrong or omitted	½ once	
Bad Debts wrong or omitted	½	
Provision for doubtful debts not 5% of £2,300	½	
Wages paid not £19,980	½	
Wages of £2,500 paid from cash takings not added	½	
Net Profit label wrong or omitted		½
Extraneous eg Drawings		-1 each, Max -2
Items entered twice apply +/- rule		

QUESTION 1 (ii) Balance Sheet – 8 marks	Award marks lost	Penalties
Any figure for Premises, Fixtures and Fittings, Van wrong or omitted	½ once	
Stock wrong or omitted	½	
Debtors not £2,300	½	
Provision for doubtful debts not £115 or consequential	½	
Calculation of Closing Bank figure – 1½ marks:		
Opening balance not £5,500	½	
Either total Receipts or Payments figures wrong or omitted	½ once	
Current Liabilities any one wrong or omitted	½ once	
Bank loan wrong or omitted	½	
Do not accept accumulated Fund		-½
Opening Capital – 1 ½ marks:	½	
Fixed Assets total not £164,000	½	
Current Assets total not £17,100	½	
Current Liabilities total not £1,650	½ each time	
Wrong treatment of any figure	½	
Net Profit wrong/not cons	1	
Drawings wrong or omitted		
Drawings of £15,000	½	
Extraneous Items – Loan interest		-1 max -2

QUESTION 2 (a) V Wilkinson	Award marks lost	Penalties
(i) Sales wrong/not cons	½	
(ii) Net Profit wrong/not cons	½	

QUESTION 2 (b) V Wilkinson	Award marks lost	Penalties
(i) Profitability Ratios		
Return on capital employed wrong/not cons	1	
Net profit ratio wrong/not cons	1	
(ii) Liquidity Ratios		
Current ratio wrong/not cons	1	
Acid test wrong/not cons	1	
(iii) Efficiency Ratios		
Turnover to Fixed Assets wrong/not cons	1	
Expenses Ratio wrong/not cons	1	
Rate of Stock turnover wrong/not cons	1	
Debtor collection period wrong/not cons accept days or weeks	1	
Creditor payment period wrong/not cons	1	
Award marks for correctly calculated ratio even if in wrong section, award marks lost in part (c)		

QUESTION 2 (c) V Wilkinson	Award marks lost	Penalties
One mark per valid point, maximum 10 Award half marks where appropriate		

QUESTION 3 (a) Wishart Enterprises plc	Award marks lost	Penalties
(i) Gross Profit wrong/cons	½	
Interest from bank omitted	½	
Distribution costs		
Selling and Distribution Expenses wrong or omitted	½	
Rates omitted	½	
Wrong calculation	½	
Depreciation wrong or omitted	1	
Wages and salaries paid not 60	½	
Not adjusted for accrual for 15	½	
Not 60% of total	½	
If expense not split	1	
Advertising wrong or omitted	½	
Vehicle maintenance wrong or omitted	½	
Administration expenses		
Sundry Administration Expenses wrong or omitted	½	
Rates wrong, omitted not cons on Distribution calculation, not split	½	
Directors' Fees wrong or omitted	½	
Wages and salaries wrong not cons on Distribution calculation, not split	½	
Discounts wrong/omitted, incorrectly treated	½	
Provision for doubtful debts wrong/omitted	½	
Audit Fee wrong/omitted	½	
Net Profit before tax label/omitted		½
No attempt made to group items under appropriate headings		-2
Debenture Interest wrong or omitted	½	

QUESTION 3 (a) Wishart Enterprises plc	Award marks lost	Penalties
(i) Corporation tax wrong/omitted	½	
Preference dividend Interim wrong or omitted	½	
Preference dividend due wrong or omitted	½	
Ordinary dividend interim wrong or omitted	½	
Ordinary dividend proposed wrong or omitted	½	
Debenture interest not separate, wrong or omitted	½	
Extraneous items eg VAT		-1
Accept income items anywhere		(max -2)

QUESTION 3 (a) Wishart Enterprises plc	Award marks lost	Penalties
(ii) Award marks as per solution		
Any figure wrong/not cons on a (i)	½	
In addition figures must be in exact order of solution to gain award		
Label for Gross Profit, Operating Profit, profit before tax, Income, Profit after tax, and retained profit for year omitted/wrong		-½ (max 1)
Net divided figure not 15 or conseq	½	-1 max
Extraneous items		

QUESTION 3 (b) Wishart Enterprises plc	Award marks lost	Penalties
(i) Dividend Yield – wrong formula Ordinary Share Dividend 6 Market price per share wrong Ordinary Share Dividend 5	1 ½ ½ ½	
(ii) Dividend Cover – wrong formula, Net Profit after tax – preference dividends wrong or not cons Dividends paid and proposed wrong or not cons	1 ½ ½	
(iii) Earnings per share formula wrong Net Profit after tax – preference dividends wrong or not cons Number of ordinary shares wrong or omitted If authorised share capital used, wrong formulae	1 ½ ½	
(iv) Price Earnings Share – wrong formula Market Price per share wrong or omitted Earnings per share wrong, not conseq	1 ½ ½	

QUESTIONS 4 AND 5

GENERAL INSTRUCTIONS

Award marks for valid points in addition to those listed in solution.

Award ½ marks where considered appropriate.

Question 4

Award marks

½ for name of concept

1 for explanation

½ for example

Maximum of 10 for concept and conventions

Question 5

No marks are to be awarded for general features of business organisations eg profit sharing ratios, number of partners etc.

QUESTION 6 (b) Fowler Ltd	Award marks lost	Penalties
Accept two-sided or columnar format <u>Process 2 a/c</u>		
Input quantity from Process 1 wrong/omitted	½	
Cost of input not £11,025/omitted	½	
Additional material quantity not 1/7 of input from Process 1/omitted	1	
Labour cost not £1,275/omitted	½	
Variable overhead not £510/omitted	½	
Fixed overhead not £705/omitted	½	
Normal loss quantity not 3% of candidate's total input	½	
Value of normal loss not candidate's quantity multiplied by 60p	½	
WIP quantity not 100kg/omitted	½	
WIP value not £275/omitted	½	
Transfer to Process 3 not 4800 kg/omitted	½	
Abnormal Gain quantity not 50 kg/consequential	1	
Cost per unit of Normal output not £2.90 or consequential	2	
Value of Abnormal Gain :		
This calculation involves the correct manipulation of 4 different figures each of which has been awarded ½ mark for its correct use in the calculation		
Value per unit of Abnormal Gain not £2.90 or consequential	½	
If the correct/consequential value per kg is then applied in the Process a/c to the Abnormal Gain and the transfer to Process 3 it gains a further ½ mark in each place		
Therefore		
Costs of process not £14,140/conseq	½	
Value of WIP plus Normal loss not £365/conseq/not subtracted from process costs	½	
Process 3 output not 4,800	½	
Abnormal gain not 50/conseq/ not subtracted	½	

	Award marks lost	Penalties
Value of Abnormal Gain per kg not £2.90/conseq	½	
Value of transfer to Process 3 not £2.90/conseq	½	
Abnormal Gain a/c		
Transfer from process 2 not £145/conseq/omitted or on wrong side	½	
Loss of scrap value not 50kg/conseq multiplied by 60p not on opposite side	1	
Transfer to Profit and Loss a/c not £115/conseq	½	
If not recognised as an account:		
Process A/C		-2
Abnormal Gain A/C		-1

QUESTION 8 (a) Fraser plc	Award marks lost	Penalties
<p>The following items (variable costs) have been awarded 1 mark for the whole line: Direct materials Direct wages Direct expenses Any single figure in line wrong/omitted</p> <p>The following items (fixed costs) have been awarded ½ mark for the whole line: Office salaries } Depreciation } If these Fixed Costs are Rent and rates } grouped and totalled at Office expenses } £220,000 give award of 2. Any figure wrong/omitted</p> <p>The following items (semi-variable costs) have been awarded ½ mark for each answer relating to the two highest levels of output: Maintenance Power Salesmen's salaries Miscellaneous overheads Any item wrong/omitted</p>	<p>½ ea (max 1)</p> <p>½</p> <p>½ ea</p>	
QUESTION 8 (b) Fraser plc	Award marks lost	Penalties
<p>Each variance has been awarded 1 mark</p> <p>Value must be candidate's budgeted figure from (a) compared with actual – worth ½ mark each Variance label wrong/omitted</p>	<p>½ ea</p>	

QUESTION 9 (a)	Award marks lost	Penalties
Award marks as per solution up to max 5 Award marks for relevant comments about costing systems other than the ones included in the specimen answer		

QUESTION 9 (b)	Award marks lost	Penalties
Awards marks as per solution up to max 5 for each of Contract Costing and Process Costing		

QUESTION 10 (a)	Award marks lost	Penalties
Award 1 mark for each question suggested There is no maximum for each variance but the full 10 marks could not be gained unless at least one question was suggested for each variance		

QUESTION 10 (b)	Award marks lost	Penalties
Award marks as per solution up to max 5.		

[END OF MARKING INSTRUCTIONS]

2003 Accounting & Finance

Advanced Higher – Solutions

Finalised Marking Instructions

Question 1

Trading and Profit and Loss Account for year ended 31 .3.03

	£	£	
Sales			167,400 (3 ½)
Less cost of sales			
Stock (½)		8,500	
Net Purchases (100,800-600)	(½ for both)	100,200 (3)	
		108,700	
Stock		7,560	<u>101,140</u>
Gross Profit			<u>66,260</u>
Add			
Discount Received			1,200
Commission Received			500
			} (½ for both)
			<u>67,960</u>
Less Expenses			
Advertising (540+200+400)		1,140 (1½)	
Electricity (550-150+225)		625 (1½)	
Depreciation on van (15,000 – 13,500)		1,500 (½)	
Depreciation on fixtures (40,000 + 10,000 – 45,000)		5,000 (1)	
Interest on Loan (20,000 * 10%/2)		1,000 (1)	
Loss on sale of van (4,000-1,200)		2,800 (1)	
Business Rates		1,900	
Telephone		670	
Discount Allowed		1,800	
Bad debts		1,500 (½)	
Provision for doubtful debts (5% * 2,300)		115 (½)	
Wages (19,980+2,500)		<u>22,480 (1)</u>	<u>40,530</u>
Net Profit			<u><u>27,430</u></u> (17)

Balance Sheet as at 31 March 2003

	£	£	£	
Fixed Assets				
Premises			120,000	
Fixtures and Fittings			45,000	
Van			<u>13,500</u>	
			178,500	(1/2)
Current Assets				
Stock (1/2) (1/2)		7,560 (1/2)		
Debtors (2,300 – 115)		2,185 (1)		
Bank		<u>27,560</u> (1 1/2)	37,305	
Current Liabilities				
Creditors		2,800 (1/2)		
Loan Interest due		1,000		
Electricity due		225		
Advertising due		<u>200</u>	4,225	<u>33,080</u>
			211,580	
Bank Loan			<u>20,000</u> (1/2)	
			191,580	
Capital			179,450	(1 1/2)
Net Profit			<u>27,430</u> (1/2)	
			206,880	
Less Drawings			<u>15,300</u> (1)	
			191,580	(8)
				Total = 25

Note 1

Receipts and Payments Account

	£	
Bank 1.4.02	5,500	(½)
Receipts	<u>183,700</u>	(½)
	189,200	
Payments	<u>161,640</u>	(½)
Bank 31.3.03	<u>27,560</u>	(1½)

Note 2

Calculation of Opening Capital

Balance Sheet as at 1 April 2002

Fixed Assets	£	£	£	
Premises			120,000	
Fixtures and Fittings			40,000	
Van			<u>4,000</u>	
			164,000	(½)
Current Assets				
Stock	8,500			
Debtors	2,700			
Advertising	400			
Bank	<u>5,500</u>	17,100	(½)	
Current Liabilities				
Creditors	1,500			
Electricity due	<u>150</u>	1,650	(½)	15,450
				(1½)
Net Assets			<u>179,450</u>	
Capital			<u>179,450</u>	

Note 3

Calculation of Total Sales

Credit Sales	
Payments from debtors	87,000 (½)
Add debtors 31.3.03	2,300 (½)
add discount allowed	1,800 (½)
Bad debts	<u>1,500 (½)</u>
	92,600
Less debtors 1.4.02	<u>2,700 (½)</u>
Credit Sales	<u>89,900</u> (2½)

Total Sales

Credit Sales	89,900
Cash Sales to bank	75,000 (½)
Cash sales paid as wages	<u>2,500 (½)</u>
	<u>167,400</u> (1)

OR Debtors A/C

	Dr	Cr	Balance
Balance	2,700(½)		2,700
Sales	89,900		92,600
Discount allowed		1,800(½)	90,800
Bad Debts		1,500(½)	89,300
Bank		87,000(½)	2,300 (½)

Note 4

Calculation of Purchases

Payments to Creditors	98,000 (½)
Add creditors 31.3.03	2,800 (½)
Add discount received	1,200 (½)
Purchases returns	<u>600 (½)</u>
	102,600
less creditors 1.4.02	<u>1,500 (½)</u>
	<u>101,100</u>
less drawings	<u>300 (½)</u>
Purchases	<u>100,800</u> (3)

OR Creditors A/C

	Dr	Cr	Balance
Balance		1,500(½)	1,500
Purchases		100,800	102,300
Bank	98,000(½)		4,300
Discount received	1,200(½)		3,100
Purchase returns	600(½)		2,500
Drawings		300(½)	2,800 (½)

Payments from Debtors	87,000
+ Cash Sales	<u>75,000</u>
	162,000 (1)

+ Wages	<u>2,500</u>
	164,500 (1½)

Question 2

Sales	(1/2)	£500,000
Cost of goods sold		£400,000
Gross Profit		£100,000
Expenses		£55,000
Net Profit	(1/2)	£45,000

(1)

Profitability Ratios

$$\text{Return on capital employed} = \frac{45,000}{300,000} \times 100 = 15\%$$

(1)

$$\text{Net profit ratio} = \frac{45,000}{500,000} \times 100 = 9\%$$

(1)

Liquidity Ratios

$$\text{Current ratio} = \frac{50,000}{38,000} = 1.31:1/1.32:1$$

(1)

$$\text{Acid test} = \frac{50,000 - 16,000}{38,000} = 0.89:1$$

(1)

Efficiency Ratios

$$\text{Turnover to Fixed Assets} = \frac{500,000}{250,000} = 2:1$$

(1)

$$\text{Expenses Ratio} = \frac{55,000}{500,000} \times 100 = 11\%$$

(1)

$$\text{Rate of Stock turnover} = \frac{400,000}{16,000} = 25 \text{ times}$$

(1)

$$\text{Debtor collection period} = \frac{30,000}{300,000} \times 12 = 1.2 \text{ months or } 36.5 \text{ days or } 5 \text{ weeks}$$

(1)

$$\text{Creditor payment period} = \frac{38,000}{400,000} \times 12 = 1.14 \text{ months or } 34.7 \text{ days or } 5 \text{ weeks}$$

(1)

One mark per ratio 9

Overall profitability is expected to improve due to

- Lower expenses as a percentage of sales
- Increased turnover to fixed assets
- Increased rate of stock turnover – lower selling price possibly leading to higher volume

Liquidity is not so good indicated by

- Falling current ratio
- Falling acid test ratio
- Increased creditors payment period
- Decreased debtors collection period

Efficiency

- Rate of stock turnover has improved
- Debtors are now paying quicker
- Sales to fixed assets has improved due to increased volume of sales
- Expenses are a lower percentage due to increased volume

One mark per point maximum 10

Question 3

Profit and Loss Account for year ended 31.12.02

	£000	£000	
Gross Profit			213 (½)
Interest from bank			<u>2 (½)</u>
			215
Less			
Distribution Expenses			
Sundry Distribution Expenses		16 (½)	
Rates (15 x 40%)		6 (½)	
Depreciation of Vehicles (20% of (50 – 10))		8 (1)	
Wages and salaries (60 + 15) x 60%		45 (1½)	
Advertising		12 (½)	
Vehicle maintenance		<u>20 (½)</u>	
		107	
Admin Expenses			
Sundry Admin Expenses		14 (½)	
Rates (15 x 60%)		9 (½)	
Directors' Fees		12 (½)	
Wages and salaries (60 + 15) x 40%		30 (½)	
Discount (net) (3 – 1)		2 (½)	
Provision for doubtful debts (4 – 3)		1 (½)	
Audit Fee		<u>13 (½)</u>	
		81	
Net Profit before interest			<u>188</u>
Debenture interest (10% of 40)			27
Net Profit before tax			<u>4 (½)</u>
Corporation tax			23
Net Profit after tax			<u>6 (½)</u>
Less Appropriations			17
Preference dividend paid		2 (½)	
Preference dividend due		2 (½)	
Ordinary dividend paid		5 (½)	
Ordinary dividend due (6p x 100,000)		<u>6 (½)</u>	
Retained profit			<u>15</u>
			<u>2</u>

(12)

Wishart plc
Profit and Loss Account for year ended 31.12.02

	£000	£000	
Turnover		480	(½)
Cost of Sales		267	(½)
Gross Profit		213	
Distribution costs	107	(½)	
Admin expenses	81	(½)	188
Operating profit		25	
Investment income		2	(½)
		27	
Interest payable		4	(½)
Profit before tax		23	
Corporation tax		6	(½)
Profit after tax		17	
Dividends		15	(½)
Retained profits		2	

(4)

Part B

$$\text{Dividend yield} = \frac{\text{Ordinary Dividend per Share} \times 100}{\text{Market price per share}} \quad (6 + 5)$$

$$= \frac{11}{250} \times 100 = 4.4\% \quad (1)$$

$$\text{Dividend cover} = \frac{\text{NP after tax} - \text{preference dividends}}{\text{Ordinary Dividends paid and proposed}} \quad (17 - 4)$$

$$= \frac{13,000}{11,000}$$

$$= 1.18 \text{ times} \quad (1)$$

$$\begin{aligned} \text{Earnings per share} &= \frac{(17 - 4) \text{ NP after tax} - \text{Preference Dividend}}{\text{Number of ordinary shares}} \\ &= \frac{17,000 - 4,000}{100,000} \end{aligned} \quad (1)$$

$$= 13\text{p}$$

$$\text{Price Earnings Ratio} = \frac{\text{Market Price per share}}{\text{Earnings per share}}$$

$$= \frac{250}{13} \quad (1)$$

$$= 19.23 \text{ times} \quad (4)$$

Question 4

Procedures followed by accountants are governed by Accounting Standards produced by the Accounting Standards Board. The purpose of these standards is to give a true and fair view of the financial position of the company. This would allow users to make reliable comparisons between different companies or successive years for the same company. The main concepts and conventions used in accounting calculations are

Going Concern

- Assumes business will continue into foreseeable future
- Assets valued at lower of cost or net realisable value (Max 2)

Accruals or matching

- Costs and revenues allocated to the period in which they occur
- Profit is recognised when goods are handed over or service takes place (Max 2)

Consistency

- The same base is used to calculate depreciation
- The same method of valuing stocks is applied (Max 2)

Prudence

- Undervalue future profits or cash inflows
- Make provision for costs and losses immediately they occur (Max 2)

Materiality

- Small items written off as expenses when they occur – small office items for example
- Decision taken on this is subjective (Max 2)

The following conventions are also adopted by accountants

Separate entity

- The business has a separate 'legal' existence
- Separate owners transactions from business (Max 2)

Double Entry

- Two sides to every transaction i.e. every debit entry has an equal credit entry
- Sources of funds and uses of funds (Max 2)

Money terms

- Transactions recorded using money terms, very objective
- Value of skilled workforce not included in balance sheet **(Max 2)**

Historic Cost

- Assets valued at their original cost
- Can cause problems in times of high inflation **(Max 2)**

These concepts and conventions should make the information 'fit for purpose' however the implementation of these can be subjective and the interpretation of business statements relies on the judgement of accountants.

(Max 15)

Question 5

Type of business organisations	Funded by	Managed by	Owned by
Not for Profit	Membership fees or annual subscriptions Donations Fund raising activities Grants Trading activities Life membership fees Loans (½ each) (Max 1)	Managed by a committee with elected office bearers – Chairperson, Treasurer and Secretary along with ordinary committee members drawn from club (Max 1)	Owned by Club members (Max 1)
Partnerships	Partners contribute capital Profits retained by transferred to General Reserve Loans from financial institutions Loans from partners Overdrafts Trading activities Admission of New Partner (½ each) (Max 2)	Managed by partners Governed by partnership agreement Deed of partnership drawn up No need to publish Partnership accounts (Max 1)	Owned by partners with unlimited liability unless limited partner Minimum of 2, max 20 partners = 3
Public Limited Companies	Share capital sold on Stock Exchange Long Term: Ordinary or Preference Share capital Debentures Leasing Mortgage Government loans and grants Reserves Retained profits	Strategic direction from Board of Directors headed by Chairman Run by series of managers Accounts require to be lodged with the Registrar of public companies and published annually (Max 1)	Owned by shareholders, with limited liability, who can buy or sell shares on Stock Exchange at any time (Max 1)

Question 6

(a) 1 (i)

Income from by-product	$1000 \times \text{£}4.50$ $= \text{£}4,500$
Costs to be apportioned	$\text{£}361,500 - \text{£}4,500$ $= \text{£}357,000$ (1)
Total output	$7,000 + 4,000 + 3,000$ $= 14,000$ units
Costs apportioned	A $7/14 \times \text{£}357,000$ $= \text{£}178,500$ (1)
	B $4/14 \times \text{£}357,000$ $= \text{£}102,000$ (1)
	C $3/14 \times \text{£}357,000$ $= \text{£}76,500$ (1)
	(4)

(a) 1 (ii)

Cost per unit	OR	$\text{£}357,000/14,000$ $= \text{£}25.50$
		$\left. \begin{array}{l} \text{£}24.10 \\ \text{£}25.82 \\ \text{£}23.80 \end{array} \right\} \text{consequentially wrong answers}$
		from 1 (i) (1)
		(5)

(a) 2 (i)

Sales value of output	A $7,000 \times 30$ $= \text{£}210,000$ (1)
	B $4,000 \times \text{£}38.70$ $= \text{£}154,800$ (1)
	C $3,000 \times \text{£}27.15$ $= \text{£}81,450$ (1)
Total sales value	$\text{£}446,250$ (½)
Costs apportioned	A $\text{£}357,000 \times 210,000/446,250$ $= \text{£}168,000$ (1)
	B $\text{£}357,000 \times 154,800/446,250$ $= \text{£}123,840$ (1)
	C $\text{£}357,000 \times 81,450/446,250$ $= \text{£}65,160$ (1)

(a) 2 (ii)

Cost per unit	A	£168,000/7,000 (½) = £24
	B	£123,840/4,000 (½) = £30.96
	C	£65,160/3,000 (½) = £21.72

(8)

(b) (i)

Process Cost Account

Dr	kg		Cost per unit	£		kg		Cost per unit	£	Cr	
Process 1 Account	4375	(½)	2.52	11025	(½)	Normal Loss	150	(½)	0.60	90	(½)
Material	625	(1)	1.00	625		WIP	100	(½)		275	(½)
Labour				1275	(½)						
Var o/h				510	(½)						
Fix o/h				705	(½)						
Abnormal Gain	50	(1)	2.90	145	(½)	Process 3	4800	(½)	2.90	(½)	13920
				<u>14285</u>						<u>14285</u>	(8)

(b) (ii)

Abnormal Gain a/c								
	kg	Cost per unit	£		kg	Cost per unit	£	
Loss of scrap value	50	0.60	(1) 30	Process 2	50	2.90	145	
Profit and Loss			<u>115</u>				<u>145</u>	
			<u>145</u>				<u>145</u>	(2)

Process 2 Account Working Notes

Value of Abnormal Gain	(½)	(½)	(½)	(½)	
	(14,140 – 365)/(4,800-50)				(2)
	= 2.90				

Total 25 Marks

Question 7

(a)

Workings

Vehicle 1

$$\begin{aligned} \text{Tonne/miles} & 15 \times 300 \times 5 \times 50 \\ & = 1,125,000 \end{aligned}$$

$$\begin{aligned} \text{Diesel and oil} & (300 \times 5 \times 50)/7 \times 70\text{p} \\ & = \text{£}7,500 \end{aligned}$$

$$\begin{aligned} \text{Depreciation} & (\text{£}120,000 - \text{£}20,000)/5 \\ & = \text{£}20,000 \end{aligned}$$

$$\begin{aligned} \text{Repairs} & 300 \times 5 \times 50 \times 0.2 \\ & = \text{£}15,000 \end{aligned}$$

$$\begin{aligned} \text{Maintenance} & 300 \times 5 \times 50 \times 0.5 \\ & = \text{£}37,500 \end{aligned}$$

Vehicle 2

Tonne/miles	Mon	8 x 300	2400
	Tue	12 x 600	7200
	Wed	15 x 600	9000
	Thur	11 x 300	3300
	Fri	12 x 500	6000
			<hr/>
			27900

$$\begin{aligned} \text{Annual} & 50 \times 27900 \\ & = 1,395,000 \end{aligned}$$

$$\begin{aligned} \text{Diesel and oil} & (2300 \times 50)/10 \times 70\text{p} \\ & 8050 \end{aligned}$$

$$\begin{aligned} \text{Depreciation} & (\text{£}210,000 - \text{£}30,000)/6 \\ & = \text{£}30,000 \end{aligned}$$

$$\begin{aligned} \text{Repairs} & 2300 \times 50 \times 0.15 \\ & = \text{£}17,250 \end{aligned}$$

$$\begin{aligned} \text{Maintenance} & 2300 \times 50 \times 0.3 \\ & = \text{£}34,500 \end{aligned}$$

Annual Cost Statement

	Vehicle 1		Vehicle 2		
	£	£	£	£	
	<u>Running Costs</u>				
	Diesel and oil	7,500 (1)	8,050 (1)		
	Repairs	15,000 (1)	17,250 (1)		
	Maintenance	<u>37,500 (1)</u>	<u>34,500 (1)</u>	59,800	
V1 Maintenance 46,500 = (1½)	<u>Standing Charges</u>				V2 Maintenance 46,500
	Tyres	3,000 (½)	3,200 (½)		
	Insurance	6,000 (½)	7,500 (½)		
	Maintenance	9,000 (½)	12,000 (½)		
	Wages	20,000 (½)	22,000 (½)		
	License	2,000 (½)	2,000 (½)		
	Depreciation	<u>20,000 (1)</u>	<u>30,000 (1)</u>	<u>76,700</u>	
		<u>60,000</u>	<u>60,000</u>	<u>136,500</u>	
		<u>120,000</u>			
		(½) (1)	(½) (1)		
Cost per tonne/mile	£120,000/1,125,000 = 10.7p		£136,500/1,395,000 = 9.8p		(16)

(b)

Cost	10 x 50 x 0.107 = £53.50 (½)	10 x 50 x 0.098 = £49 (½)	
Profit (25/75)	£17.83 (1)	£16.33 (1)	
Charge	£71.33 (½)	£65.33 (½)	(4)

Total 20 Marks

Question 8

(a)

Flexible Budget	Output Level			
	72,000	96,000	120,000	
Direct Materials	360,000	480,000	600,000	(1) for line
Direct Wages	468,000	624,000	780,000	(1) for line
Direct Expenses	60,000	80,000	100,000	(1) for line
Maintenance	100,000	110,000 (½)	115,000 (½)	
Power	30,000	33,000 (½)	34,500 (½)	
Salesmen's Salaries	50,000	55,000 (½)	57,500 (½)	
Misc. Overheads	24,000	26,400 (½)	27,600 (½)	
Office salaries	60,000	60,000	60,000	(½) for line
Depreciation	40,000	40,000	40,000	(½) for line
Rent and Rates	75,000	75,000	75,000	(½) for line
Office Expenses	45,000	45,000	45,000	(½) for line
Total Costs	1,312,000	1,628,400	1,934,600	(9)

(b)

Performance Report	Budget	Actual	Variance	
	(96,000)	(96,000)		
	£	£	£	
Direct Materials	480,000	488,000	8,000(A)	(1)
Direct Wages	624,000	622,000	2,000(F)	(1)
Direct Expenses	80,000	76,000	4,000(F)	(1)
Maintenance	110,000	113,000	3,000(A)	(1)
Power	33,000	33,500	500(A)	(1)
Salesmen's salaries	55,000	57,500	2,500(A)	(1)
Misc. Overheads	26,400	25,800	600(F)	(1)
Office salaries	60,000	60,000	-	(1)
Depreciation	40,000	42,000	2,000(A)	(1)
Rent and Rates	75,000	70,000	5,000(F)	(1)
Office Expenses	45,000	44,000	1,000(F)	(1)
Total Costs	1,628,400	1,631,800	3,400(A)	(11)

Total 20 Marks

Question 9

- (a) Costing system has to relate to method of manufacture and cost unit chosen. (1) (1)
- Contrast between systems which work where each unit is separate and identifiable eg (1) (1)
(1/2) job/contract costing.(1/2)
- and those where units are all identical eg batch/process costing. (1) (1/2) (1/2) (Max 5)
- (b) (i) Contract costing is similar to job costing in that:
- each unit is unique (1/2)
 - each unit is separately identifiable (1/2)
 - costs can be clearly allocated to each unit (1)
- cost of contract is therefore relatively easy to calculate
- profit is not so easy due to length of time involved (1)
 - need to take credit for profit as contract progresses (1)
 - need for value for certified work (1)
 - need for application of prudence in determining profit taken (1)
 - formula for profit taken (1) (Max 5)
- (ii) Process costing deals with production of identical units where (1)
- units cannot be separately identified until process is complete (1)
 - costs cannot be attributed to each unit (1)
 - units are passed from one process to the next (1)
- therefore costing system adopts averaging approach (1)
- measures costs of inputs for period and divides by output (1) (1)
- Problems relate to:
- nature of losses incurred in process ie normal/abnormal (1)
 - value of WIP and degree of completion (1)
 - existence of by-products/joint products (1) (1)
- particular problem of profit calculation where joint products due to arbitrary nature of apportionment of costs to products. (1) (Max 5)

Total 15 Marks

Question 10

- | | | | |
|--------------------|---|---|---------------|
| (a) Material price | was there a different supplier used
was there an unexpected price increase
was there an alteration in discounts
was a different grade of material used | } | 1 each |
| Material usage | was there more/less scrap than normal
was there a change in product design
was a different grade of material used | } | 1 each |
| Wage rate | was there an unexpected national wage award
was a different grade of labour used
were bonuses different from plan | } | 1 each |
| Labour efficiency | was there improvement in methods used
was grade of labour different
was incentive scheme introduced
good teamwork increasing efficiency | } | 1 each |
- (Max 10)**

- (b) Connection may be between two variances of same type ie both favourable or both adverse eg
 (1)adverse material usage variance (poor quality) may cause adverse labour efficiency variance
 (takes longer because of more wastage) (1)
- Connection may be between two opposite variances ie one favourable and one adverse eg
 favourable material price variance (cheaper material) may cause adverse material usage
 variance (more wastage) (1) (1)
- Adverse fixed overhead expenditure variance (new machine with higher depreciation) may
 cause favourable labour efficiency variance (can work faster) etc (1) (1)
(Max 5)

Total 15 Marks

[END OF MARKING INSTRUCTIONS]