SCOTTISH
QUALIFICATIONS
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2003 Accounting & Finance

Higher

Finalised Marking Instructions

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Higher – Special

Finalised Marking Instructions

2003 ACCOUNTING AND FINANCE

MARKING CONVENTIONS

CONVENTION	**EXPLANATION**	**MARK(S) ON CANDIDATE PAPER**
Extraneous	Item entered which should not be in the answer	-1E
Consequential	If a figure in a question is wrong, any further calculations are awarded marks if correct, as a consequence of using that figure	C
Nomenclature	The details in an account are wrong/ missing	-1N
Dates	The date for an entry is wrong/missing	-1D
Complete Reversal	All the ledger entries are made the wrong way round The question is marked as if correct and then the total mark is divided by 2	R eg Total Mark = 12 Divided by 2 Mark awarded = 6
Plus/Minus Rule	If an entry is shown correctly it is awarded the mark (+). If the same entry then appears again in another part of the question the mark is deducted (-) ie no mark is gained and there is no penalty	eg Correct entry £60,000 Sales in the Trading Account Mark awarded 1 (+-) Wrong entry £60,000 Sales also entered in the Balance Sheet Mark deducted -1 (+-)
Penalty	The answers given are more than required (4 given instead of 3) and one of them is wrong. A heading is wrong/missing from a final account. The answer is correct but not given in the format requested. ie question asks for an account or a statement	-1P

General

1 Assess pencil figures and working. If the script is predominantly in pencil refer to the Principal Examiner.

2 A maximum of 10% of marks gained on any individual question may be deducted for untidy work and poor style. This penalty should only be applied in exceptional circumstances.

3 Work which has been deleted gains no marks even if it is correct. Exceptional cases may be drawn to the attention of the Principal Examiner.

4 Consequential errors MUST NOT be penalised, subject to the marking instructions for each question.

5 Mark workings whether or not they are incorporated in the final answer. Deduct a penalty of -1 mark per question for working which is not incorporated in the final answer.

6 Incorrect figures, supported by adequate workings – award marks for any correct operations performed.

7 Incorrect figures, not supported by adequate workings – lose awards, unless the marking instructions specify otherwise. If arithmetic error – lose ½ mark.

8 EXTRANEOUS ITEMS: see instructions for specific questions.

Penalties should be shown beside the figure and encircled, eg -1P -1E -½ +/-

9 If right and wrong - give value of award where right, deduct value of award where wrong (cross reference +/- against relevant figures).

10 Indicate awards given for each item, eg £1500 ½

In essay type questions indicate marks awarded beside the point made by candidate – NOT IN THE MARGIN.

Sub-totals for sections should be indicated and encircled, eg 4/6

Final total should be clearly indicated and easy to check, eg Q1 = 24/25

Question 1 – 25 marks

	Award Marks Lost	Penalties
Ignore omission of £ sign or 000's or 000's added to figures.		
ACCEPT "000" added to adjustments only and APPLY penalty.		- ½P max
There are no heading/label awards, if heading wrong/omitted eg "as at" – APPLY penalty.		½P
Accept double sided or vertical presentation.		
If arithmetic slip/copying slip.		- ½P
Any item wrong, not consequential, wrong effect or missing – lose appropriate award.		
Trading and Profit and Loss A/c and Appropriation A/c = 13 marks		
Treat as 3 separate sections: Trading A/c = 3 marks; Profit/Loss = 6 ½ marks; Appropriation = 3 ½ marks		
The minimum mark for each section is ZERO.		
Do not carry any negative marks from one section to another.		
Items in wrong account eg debenture int. in appropriation A/c or dividends in P/L = Lose appropriate award BUT NO PENALTY.		
Items in two sections/accounts – apply +/- rule BUT NO PENALTY = give award where correct/deduct same award where incorrect.		
EXTRANEOUS ITEMS – any Balance Sheet item BUT treat Ordinary and Preference shares as one item.		- 1E each item (max 2) to be deducted from 13
ALSO – Trial Balance figures for Provisions for Bad Debt and Depreciation are NOT extraneous – lose award for change in bad Debt provision or annual depreciation charge as appropriate.		
Preliminary Expenses are EXTRANEOUS in P/L BUT Share Premium of 25 in B/S is consequential for ½ award.		- 1E
If Prelim. Expenses and Share Premium in P/L		- 1E once
Preference dividend paid in P/L and B/S = +/- NOT EXTRANEOUS	½	
Increase in investments (£10) in P/L		- 1E

Question 1 continued

	Award Marks Lost	Penalties
Trading A/c = 3 marks		
All items in Trading A/c are awarded ½ mark each – if figure wrong/omitted/wrong effect – lose award	½ each	
Sales returned added to purchases.	½	
NB Gross Profit will be consequential on candidate's figures If Gross Profit label wrong/omitted	½	
Profit and Loss A/c = 61/2		
Mark as per solution – figure wrong/omitted/wrong effect – lose award		
Dividends on investments – see NOTES		
If increase in Prov, for Bad Debt is shown as gain – award ½ for correct calculation of increase	½	
If increase in Prov for Bad Debt is added to actual Bad Debt to give a total figure of 9 – ACCEPT for 1½ marks	½	
If bad debt is shown as a total of 1 – ACCEPT FOR 1 mark	½	
ADJUSTMENTS – GIVE full award to a TOTAL expense figure which includes the adjustment: eg distribution = 47 = 1 mark		
BUT: If adjustment shown as separate item – it must be directly attached (ie on next line) to gain adjustment award	½	
OR: If adjustment is wrongly treated – ie added instead of subtracted (or vice versa) eg Administration = 34 and distribution = 3 = ½ mark each	½ ½	
If Depreciation of Fixed Assets is shown as 63 ie Fixtures 15 + Vehicles 48 – ACCEPT for 1 mark		
Net Profit Figure wrong/omitted/or not consequential If Net Profit label wrong or omitted	½ ½	
Appropriation A/c = 31/2 marks		
Mark as per solution – figure wrong/omitted/wrong effect – lose award		
Corporation Tax is consequential on candidate's net profit ACCEPT Tax figure rounded up/down		
If Tax based on net profit + last year's unappropriated 2 – give unappropriated award but lose tax award	½	

Question 1 continued

	Award Marks Lost	Penalties
NB Net Profit after Tax has no award		
General Reserve – Trial Balance figure is NOT extraneous – lose transfer award if given		
Pref Dividend due = 8 = lose award but treat as consequential in B/sheet	½	
Final Balance is consequential but must have reasonable label – "balance" or "surplus" is NOT acceptable		
ACCEPT – "Retained Profit" or "Unappropriated Profit" or "Balance Carried Forward" or C/F" – otherwise	½	
Notes 1 Dividend due (£6) as gain in P/L = 0 but consequential in B/S for ½	½ 0	
2 Dividend due (£5) as expense in P/L and as current liability in B/S	½ ½	
3 Dividend due (£5) as expense in P/L but as current asset in B/S = ½	½ 0	
Balance Sheet = 12 marks		
There are no awards for headings/sub-totals/working capital/balance sheet totals – BUT IF MAIN HEADING WRONG/OMITTED eg "for year ended"		- ½P
ACCEPT any recognised Balance Sheet layout – horizontal or vertical		
MARK as per solution – all items are worth ½ mark. If item wrong/omitted/wrong effect/not consequential – lose award	½	
If item under wrong heading (eg stock in fixed assets section) – lose award BUT NO PENALTIES	½	
If item in two sections – apply the +/- rule	½	
EXTRANEOUS ITEMS (ie any final A/c items) – APPLY PENALTY		- 1E each (max - 2)
EXCEPT: Actual Bad Debt if in P/L and B/S = +/- if in B/S only = NOT EXTRANEOUS	½	

Question 1 continued

	Award Marks Lost	Penalties
Fixed Assets = 2 marks		
If cost/Agg Dep Fixtures/Vehicles wrong/not consequential – lose award	½ each	
If omitted and NBV is correct – ACCEPT NBV for full award = ½ mark If omitted and NBV is wrong – lose award as appropriate	½ each	
ACCEPT as consequential any dep figure for Fixtures or Vehicles which is an aggregate of: the candidate's dep figure in the P/L and the Trial Balance provision for depreciation If no depreciation charged in P/L DO NOT give NBV trial balance figure (Fixtures 80, Vehicles 240) any award	½ each	
OTHERWISE, if Agg Dep for Fixtures/Vehicles not 35/108 respectively	½ each for NBV	
NBV will be consequential on candidate's figures for both cost value and Agg Dep – if wrong, treat as arithmetic slip		½P
ACCEPT investments anywhere in assets. If investment M/V £60000 used in B/S total	0 1	
Current Assets = 2 marks		
All items are ½ mark each, if wrong/omitted/not consequential/wrong effect – lose award	½ each	
NB ACCEPT consequentially correct provision for Bad Debt from the figure used by the candidate in the P/L		
ACCEPT Net Debtors = 54 = 1 mark if Prov. Bad Debt not shown.		
If Debtors less <u>actual</u> Bad Debt lose new provision award but DO NOT treat as extraneous	½	
ACCEPT any adjusted Debtors figure if 60 implied	½	
Current Liabilities = 31/2 marks		
All items are ½ mark each, if wrong/omitted/not consequential/ wrong effect – lose award	½ each	
Corporation Tax/Pref Div/Ord Div are consequential on figures in P/L		

Question 1 continued

	Award Marks Lost	Penalties
If figures combined correctly – ACCEPT for full award eg Tax = 40 (VAT 5 Corporation 35) or Dividends due = 24 = 1 mark		
Debenture interest given as due = +/-	½ (in P/L)	
Represented by = 21/2 marks		
Mark as per solution, if item wrong/omitted/not consequential/wrong effect – lose award	½	
Issued Capital – either the value of each share or the number of shares must be given	½ once	
Profit and Loss balance is consequential, if not – lose award	½	
If Debentures wrong/omitted/ or not shown detached eg included under RESERVES or listed among unheaded reserves or included with current liabilities	½	
NB ACCEPT if last in a list which has no heading or has the heading: "Financed by"		
ACCEPT Debentures deducted from NET ASSETS as given		
If mixed order in "Represented by" eg A Reserve-Capital-Reserve		½P once
NB Ignore Capital Reserve for £10 for increase in value of investment if £60 value used,	0	
otherwise +/-	½	

Question 2 – 20 marks

	Award Marks Lost	Penalties
Manufacturing Account = 9 marks		
Heading wrong/omitted, eg "as at"		- ½P
ACCEPT ANY STYLE OF PRESENTATION AND TREAT AS 2 SECTIONS		
To Prime Cost = 4 marks		
To Loss on Manufacture = 5 marks		
DO NOT CARRY NEGATIVE MARKS TO ANOTHER SECTION		
EXTRANEOUS ANY BALANCE SHEET ITEM BUT Trading and P/L items – lose award	½	-1E (max -2) for question
Prime Cost = 4 marks		
Mark as per solution – if wrong/omitted/ not consequential/wrong effect – lose award	½	
If Cost of Raw Materials Consumed label missing	½	
If Prime Cost section includes any indirect item – give item FULL award BUT lose Prime Cost (PC) award and apply penalty	½	- 1P
Any T or P/L item in PC – lose award, lose PC award and apply penalty	½ each	- 1P
Prime Cost label omitted/wrongly placed	½	
Profit on Manufacturing = 5 marks		
Mark as per solution – if wrong/omitted/not consequential/wrong effect – lose award	½	
Any direct item in Factory o/heads – give award lose PC award and apply penalty	½ each	- 1P
If INDIRECT WAGES given as 36 or any figure adjusted up or down by 6 – give ½ award	½	
WIP must be at end of Factory O/heads – otherwise lose awards	½ each	
If Factory O/heads SUBTRACTED		- 1P
If ADD F/O stated and then subtracted = slip	½	

Question 2 continued

	Award Marks Lost	Penalties
If Factory Cost of Finished Goods label omitted	½	
If manufacturing Loss label omitted	½	
TRADING A/c = 4 marks		
Mark as per solution – if wrong/omitted/not consequential/wrong effect – lose award (No heading penalty)	½	
Indirect Wages are consequential on 2/6 of figures calculated in Factory Overheads – otherwise lose award	½	
If gross Profit label omitted – lose figure award	½	
Profit and Loss A/c = 3 marks		
Indirect Wages are consequential on 1/6 of figures calculated in Factory Overheads – otherwise lose award	½	
If Net Profit label omitted – lose awards	½	
NOTE: If both Manufacturing/Trading/Profit and Loss A/s are combined starting with Sales which is thereafter <u>adjusted</u> with any figure other than correct COGS		
LOSE: Net Sales award/Factory Cost award AND apply penalty	½ each	- 1P
If 2 separate A/s and Net Sales used in Manufacturing A/c – treat as above – otherwise ignore		

Question 2 B

	Award Marks Lost	Penalties
Mark as per solution – figure wrong/omitted or wrong effect – lose award		
(i) Credit sales not £468 000	½	
Average debtors not calculated	1	
Collection period not <u>weeks</u>	½	
(ii) Current Assets not £ 105 000	½	
Current liabilities £ 18 000	½	
£ 22 500	½	
£ 29 500	½	
Ignore omission of £ 6 000 *		- ½P
WC ratio not 2·56 to 1 eg 2·56 times		
NB Correct working BUT wrong formula eg inverted	2 each	
*ACCEPT current liabilities total of £35000 for full awards		

Question 3 – 20 marks

	Award Marks Lost	Penalties
Net Cash Inflow from Operating Activities = 9 marks		
Mark as per solution – if item wrong/omitted/not consequential/wrong effect/wrong section – lose appropriate award	½ or 1 each	
BUT GIVE AWARD of ½ each if shown anywhere for correct calculation of: Deb Interest = 4	½	
Dep of Fixed Assets = 18	½	
Loss on Sale of Vehicle = 2	½	
Cash Flow Statement = 11 marks		
Date required – if wrong/omitted		½P
Mark as per solution – if item wrong/omitted/not consequential/wrong effect/wrong section – lose appropriate award	½ or 1 each	
Increase (decrease)as per Candidate's figures must be indicated or implied	½	
EXTRANEOUS ITEMS eg: transfer to General Reserve Profit/Loss A/c Balances		- 1 (max – 2)

Question 4 - 20 marks

	Award Marks Lost	Penalties
Current Accounts = 5 marks each		
Mark as per solution – if item wrong/omitted/not consequential/ wrong effect/wrong side – lose appropriate award	½ or 1 each	
Both open/closing balances given = not cons		
BUT GIVE AWARD of ½ each if shown anywhere for correct calculation of: interest on capital – x 3000 and y 2000 interest on drawings – x 400 and y 200	½ each ½ each	
Share of profit is cons on candidate's figures		
NB ACCEPT **complete** reversal of the 5 items – give awards		- 1P each A/c
If current A/c given as list of additions and subtractions – give awards		- 1P each A/c
EXTRANEOUS ITEMS – eg Capital		- 1E max
Calculation of Net Profit = 5 marks		
There is no heading/label award – if incorrect/omitted – ignore		
Mark as per solution – if item wrong/omitted/not consequential/ wrong effect – lose appropriate award	½ or 1 each	
EXTRANEOUS ITEMS eg Capital/Drawings		- 1E max
Calculation of New Capital Balances = 4 marks		
Mark as per solution – if item wrong/omitted/not consequential/ wrong effect – lose appropriate award	½	
If opening capital figures missing		½P each
Calculation of New Profit Sharing Ratios = 1 mark		
Mark as per solution – if wrong or not consequential on ratios used in part (a)	½	
NB ACCEPT proportional split/allocation of Profit/Loss of EACH item revalued instead of total surplus		

Question 5 – 20 marks

	Award Marks Lost	Penalties
NB Consequentiality is of Extreme Importance Throughout This Question		
(a) **Per UNIT Calculations = 3 marks**		
Mark as per solution – if any figure wrong/omitted/wrong effect/not implied/not consequential – lose award	½ each	
If £2 not shown in (i) but implied in (ii)/(iii) award ½	½	
(b) **Year 1 Calculations = 3 marks**		
Mark as per solution – if any figure wrong/omitted/wrong effect/not implied/not consequential – lose award	½ each	
Total profit wrong/omitted		- ½P
(c) **Option 1 = 21/2 marks**		
Mark as per solution – if any figure wrong/omitted/wrong effect/not implied/not consequential – lose award	½ each	
Option 2 = 2 marks		
Mark as per solution – if any figure wrong/omitted/wrong effect/not implied/not consequential – lose award	½ each	
Option 3 = 3 marks		
Mark as per solution – if any figure wrong/omitted/wrong effect/not implied/not consequential – lose award	½ each	
Advice = ½ mark		
Consequential on candidate's figures for option 1/2/3 – if wrong or no reason given	½	
(d) **Maximum Profit for Year 3 = 6 marks**		
Mark as per solution – if any figure wrong/omitted/wrong effect/not implied/not consequential – lose award	½ each	
If contribution per Unit/Hour not given but implied by Order of Production and Total Contribution figures – give awards = 1½		

Question 5 continued

	Award Marks Lost	Penalties
If Order of Production not as given (or cons) If not given but implied – give awards		
If sales of A taken as 25 000 – lose line award	2½	
If sales of A given as any other figure – check for cons and give awards as appropriate – see candidate's answer **B** (iii)		
If Fixed costs £110 000 not given but implied – give award = ½		
If no working, give the correct profit figure £120 000 (or cons) full award = 6		

Question 6 – 20 marks

	Award Marks Lost	Penalties
NB Consequentiality is of Extreme Importance Throughout This Question		
(a) **Calculations = 7 marks**		
Mark as per solution – if any figure wrong/omitted/wrong effect/not implied/not consequential – lose award	½ each or 1	
BUT if Opening Stock Year 2 not 1000 units	1	
If over/under absorption figures not labelled as such – lose awards – must be absorbed – actual and not est £80000	½	
(b) **Calculations = 4 marks**		
Mark as per solution – if any figure wrong/omitted/wrong effect/not implied/not consequential – lose award	½ each	
NB Value of Closing Stocks will be cons on candidate's own figures		
(c) **Profit Statement = 41/2 each**		
Mark as per solution – if any figure wrong/omitted/wrong effect/not implied/not consequential – lose award	½ each	
EXCEPT: Marginal Costing – if Actual Fixed O/H not shown as 83 and Absorption Costing – if fixed O/H over-applied not shown as 1	1 1	
If no labels given for Contribution/Gross Profit/Net Profit – lose figure awards	½ each	
If Actual Fixed Costs given <u>before</u> contribution – lose FC award	1	
EXTRANEOUS eg Fixed Costs over absorbed in marginal statement		- 1P max
Wrong headings on statements		- 1P each

Question 7 – 20 marks

		Award Marks Lost	Penalties
(a)	**Share of Service A and B = 4 marks**		
	Mark as per solution – if any figure wrong/omitted/wrong effect/not implied/not consequential – lose (line) award	½ each	
	If dept O/H figures given not used – lose final total award	½	
	If Service B re-apportioned <u>before</u> Service A – lose awards for Service B	½ each	
	Any Production Dept total wrong/omitted/not cons – lose line award	½	
(b)	**Dept Overhead Recovery Rates = 3 marks**		
	Mark as per solution – any Dept rate wrong/omitted/not cons/or wrong basis – lose award	1 each	
	ACCEPT figures rounded up/down to nearest pence		
(c)	**Labour Rate per Hour = 3 marks**		
	Mark as per solution – if any figure wrong/omitted/not consequential/wrong effect/not implied – lose award	1 each	
(d)	**Selling Price of Job 789 = 5 marks**		
	Mark as per solution – if any figure wrong/omitted/wrong effect/not implied/not consequential – lose (line)award	½ or 1 each	
	If no total column – ignore		
	If no working shown – give correct (or cons) total figures full awards		
	EXTRANEOUS eg Machine hours		- 1P once
	If profit Margin taken as 20% of cost – ACCEPT for ½ mark	1	
	No final answer		½P
(e)	**Single Overhead Rate and Application = 4 marks**		
	If total overheads not £86 000	2	
	If prime cost not £344 000 or con	2	

Question 7 continued

		Award Marks Lost	Penalties
	If prime cost not £180	2	
	If Recovery Rate not 25% or cons.	2	
	NB Prime cost is cons on candidate's figures		
(f)	**Disadvantage of Single Rate**		
	ACCEPT any reasonable answer – otherwise	1	

Question 8 – 20 marks

	Award Marks Lost	Penalties
Mark as per solution – if any figure wrong/omitted/wrong effect/not implied/not consequential – lose appropriate award	½ each or 1	
Break-Even Point = 2 marks		
If either SP or VC wrong	½	
If fixed costs not £10 000	½	
If contribution not £20 (or cons)	½	
If SP not £50	½	
Profit/Loss = 2 marks		
If sales above BEP not 300 (or cons)	½	
If not multiplied by £20 or candidate's contribution	½	
If profit label missing		½P
If sales below BEP not 100 (or cons)	½	
If not multiplied by £20 or candidate's contribution	½	
If Loss label missing		½P
ALTERNATIVE		
If not 800 x £20 or candidate's contribution	½	
If fixed costs not £10 000	½	
If not 400 x £20 or candidate's contribution	½	
If fixed costs not £10 000	½	
Sales Required = 21/2 marks		
If tax not 1/3 x £30 000	½	
If fixed costs not £10 000	½	
If contribution required not divided by £20 or candidate's contribution	½	
If sales units required not x £50	½	
Margin of Safety = 11/2 marks		
If MOS not 700 units or cons	1	
If MOS not x £50	½	
Profit to Volume Ratio = 1 mark		
If PV ratio not 40% or cons	1	
wrong formula	1	
Uniform Profit/Output = 3 marks		
If difference in contribution not £10	1	

Question 8 continued

	Award Marks Lost	Penalties
If difference in fixed costs not £8000	1	
Uniform level of output is either correct or consequential	1	
Process 1 Account = 5 marks		
Any input value wrong – lose award	½ each	
Normal loss quantity wrong – lose award	½ each	
If unit cost £90 not applied to good output and abnormal loss	2	
Unit Cost = 1 mark		
Unit Cost is consequential on candidate's figures – if wrong	1	
Abnormal Loss Account = 2 marks		
Input value and loss value are consequential – if wrong	½ each	
If sales line missing	1	

Question 9- 15 marks

	Award Marks Lost	Penalties
Mark as per solution Award marks (1) for valid point not listed in solution Maximum of 3 marks to be awarded to each topic selected If more than FIVE topics have been attempted, mark all topics and select ONLY the marks of the best FIVE for the final total.		

Question 10 – 15 marks

	Award Marks Lost	Penalties
Mark as per solution. Award marks (1) for valid points not listed in solution.		

Question 11 – 15 marks

	Award Marks Lost	Penalties
Mark as per solutions Award marks (1) for valid points not listed in solution.		

Question 12 – 15 marks

	Award Marks Lost	Penalties
Mark as per solutions Award marks (1 or ½) for valid points not listed in solution.		

[END OF SPECIAL MARKING INSTRUCTIONS]

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Question 1

Trading and Profit and Loss A/c for year ended 31 March 2003

Sales						500	(½)		
Less: Returns In						10	(½)		
(Net Sales)						490			
Less Cost of Goods Sold									
Opening Stock				25	(½)				
Add: Purchases				200	(½)				
				225	(0)				
Less: Closing Stock				18	(½)	207	(0)		
GROSS PROFIT						283	(½)	3	
Add: Investment Dividend due						5	(½)		
Discount Received						3	(½)		
						291			
Less: Expenses									
Distribution	(40 (½) + 7 (½))			47					
Administration	(30 (½) – 4 (½))			26					
Actual Bad Debt				5	(½)				
Increase in Bad Debt Prov				4	(1)				
Debenture Interest				6	(½)				
Depreciation Vehicles	(300-60 x 20%)			48	(½)				
Depreciation Fixtures	(100 x 15%)			15	(½)	151	(0)		
NET PROFIT						140	(½)	6½	
Less: Corporation Tax						35	(½)		
						105	(0)		
Less:									
General Reserve				30	(½)				
Preference Dividend paid		4	(½)						
Preference Dividend due		4	(½)	8					
Proposed Ordinary Dividend				20	(½)	58	(0)		
Unappropriated Profit this year						47	(0)		
Add: Unappropriated Profit (last year)						2	(½)		
UNAPPROPRIATED PROFIT CARRIED FORWARD						49	(½)	3½	
									13

Question 1 (continued)

Balance Sheet as at 31 March 2003

	Cost Price	Agg Dep		NBV		Total			
FIXED ASSETS	£000's	£000's		£000's					
Fixtures	100	35		65	(½)				
Vehicles	300	108		192	(½)	257			
Investments	50	(½)	(Market value £60,000) (½)			50		2	
CURRENT ASSETS									
Stock at end				18	(½)				
Debtors		60	(½)						
Provision for Bad Debts		6	(½)	54					
Bank				20	(½)				
Prepayments				4	(½)				
Investment Dividend				5	(½)				
				101	(0)			3	
CURRENT LIABILITIES									
Proposed Final Dividend		20	(½)						
Preference Dividends due		4	(½)						
Creditors		21	(½)						
VAT		5	(½)						
Corporation Tax		35	(½)						
Accruals		7	(½)						
				92	(0)	9	(0)		
NET ASSETS						316	(0)		
Less:									
LOAN CAPITAL									
Debentures						50	(½)		
						266	(0)	3½	
Represented by:									
ISSUED CAPITAL									
100,000 Ordinary Shares at £1 each		100	(½)						
80,000 10% Preference Shares at £1 each		80	(½)	180	(0)				
RESERVE CAPITAL									
Balance from P/L a/c		49	(½)						
Share Premium	(25 (½) – 20 (½))	5							
General Reserve	(2 (½) + 30 (½))	32		86	(0)	266	(0)	3½	
								12	
									25

Question 2

Manufacturing A/c for year ended 31 March 2003

RM at start			20	(½)	
Purchases			142	(½)	
Carriage on RM			3	(½)	
			165	(0)	
RM at end			17	(½)	
CORMC			148	(½)	
Man Wages			125	(½)	
Royalties			36	(½)	
PRIME COST			309	(½)	
					4

Factory Overheads					
Dep on Machinery (20% x 500)	100	(½)			
Indirect Wages (3/6 x 84 (½) = 42) + 6 due (½)	48				
General Factory Expenses	116	(½)	264		
			573		
WIP at start			13	(½)	
			586		
WIP at end			15	(½)	
FACTORY COST			571	(½)	
Market Value (300,000 (½) x 1.80 (½))			540		
LOSS ON MANUFACTURE			-31	(½)	
					5

Trading and P/L a/c for year ended 31 March 2003

SALES				785	(½)	
Less: Sales Returns				5		
				780		
Less: COGS						
FG at start		15	(½)			
Market Value		540	(½)			
Purchase of FG	68 (½)					
- Returns out	2	66				
Warehouse Expenses		10	(½)			
Indirect Wages (2/6 x 84)		28	(½)			
		659				
FG at end		19	(½)	640	(0)	
GROSS PROFIT				140	(½)	4
Less: Manufacturing Loss				31	(½)	
				109		
Less Expenses:						
Office/Selling Expenses		46	(½)			
Indirect Wages (1/6 x 84)		14	(½)			
Loss on Sale of Office Equipment		2	(½)			
Dep on Office Equipment		12	(½)	74	(0)	
NET PROFIT				35	(½)	
						3

Question 2 (continued)

b (i)	Net Sales	780000		(0)	
	60% Credit	468000		(1)	
	Opening Debtors	36000			
	+ Closing Debtors	54000			
		90000			
	Average Debtors = 90000/2	45000		(1)	
	Debtors' Collection Period	$\frac{45000}{468000}$	x 52		
					2
		= 5 weeks			
(ii)	Stock	51000	(½)		
	Debtors	54000			
	Current Assets	105000			
	Wages	6000	(½)		
	Overdraft	5500			
	VAT	12500	(½)		
	Creditors	17000			
	Current Liabilities	41000			
	Working Capital Ratio	$\frac{105000}{41000}$	(½)		
		= 2.56 to 1			
					2
					20

Question 3

Statement to Calculate Net Cash Inflow from Operating Activities

Operating Profit (before Tax and Debenture Interest)					
Net Profit for year	40	(½)			
Add: Debenture Interest (2:5 (½) + 1:5 (½))	4		44	(0)	
Non-Cash Adjustment					
Depreciation of Fixed Assets	18	(1)			
Loss on Sale of Vehicle	2		20	(0)	
Movements in working capital (except cash/bank)					
Stock decrease	4	(1)			
Debtors increase	(12)	(1)			
Prepaid Expenses decrease	2	(1)			
Creditors increase	10	(1)			
VAT increase	6	(1)	10	(0)	
Net Cash Inflow from operating activities			74	(½)	
					9

Cash Flow Statement for year ended 31 March 2003

Net Cash Inflow from operating activities			74	(0)	
Returns on investment and servicing of finance					
Debenture Interest			(4)	(1)	
Corporation Tax paid			(8)	(1)	
Capital Expenditure and financial investment					
Purchase of Fixed Asset	(50)	(1)			
Sale of Fixed Asset	1	(1)			
Purchase of Investments	(70)	(1)	(119)	(0)	
Equity dividend paid 2002	(12)	(1)			
Interim 2003	(6)	(1)	(18)	(0)	
NET CASH OUTFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING			(75)	(½)	
Management of liquid resources and financing					
Issue of Preference Shares	40	(1)			
Share Premium	10	(1)			
Redemption of Debentures	(20)	(1)	30	(0)	
INCREASE (DECREASE) IN CASH/BANK			(45)	(½)	
					11

20

Question 4

Current A/s

X

	Dr		**Cr**		**Bal**			
Balance on 1 April 2002					-600	(½)	Dr	
Interest on capital			3000	(1)	2400		Cr	
Partnership Salary			1500	(½)	3900		Cr	
Drawings	8000	(½)			-4100		Dr	
Interest on Drawings	400	(1)			-4500		Dr	
Share of Profit			2400	(1)	-2100	(½)	Dr	
								5

Y

	Dr		**Cr**		**Bal**			
Balance on 1 April 2002					500	(½)	Cr	
Interest on capital			2000	(1)	2500		Cr	
Partnership Salary			500	(½)	3000		Cr	
Drawings	4000	(½)			-1000		Cr	
Interest on Drawings	200	(1)			-1200		Dr	
Share of Profit			1600	(1)	400	(½)	Cr	
								5

Appropriation a/c for year ended 31 March 2003

Solution 1	£			Solution 2 (inverse)	£		
Shares of Profit (2400 (½) + 1600 (½))	4000			**Net profit for year**	**10400**	(1)	
+ Partnership Salary (1500 (½) + 500 (½))	2000			+ Int on Drawings	600	(1)	
	6000				11000		
+ Int on Capital (3000 (½) + 2000 (½))	5000			- Int on Capital	5000	(1)	
	11000				6000		
- Int on Drawings (400 (½) + 200 (½))	600			- Partnership Salary	2000	(1)	
Net Profit for the year	**10400**	(1)		Shares of Profit	4000	(1)	
			5				5

New Capital Balances	X		Y		
Original Balances	30000	(0)	20000	(0)	
+ Share of Premium (3:2)	3000	(½)	2000	(½)	
+ Share on Profit on Rev	12000	(½)	8000	(½)	
New Balances	45000		30000		2

Question 4 (continued)

<u>Profit on Revaluation</u>

Property	30	(½)	
Vehicles	-5	(½)	
Stock	-3	(½)	
Debtors	-2	(½)	2
Profit	20		
Share X	12		
Share Y	8		

New Profit Sharing Ratios		X		Y		Z			
		3/6	(½)	2/6	(½)	1/6	(0)		
	or	1/2	(½)	1/3	(½)	1/6	(0)		
	or	15/30	(½)	10/30	(½)	5/30	(0)		
	or	3:	(½)	2:	(½)	1	(0)	1	
									20

Question 5

(a)		**PER UNIT**				
	(i)	Variable Overhead Cost =	£150000 x 40% =	£60000/30000 = £2	(1)	
	(ii)	Total Variable Cost =	£8 + £5 + £2 =	£15	(1)	
	(iii)	Contribution	£20 - £15	£5	(1)	3

(b)		**FOR YEAR 1**				
	(i)	Total Contribution =	£5 x 30000 units =	£150000	(1)	
	(ii)	Total Fixed Costs =	£150000 x 60% =	£90000	(1)	
		Total Profit =		£60000		
	(iii)	Hours – Full Capacity	120000/4x5	150000	(1)	3

(c)

OPTION 1

New Selling Price =	£19	(0)	
New Contribution = £19 - £15	£4	(½)	
New Sales = 30000 + 7500 (1)	37500 units x £4 (½) =	(1½)	
New Total Contribution =	£150000	(0)	
New Fixed Costs	£98000	(½)	
Profit Year 2 =	£52000	(0)	
			2½

OPTION 2

Special Selling Price =	£18	(0)	
Special Variable Cost =	£16	(½)	
Contribution = £18 - £16 =	£2	(½)	
Special Sales =	7500 units x £2	(½)	
Additional Contribution =	£15000	(0)	
+ Profit Year 1 =	£60000	(½)	
Profit Year 2 =	£75000	(0)	2

OPTION 3

Contribution from B = £30 - £24 (½) = £6
Sales of B = 30000/6 hours = 5000 (1) units x 6 (½)

Total Contribution from B =	£30000	(0)	
- Increase in Fixed Costs	£9000	(½)	
Additional Profit from B =	£21000		
+ Profit Year 1 =	£60000	(½)	
Profit Year 2 =	£81000	(0)	3

ADVICE = OPTION 3
REASON = HIGHEST PROFITS (½)

Question 4 (continued)

(d)

	PRODUCT A		PRODUCT B		PRODUCT C	
Contribution per unit	£4	(½)	£12	(½)	£10	(½)
Hours taken	4		6		2	
Contribution per hour	£1		£2		£5	
Order of production	C B A (½)					

ORDER	CONT PER UNIT		SALES (UNITS)		TOTAL CONTRIBUTION		HOURS TAKEN	
C	£10	(½)	4000		£40000	(0)	8000	
B	£12	(½)	8000		£96000	(0)	48000	
A	£4	(½)	23500	(2)	£94000	(0)	94000	
			TOTAL CONT		£230000	(0)	150000	MAX
			FIXED COSTS		£110000	(½)		
			MAXIMUM PROFIT		£120000			

6

20

Question 6

(a) (i) **Fixed Overhead Recovery Rate**

£80000/40000 = £2 (1)

(ii) **Overhead Absorbed**

Year 2	39500 x £2 (½) =	£79000
Year 3	42000 x £2 (½) =	£84000

(iii) **Overhead Over/Under Absorbed**

Year 2	£79000 - £81000 (½) =	-£2000	Under absorbed (½)
Year 3	£84000 - £83000 (½) =	£1000	Over absorbed (½)

(iv) **Closing Stock (units)**

	Year 2		**Year 3**		
Opening Stock	1000	(1)	700		
+ Production	39500	(½)	42000	(½)	
	40500	(0)	42700	(0)	
- Sales	39800	(½)	41500	(½)	
= Closing Stock	700	(0)	1200	(0)	7

(b) (i) **Marginal Cost per unit**

Direct Material	£20	(½)
Direct Labour	£10	
Variable Overhead	£6 (½)	
Marginal Cost	£36 (0)	

(ii) **Absorption cost per unit**

Direct Material	£20	(½)
Direct Labour	£10	
Variable Overhead	£6	
Fixed Overhead	£2 (½)	
Absorption Cost	£38 (0)	

(iii) **Value of Closing Stock**

Marginal	Year 2	700 x £36 (½) =	£25200
	Year 3	1200 x £36 (½) =	£43200
Absorption	Year 2	700 x £38 (½) =	£26600
	Year 3	1200 x £38 (½) =	£45600

4

Question 6 (continued)

(c) (i) **Marginal Profit Statement – Year 3**

Sales		(41500 x £50) (½)			£2075000		
Less:	Cost of Sales						
	Opening Stock	(700 x £36)	£25200	(½)			
	+ Production	(42000 x £36) (½)	£1512000				
			£1537200	(0)			
	- Closing Stock	(1200 x £36)	£43200	(½)	£1494000	(0)	
	Contribution				£581000	(½)	
	- Actual Fixed Costs		£83000	(1)			
	- Admin/Selling Exps		£6050	(½)	£89050	(0)	
	Profit				£491950	(½)	4½

(c) (ii) **Absorption Profit Statement – Year** 3

Sales		(41500 x £50) (½)			£2075000		
Less:	Cost of Sales						
	Opening Stock	(700 x £38)	£26600	(½)			
	+ Production	(42000 x £38) (½)	£1596000				
			£1622600	(0)			
	- Closing Stock	(1200 x £38)	£45600	(½)	£1577000	(0)	
	Gross Profit				£498000	(½)	
	+ Fixed Costs Over absorbed				£1000	(1)	
	- Admin/Selling Exps				£6050	(½)	
	Profit				£492950	(½)	4½
							20

Question 7

(a) Overhead Analysis Sheet

	Workshop 1		Workshop 2		Workshop 3		Service A	Service B		
Total Overheads	£29250		£26000		£16250		£5000	£9500	(0)	
RE-APPORTIONMENT OF SERVICE OVERHEADS										
Service A	£1500	(½)	£1500	(½)	£1500	(½)	-£5000	£500 £10000	(½)	
Service B	£1250	(½)	£2500	(½)	£6250	(½)		-£10000		
Total Production Dept. Overheads	£32000		£30000		£24000	(½)	line			4

(b) **Recovery Rates**

	SHOP 1		SHOP 2		SHOP 3		
	= £32000/£40000		= £30000/£12000		= £24000/£10000		
	80%	(1)	£2.50	(1)	£2.40	(1)	3

(c) **Labour Rate per hour**

	= £40000/£5000		= £60000/£12000		=£90000/£15000		
	£8	(1)	£5	(1)	£6	(1)	3

(d) **Job No 789**

	SHOP1		SHOP 2		SHOP 3		TOTAL		
Materials	£16.00		£8.00		£14.00	(½)	£38.00		
Labour	£48.00		£40.00		£54.00	(½)	£142.00		
Prime Cost	£64.00		£48.00		£68.00		£180.00	(0)	
Overheads	£38.40	(½)	£20.00	(½)	£14.40	(½)	£72.80		
Admin/Selling							£18.00	(½)	
Total Cost							£270.80	(½)	
Profit Margin							£67.70	(1½)	
Selling Price							£338.50	(0)	5

(e) **Single Overhead Recovery Rate** 86000/344000 = 25% (2)

	WORK 1	WORK 2	WORK 3	TOTAL
Total Overheads	32000	30000	24000	86000
Direct Materials	68000	54000	32000	154000
Direct Labour	40000	60000	90000	190000
Total Prime Cost				344000

Factory Overheads Charged = £180 * 25% (2) £45.00 4

Disadvantage: does not involve time factor (1) OR allow for efficiency within depts (1). Max 1

20

Question 8

PART A

(a)

(i) BEP

SP	£50	(½)
-VC	£30	
Contribution	£20	

Fixed Costs	£10000 (½)/£20 (½)	
BEP (units)	500/£50 (½)	
BEP value	£25000	2

(ii) Profit/Loss

800 sales = 300 above BEP (½) x 20 (½) = £6000 Profit
400 sales = 100 below BEP (½) x 20 (½) = £2000 Loss   must have label
OR

800 x £20 (½) =	£16000		
- FC	£10000	(½)	
PROFIT	£6000		
400 x £20 (½) =	£8000		
- FC	£10000	(½)	
LOSS	(£2000)		2

(iii) Sales Required

Profit Required after tax	£30000	(0)
Tax (1/3)	£10000	(½)
Profit Required before tax	£40000	(½)
+ FC	£10000	(½)
Contribution required	£50000/	
Contribution	£20	(½)
Sales units required	2500 x £50	(½)
Sales value	£125000	

2½

(iv) Margin of Safety

Sales =	1200 units
Sales BEP =	500 units
MOS =	700 (1) units x £50 (½)
MOS Value =	£35000

1½

(v) Profit to Volume Ratio

PVR = £20/£50 = 40% (1)   1

Question 8 (continued)

PART A

(b) Uniform Profit

	Fletcher	Archer		
Difference in Contribution	£30	£20	= £10	(1)
Difference in FC	£18000	£10000	= £8000	(1)

Uniform level of output = £8000/£10 = 800 units (1)

3

OR

30 × (½) - 18000 (½) = 20 × (½) - 10000 (½)

$\left.\begin{array}{l}\therefore 10 \times = 8000 \\ \therefore \times = 800 \text{ units}\end{array}\right\}$ (1)

PART B

Input **Process 1 Account** **Output**

	Q	P	V			Q		P	V	
Material	5000	£74.00	£370000	(½)	Transfer Process 2	4490	(0)	£90	£404100	
Labour	(2000) hrs	£7.50	£15000	(½)	Normal Loss (10%)	500	(½)	£10 (2)	£5000	(½)
Various Overheads	100%		£15000	(½)	Abnormal Loss	10		£90	£900	
Fixed Overheads		£5.00	£10000	(½)						
			£410000						£410000	

5

Unit Cost = 410000-5000/4500 = £90 (1)

1

Abnormal Loss Account

Process 1	10	£90	£900	(½)	Sales	£10	£100	(1)
					Loss (to main P/L)		£800	(½)
			£900				£900	

2

20

Question 9

Current Ratio

This ratio is also known as the Working Capital ratio and measure the relationship of current assets to current liabilities (1) and is calculated by:

Current Assets / Current Liabilities	£6000 / £3000 = 2:1	(1)

The ratio is more meaningful than the amount of working capital and gives an indication of the ability of the firm to pay its debts in the short term: (1)

eg the above ratio of 2:1 means that the firm has £2 to meet debts of £1 and this is considered reasonable (1) although the ratio will depend on the type of business (1).

Too high a current ratio may mean that the value of current assets may be too high to profitably employed by the firm (1), eg too much stock in hand or too high a bank balance (1). Max (1).

Too low a ratio, ie of less than 1:1 would mean the firm is insolvent in that it could not meet its debts by realising (cashing) its current assets (1).

Max 3

Net Realisable Value

Used for stock valuation purposes (1).

Defined as:

the actual or estimated selling prices of the stock net of any trade discount (1) from which is deducted any cost incurred to put the stock into a saleable condition (1).

and all costs to be incurred in marketing, selling and distribution of stock (1).

NRV is likely to fall below cost when:

selling prices fall (1)
stocks deteriorate physically (1)
products requiring those stock become obsolete (1)
product is sold as a "loss leader" (1)
mistakes in production or purchasing have been made (1)

Max 1 for any example

Whereas replacement cost is an input value, NRV is an output value (1) - NRV stresses the selling activity.

Max 3

Question 9 (continued)

Retained Profits

The profits of any limited company should be distributed to its shareholders (1).

However, the Directors can decide to retain profits by creating or increasing the following:

provisions, eg depreciation, bad debt (1)
reserves, eg general or specific - dividend equalisation (1)

Reasons for such retentions of profit include:

lack of finance - to pay any (or higher) dividends (1)
prudence - to provide for possible eventualities (1)
planning - to finance future capital investment (1)

for line

The retention of profits is shown as a charge in the Profit and Loss A/c at year end and as a liability in the Balance Sheet (1).

Retained profits form part of the Ordinary Shareholders/Members' interest in the firm (1) and should eventually be repaid to them if and when adequate funds become available (1).

Since Directors usually have the majority of voting shares, decisions to retain profits are usually endorsed at the AGM despite any objections from shareholders (1).

Max 3

Convention of Materiality

Many transactions which affect the firm are so insignificant that the cost of recording and reporting them far outweigh the usefulness of the information derived (1). Hence insignificant matters need not be dealt with in accordance with strict accounting rules (1).

For example if a firm acquires a new door mat for the office, in theory every (1) time someone walks on it part of this asset is used up and becomes an expense.

The accountant would regard the item as immaterial and would treat the item entirely as an expense (1) to be treated as a cost for the year (1) or incorporate the item under some other heading eg miscellaneous (1).

There is no agreement as to the exact line separating material items from immaterial items (1) and the decision depends on judgement and common sense, which makes it a subjective opinion (1).

Max 3

Question 9 (continued)

Intangible Assets

These are assets which have no physical presence (1), eg goodwill (1), patents (1) and trademarks (1). Max 1 for examples.

The Balance Sheet reflects the existence of such assets in that they have been purchased and is shown under its own heading (1).

If created by the firm itself, intangible assets are **not** shown in the Balance Sheet (1), however important they may be to the firm (eg the name Marks & Spencer and the Trade Mark St Michael) (1).

Intangible assets can be written off against profits (1) but this can be a subjective opinion as to the amount (1).

Max 3

Property Revaluation Reserve

Fixed Assets such as Land and Buildings are more likely to appreciate in value than depreciate (1).

If the Balance sheet figure ceases to give a true and fair value of the asset then it can be updated by creating a Revaluation reserve (1).

The entry would be to increase the Asset A/c by creating a Revaluation Reserve A/c which is shown in the Balance as part of the Shareholders' Interest (1).

The Revaluation Reserve is a Capital Reserve (1) and cannot be distributed to shareholders as a future dividend (1) but can be used to finance a bonus issue of shares (1).

Max 3

Factoring

Describes a situation where a firm transfers responsibility for collecting its book debts to a factor (1). In return, the factor will:

1. Pay up to, say 80% of the value of the invoices by return (1).
2. Handle all relevant expenses, correspondence and possible legal action to recover debts (1).
3. Provide regular information on the sales ledger accounts (1).

The factor will charge fees (1) based on:

- interest charges on the amount of money paid on the value of the invoices (1).
- service charges reflecting the amount of work done (based on sales) (1).

Max 1

Question 9 (continued)

The advantages of Factoring to a firm:

release of funds for more immediate use (1)
provision of a full credit control system (1)
experienced management of trade credit (1)
reduction in bad debt (1)
savings in time for debt collection etc (1)

Max 1 for advantages

Max 3

Partnership Agreement

A legally drawn up agreement which each partner signs to avoid future disputes (1).

The main clauses should include decisions on financial matters:

the amount of capital each partner is to contribute (1)
the amount of drawings (if any) each partner is allowed (1)
the rate of interest on capital (if any) to be paid (1)
the rate of interest on drawings (if any) to be charged (1)
the amount of any partnership salary (1)
the ratio of sharing profits/losses (1)

Max 2

Other decisions, eg the name of the firm (1) or the date of termination (1), can also be included if it is thought that they might cause disagreement. Max 1.

Max 3

15

Question 10

Articles of Association (1)

Features:

the raising of capital, eg borrowing powers or share allotment (1)
directors' remuneration and powers (1)
dividends and reserves (1)
holding of meetings (1)
the rights of shareholders (1)

Max 5

Memorandum of Association

Features:

Name of the company - to include the term PLC if appropriate (1)
Address of the UK where its Registered Office is to be situated (1)
Statement that the liability of its members is limited (1)
Details of the intended amount of Share Capital (1) and types of shares (1)
Statement of its objects (1)

Max 5

Total Max 9

Differences between Private and Public Company

Private Company	Public Company
Name must have 'limited; at the end	Name has to end with PLC (or public limited company) (1)
May not apply for its shares to be quoted on Stock Exchange (1)	Shares may be quoted on Stock Exchange
Must not advertise its shares for sale (1)	Can appeal to the public for funds
Minimum of directors/shareholders is ONE	Minimum number of directors/shareholders is TWO (1)
No minimum Authorised Capital required (1)	Minimum authorised capital
Requires no Trading Certification to commence business (1)	Requires Trading Certificate to commence business
May not need to file full accounts with the Registrar of Companies (1)	Full accounts must be filed with the Registrar of Companies

Max 3

Question 10 (continued)

Differences between Preference Shares and Debentures

<u>Preference</u>	<u>Debentures</u>
Are part-owners by buying shares	Are creditors by making loans (1)
May have voting rights (1)	Have no voting rights
Are not guaranteed a return on investment (1)	Interest on loan must be paid
May not be repaid their initial investment on liquidation	Loan is usually repaid if based on a secured asset (1)
Are a more risky investment than Debentures (1)	Are a less risky investment than Preference

Max 3

<u>15</u>

Question 11

Main Aims of a Cost Accounting System Are:

- To calculate the production of every unit, job, operation, process, department (1)
- To analyse and classify costs into direct and indirect (1) and to charge them at each stage of production to the product (1)
- To prepare budgets or estimates of costs (1)
- To compare budgets or estimates with actual results (1) and analyse the reasons for the differences (1)
- To show management where any inefficiencies or waste are occurring (1) (eg material waste (1), labour time (1), use of machinery (1)) and to examine the reasons for the waste (1) and to allow corrective action to be taken (1) eg (max 1)
- To provide detailed costs which will allow the selling price of products to be set (1) - marginal costs, contribution and break-even point (1)
- To provide weekly, monthly or quarterly Profit and Loss Statements for the whole business analysed by departments (1)
- To highlight problem areas in production quickly and allow remedial action to be taken without having to wait until the final accounts are prepared at year end (1)
- To show sources of economies in production either as a result of changes in production methods (1), type of material (1), class of labour (1), use of different equipment (1), change of design (1), or layout of departments (1) eg (max 1)
- To prepare and present comparative cost data for different periods of time and for different volumes of production (1)
- To examine different methods of production using different machines and determine which will be the most profitable for the company to follow (1)
- To examine current production methods and machines and compare them with new machinery available (1) to determine whether savings will be such as to warrant the purchase of the new machinery (1)
- To determine whether it is more economic to purchase components or to manufacture them within the factory (1)
- To provide information which will allow management to maximise profits (1) - select the most profitable production mix in light of production limited by a key factor (1)
- To provide a perpetual inventory of stores (1) and other materials to enable the preparation of interim Profit and Loss accounts and Balance Sheets without the need for stocktaking (1)
- To show the sources of all profits/losses shown in the Profit and Loss Account (1)
- To provide adequate information to management to allow them to plan for the future (1) of the firm and to help in decision making (1)

15

Question 12

(a) A budget is forecast for a future period which can be either financial (1) (currency/money) eg Cash (1), Budget (1)/Overhead Budget (1) or quantitative (figures/amounts) eg Production/Sales Budget (1). Max 1 for examples.

A budget is based on past events, current trends, and estimates of future changes (1).

It is prepared to estimate and control the activities of firm in order to achieve a previously agreed objective (1)

Max 3

(b) Sales Budget: (½)

<u>Sales Volume</u> (½) - estimates of future sales figures by product and area (1) which can then be converted into a <u>Sales Value</u> (Units x Selling Price) (1).

<u>Sales Costs</u> (½) - estimates the <u>financial</u> cost of the volume of sales (1), eg delivery charges (1), advertising (1), commission (1), max 1 for example.

Max 3

Production Budget (½):

<u>Production Volume</u> (½) - the <u>number of units</u> to be made to meet Sales Volume (1)

<u>Production Costs</u> (½) - estimates <u>financial</u> value of producing the Production Volume (1) and includes separate figures for each of the following:

<u>Material Costs</u> (1)
<u>Labour Costs</u> (1)
<u>Variable Overhead Costs</u> (1)
<u>Share of Fixed Costs</u> (1)

Max 3

Cash Budget (½):

Shows the <u>receipts and payments</u> (1) from the above/following budgets and the <u>cash balance</u> (1) resulting from these. It identifies when there is a <u>surplus or shortage of funds</u> (1) and how the latter can be financed (1), eg overdraft (1), loan, (1), share issue (1), etc

Max 1

<u>Administration Costs</u> - the costs of daily running the business which are subdivided into the different areas (1) - factory (1), sales (1), office (1).

Max 1

<u>Capital Expenditure</u> (½) - estimates usually <u>long term</u> spending on assets (1).

Max 3

Question 12 (continued)

Profit Budget (or Master Budget) (½):

The estimated trading and profit and loss account (½) for the budget period - uses figures of revenue income and revenue expenditure from the previous 3 budgets (1) to show the level of profit/loss to be expected if these budgets are accurate (1).

The estimated balance sheet (½) as at the end of the budget period - also made up from the above budgets to show the resultant financial position of the firm (1).

The Master Budget has to be approved or amended by the Board of Directors (1) and thereafter its figures will be given to each department within the firm as the targets which will hopefully be achieved (1).

Max 3

15

[END OF MARKING INSTRUCTIONS]