**Question 35**

1. The following information is available for a business run by Paul Schyma for the year ended 31 December Year 3:

Credit Sales Revenue £650,000

Gross Profit £227,500

Profit for the Year £143,000

Opening Inventory £19,125

Closing Inventory £23,125

Equity £357,500

Average Trade Receivables £75,000

Average Trade Payables £65,000

1. Calculate for Year 3:

* Gross Profit Ratio
* Profit for the Year Ratio
* Expenses Ratio
* Rate of Inventory Turnover
* Return on Equity Employed
* Trade Receivables collection period (in days)
* Trade Payables collection period (in days) **14**

1. Paul predicts that lowering the selling price in Year 4 would result in a 25%   
   increase in sales revenue. Calculate the estimated sales revenue for Year 4. **1**
2. State three benefits to Paul of calculating ratios. **3**
3. Paul uses a piece-rate system to pay some workers. Outline an advantage and a   
   disadvantage of using this system. **2**
4. Carlo Assenti commenced trading on 1 January Year 1. The following information relates to the inventory movements of material A125 for the month of April Year 1.

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|  | **PURCHASES** | | **ISSUES** | |
| DATE | QUANTITY | UNIT PRICE | JOB NO | QUANTITY |
| 01 April | 1,000 | £3·50 |  |  |
| 05 April |  |  | 135 | 400 |
| 12 April | 500 | £3·60 |  |  |
| 19 April |  |  | 136 | 700 |
| 24 April |  |  | 137 | 200 |

Using the ‘first in, first out’ (FIFO) method, complete the Inventory Record Card provided for the month of March. **10**

**Total marks 30**

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| **Worksheet for Question 35** | | | | | | | | | |
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| **Inventory Record Card - FIFO** | | | | | | | | | |
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|  | **RECEIPTS** | | | **ISSUES** | | | **BALANCE** | | | |
| **Date** | **Qty** | **CPU**  **(£)** | **Value**  **(£)** | **Qty** | **CPU**  **(£)** | **Value**  **(£)** | **Qty** | **CPU**  **(£)** | **Value**  **(£)** | |
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| **Question** | **Expected answer(s)** | **Max mark** | **Additional guidance** |
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| **35 (a) (i)** | |  |  |  |  |  | | --- | --- | --- | --- | --- | |  | | | | | | **Gross Profit Ratio** | | | | | |  |  |  |  |  | | Gross Profit x100 | 227,500 | x 100 | = 35% **(1)** |  | | Sales Revenue | 650,000 |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Profit for the Year Ratio** | | | | | |  |  |  |  |  | | Profit for the Year x100 | 143,000 | x 100 | = 22% **(1)** |  | | Sales Revenue | 650,000 |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | **Expenses Ratio** | | | | | | |  | | | | | | | Expenses = Gross Profit – Profit for the Year = 227,500 – 143,000 = 84,500 **(1)** | | | | | | |  | |  |  |  |  | | Expenses x100 | 84,500 | | x 100 | = 13% **(1)** |  | | Sales Revenue | 650,000 | |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Rate of Inventory Turnover** | | | | | | Cost of Sales = Sales Revenue – Gross Profit = 650,000 – 227,500 = 422,500 **(1)** | | | | | | Average Inventory = Opening Inventory + Closing Inventory = 19,125 + 23,125 = 21,125 **(1)**  2 2 | | | | | |  |  |  |  |  | | Cost of Sales | 422,500 | = | 20 times **(1)** |  | | Average Inventory | 21,125 |  |  |  | | **1**  **1**  **2**  **3** | **Expenses ratio:**  Expenses consequential, if it is a reasonable attempt at **calculation** (inserted figure not acceptable). If so — award  **2 marks**. If not — award **1 mark**.  If figure for denominator is not Sales Revenue, only award  **1 mark.**  Accept an answer as Gross Profit Ratio — Profit for the Year ratio.  **Rate of inventory turnover:**  Final mark may be consequential if there is a reasonable attempt at calculation of one of the constituent parts. Use professional judgement. |

| **Question** | **Expected answer(s)** | **Max mark** | **Additional guidance** |
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| **35 (a) (i) (cont)** | |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Return on Equity Employed** | | | | | |  |  |  |  |  | | Profit for the Year x100 | 143,000 | x 100 | = 40% **(1)** | | | Equity | 357,500 |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Trade Receivables collection period** | | | | | |  |  |  |  |  | | Trade Receivables x 365 | 75,000 | x 365 | = 42·12 days **(1)** |  | | Sales Revenue | 650,000 |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Trade Payables collection period** | | | | | |  |  |  |  |  | | Purchases = Cost of Sales + Closing Inventory – Opening Inventory  **(1) (1) (1)**  = 422,500 + 23,125 - 19,125 | | | | | |  |  |  |  |  | | Trade Payables x 365 | 65,000 | x 365 | = 55·63 days **(1)** |  | | Purchases | 426,500 |  |  |  |   **1 mark** for **ALL** correct labelling of ratios, ie ‘days’, % etc | **1**  **1**  **4**  **1** | **Trade payables period:**  Final mark may be consequential, if there is a reasonable attempt at calculation of purchases.  Accept for denominator:   |  |  | | --- | --- | | **2 marks** | **1 mark** | | 464,750 | 441,625 | | 445,625 | 422,500 | | 403,375 | 418,500 | | 380,250 | 399,375 | | 4,000 | 42,250 | |  | 23,125 | |  | 19,125 |   Any other denominator without working — **0 marks** and **0 marks** for final award.  If nominator not £65,000 — **0 marks** for final award.  Applies to wrong answers also. |
| **35 (a) (ii)** | Sales Revenue + 25%  = £650,000 + £162,500  = £812,500 **(1)** | **1** |  |

| **Question** | **Expected answer(s)** | **Max mark** | **Additional guidance** |
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| **35 (a) (iii)** | Benefits of calculating ratios:   * Can compare with previous years. * Can compare with firms of similar size. * Can compare with industry averages. * Can be used to spot trends. * Can be used for decision making. * Can help assess cash flow.   Accept a benefit of any individual ratio (needs to be a benefit, not just a description  of ratio). | **3** | Any three for **1 mark each.**  Accept any other relevant answer. |
| **35 (a) (iv)** | **Advantage:**   * Rewards worker effort with payment. **(1)** * There is higher output/productivity. **(1)**   **Disadvantage:**   * Quality may suffer as workers rush jobs. **(1)** * May have to spend more on quality checks. **(1)** | **2** | One advantage and one disadvantage for **1 mark each.**  Accept any other relevant answer. |

| **Question** | **Expected answer(s)** | **Max**  **mark** | **Additional guidance** |
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| **35 (b)** | **Carlo Assenti — Inventory Record Card (FIFO)**     |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  | **Receipts** | | | **Issues** | | | **Balance** | | | | **Date** | **Qty** | **CPU (£)** | **V**  **(£)** | **Qty** | **CPU**  **(£)** | **V**  **(£)** | **Qty** | **CPU**  **(£)** | **V**  **(£)** | | 01 April | 1,000 | 3·50 | 3,500 |  |  |  | 1,000 | 3·50 | 3,500 | | 05 April |  |  |  | 400 | 3·50 | 1,400 | 600 | 3·50 | 2,100 | | 12 April | 500 | 3·60 | 1,800 |  |  |  | 600  500 | 3·50  3·60 | 2,100  1,800  3,900 | | 19 April |  |  |  | 600  100 | 3·50  3·60 | 2,100  360 | 400 | 3·60 | 1,440 | | 24 April |  |  |  | 200 | 3·60 | 720 | 200 | 3·60 | 720 |   **Important**  If completing using ‘last in, first out’ (LIFO), **do not award 5 marks** for issue on 19 and 24 April (ie maximum overall **5 marks**).  If two separate groups of inventory are not shown in 12 April balance and then subsequent balances (ie completed using AVCO), **do not award mark** for balance on 12 April and the  5 marks awarded for issue on 19 and 24 April (maximum overall 4 marks). The final balances on 19 and 24 April are consequential.  The balance column may contain extra entries due to candidates having a simple calculation to arrive at the balance. This is acceptable —use professional judgement. If extra entries in balance column are at all unclear — **do not award mark**. | **10** | Watch for consequentiality throughout.  For **1 mark** allocation, all items in the receipts/issues column must be correct to receive mark.  If there is a mistake in **2 mark** allocations, candidates can gain **1 mark** provided they have the correct Qty and CPU of inventory issued. (eg arithmetic error, missing balance) — otherwise **0 marks**.  The final mark in the balance column is for correct balances on 01 April, 05 April and  24 April and also for correct dates.  If balance has 2 separate inventories, need to show a total value of both inventories to gain balance mark. If candidate repeats this, treat as consequential. |