**Question 32**

Bubbles is a firm which manufactures and sells lemonade. You are supplied with the following information for Year 3:

1. Cash and cash equivalents at 31 December Year 2 is expected to be £7,500.
2. Sales in units are expected to be:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **December** | **January** | **February** | **March** | **April** |
| 9,000 | 8,500 | 7,200 | 7,800 | 8,000 |

1. Each month, 20% of total sales will be on a cash basis and the remainder paid one month after purchase.
2. The selling price per unit will be £4 but cash sales will receive a discount of 5%.
3. Production units are expected to be:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **December** | **January** | **February** | **March** | **April** |
| 9,100 | 8,600 | 7,300 | 7,900 | 8,100 |

1. Production costs per unit will be:

* Raw materials £0·50 paid for one month after production
* Wages £1·50 paid in the same month as production
* Variable overheads £1·20 paid for one month after production

1. Fixed costs are expected to be £2,000 in January and February, then rise by £500   
   in March, and are paid in the month incurred.
2. The business will receive a bank loan of £20,000 in February.
3. New machinery will be purchased in February for £12,000. This will be paid for in   
   12 equal monthly instalments starting in March.

**(a)** Prepare the Cash Budget for Bubbles for the 3 months from January–March Year 3. **24**

**(b)** Describe the following terms:

**(i)** Piece rate

**(ii)** Time rate

**(iii)** Commission **3**

**(c)** State three commonly used methods of apportioning overheads. **3**

**Total marks 30**

|  |  |  |  |
| --- | --- | --- | --- |
| **Question** | **Expected answer(s)** | **Max mark** | **Additional guidance** |
| **32 (a)** | **Cash Budget of Bubbles for the 3 months January - March Year 3**   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | |  | **Jan** |  | **Feb** |  | **Mar** |  | | Opening Balance | 7,500 | **(1)** | 12,390 |  | 37,492 | **(1)** | | **Receipts** |  |  |  |  |  |  | | Cash Sales Revenue | 6,460 | **(4)** | 5,472 | **(1)** | 5,928 | **(1)** | | Credit Sales Revenue | 28,800 | **(3)** | 27,200 | **(1)** | 23,040 | **(1)** | | Bank Loan |  |  | 20,000 | **(1)** |  |  | |  | 35,260 |  | 52,672 |  | 28,968 |  | |  |  |  |  |  |  |  | | **Payments** |  |  |  |  |  |  | | Raw Materials | 4,550 | **(1)** | 4,300 |  | 3,650 | **(1)** | | Wages | 12,900 | **(1)** | 10,950 |  | 11,850 | **(1)** | | Variable Overheads | 10,920 | **(1)** | 10,320 |  | 8,760 | **(1)** | | Fixed Costs | 2,000 |  | 2,000 | **(1)** | 2,500 | **(1)** | | Machinery |  |  |  |  | 1,000 | **(1)** | |  | 30,370 |  | 27,570 |  | 27,760 |  | | Closing Balance | 12,390 |  | 37,492 |  | 38,700 | **(1)** | |  |  |  |  |  |  |  |   **Workings:**  Cash Sales Jan — 8,500 **[1]** x (£4 **[1]** x 95% **[1]** x 20% **[1])**  Cash Sales Feb — 7,200 **[1]** x (£4 x 95% x 20%)  Cash Sales Mar — 7,800 **[1]** x (£4 x 95% x 20%)  Credit Sales Jan — 9,000 **[1]** x (£4 **[1]** x 80% **[1])**  Credit Sales Feb — 8,500 **[1]** x (£4 x 80%)  Credit Sales Mar — 7,200 **[1]** x (£4 x 80%) | **24** | Watch for consequentiality throughout.  **Receipts**  Marks should be awarded to candidates for correct calculation. For Credit Sales, if candidates do not delay receipt by a month, they will gain full marks for January figure (if correctly calculated) but **no marks** for Feb and Mar figures, eg:  Jan Feb Mar  27,200 23,040 24,960  **(3) (0) (0)**  Cash and Credit Sales for Feb and Mar are consequential on the January calculation.  **Payments**  For raw materials, wages and variable overheads, if calculations correct but figures entered into wrong months — maximum  **1 mark** per line. |

|  |  |  |  |
| --- | --- | --- | --- |
| **Question** | **Expected answer(s)** | **Max mark** | **Additional guidance** |
| **32 (b)** | **Piece rate**  Workers are paid for each piece of work they produce. **(1)**  **Time rate**  Used to calculate wages on the basis of the amount of time worked  (per hour, per week, etc). **(1)**  **Commission**  Payment based on a percentage of the sale made. **(1)** | **3** | Accept any other relevant answer. |
| **32 (c)** | Apportion overheads by:   * Area * Number of employees * Value of machinery * Labour hours * Machine hours | **3** | Accept **any three** for **1 mark each**.  Accept any other relevant answer. |