**Question 2**

**PART A**

The following projected data is provided for Year 6 for John Dawson, a small manufacturer who supplies a component for a large production firm.

|  |  |
| --- | --- |
| Production and Sales | 1,100 units |
| Materials per unit at £5·00 per kg | 4 kgs |
| Labour per unit at £8·00 per hour | 2 hrs |

In addition:

Variable Overhead is charged £2·00 per labour hour

Fixed Overhead is £18,000

All units will be sold at £85

1. **Calculate** the:
2. Variable Cost per unit **4**
3. Contribution per unit **2**
4. **Calculate** the estimated Profit/Loss for Year 6. **3**
5. **Calculate** the:
6. Break-even Point in units **2**
7. Margin of Safety in units and Sales Revenue value at projected output **3**
8. Sales (in units) required to make a profit of £54,000 **3**

**PART B**

Felix Constantino holds all his stationery in a central store. Each of the items in the storeroom is recorded on an inventory record card. On 1 November Year 1, the storeroom has a supply of 50 boxes of pens which cost £6·00 each.

The following issues and receipts of boxes of pens took place in November:

|  |  |  |
| --- | --- | --- |
| **Date** | **Issues/receipts** | **Boxes of pens** |
| 3 Nov | Issues to the Finance department | 30 |
| 15 Nov | Receipts from suppliers — Staple & Co | 100 @ £6·50 each |
| 22 Nov | Issues to the legal department | 40 |

Using the FIFO method **prepare** an inventory record card to show November’s transactions. The inventory record card should have the following headings: **8**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Details** | **Receipts** | **Issues** | **Balance** |

**PART C**

1. State **two** benefits of preparing a budget. **2**
2. Billy Jones has prepared a cash budget for the first six months of next year. The closing monthly balances are predicted to be as follows:

|  |  |
| --- | --- |
| January | £1,500 |
| February | £2,300 |
| March | £3,100 |
| April | -£1,600 |
| May | £1,100 |
| June | £2,900 |

1. Give an example of what might have caused April to end with a negative cash balance. **1**
2. Give **two** examples of what Billy might do to resolve his predicted temporary   
   short-term cash-flow problem. **2**

**Total marks (30)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Question** | **Expected answer(s)** | **Max mark** | **Additional guidance** |
| **2**  **PART A**  **(a) (i)** | Material Cost per unit £20 **(1)**  Labour Cost per unit £16 **(1)**  Variable Cost per unit £4 **(1)**  Total Variable Cost £40 **(1)** | **4** |  |
| **2**  **(a) (ii)** | £85 − £40 = £45 | **2** | All or nothing.  **1 mark** if arithmetic error (watch for consequentiality). |
| **2**  **(b)** | 1,100 × £45 = £49,500 − £18,000 = £31,500   1. **(1)** **(1)** | **3** | **Max 2 marks** if answer is incorrect based on correct/consequential figures used.  Assume profit. If candidate consequentially calculates a loss, this must be indicated, otherwise **max 2 marks.** |
| **2**  **(c) (i)** | £18,000 / £45 = 400 units | **2** | All or nothing.  **1 mark** if arithmetic error (watch for consequentiality). |
| **2**  **(c) (ii)** | 1,100 − 400 = 700 units **(2)**  700 × £85 = £59,500  **(1)** | **3** | The first **2 marks** are all or nothing.  **1 mark** if arithmetic error (watch for consequentiality). |

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| **Question** | **Expected answer(s)** | **Max mark** | **Additional guidance** |
| **2**  **(c) (iii)** | (£54,000 + £18,000) = £72,000/£45 = 1,600 units  **(1**) **(1) (1)**  **OR**  £54,000/£45 = 1,200 + 400 = 1,600 Units  **(1)** **(1)**  **(1)** | **3** | Watch for consequentiality.  **Max 2 marks** if answer incorrect based on figures used.  Candidates may use a different method to get correct answer. |
| **2**  **PART B** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Date** | **Details** | **Receipts** | | |  | **Issues** | | | |  | **Balance** | | | |  | |  |  | **Qty** | **CPU** | **Tot** |  | **Qty** | **CPU** | **Tot** | |  | **Qty** | **CPU** | | **Tot** |  | | 1/11 | Balance |  |  |  |  |  |  |  | |  | 50 | 6.00 | | 300 | **(1)** | | 3/11 | Finance |  |  |  |  | 30 | 6.00 | 180 | | **(1)** | 20 | 6.00 | | 120 | **(1)** | | | 15/11 | Staple & Co | 100 | 6.50 | 650 | **(1)** |  |  |  | |  | 20  100 | 6.00  6·50 | | 120650 | **(1)** | |  |  |  |  |  |  |  |  |  | |  |  | |  | 770 | **(1)** | | 22/11 | Legal |  |  |  |  | 20 | 6.00 | | 120 | **(1)** |  | |  |  |  | |  |  |  |  |  |  | 20 | 6.50 | | 130 | **(1)** | 80 | | 6.50 | 520 | **(1)** | | **8** | Watch for consequentiality throughout.  For mark to be given, must show units, cost per unit and total.  Balance on 15/11 can show £120 and £650 without the total or it can show £770 on its own. However the units and cost per unit MUST be shown.  If 22/11 issues are 40 @ £6·50 — no mark. |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Question** | **Expected answer(s)** | | **Max mark** | **Additional guidance** | |
| **2**  **PART C**  **(a)** | **Any two — 1 mark each**   * Allows you to see your **closing balance** of cash at the end of each month. * Aids decision-making, eg capital expenditure. * Anticipates possible shortages of cash/need overdraft. * Enables target setting. * Allows for comparisons, eg actual results with expected results. * Can take corrective action, when differences occur. | | **2** | Answers can be from the point of view of a Cash Budget or a Budget in general.  Must have a benefit. If answer just refers to what it shows, eg shows cash coming in/out — no mark. However “show closing balance” does get a mark. | |
| **2**  **(b) (i)** | * Purchase of non-current asset. * Payment of tax bill. * Repayment of bank loan. | **1** | | | Accept any appropriate answer for  **1 mark**. | |
| **2**  **(b) (ii)** | **Any two — 1 mark each**   * Take out an overdraft. * Take out a bank loan. * Extend credit period with suppliers. * Reduce credit period to customers. * Increase % of cash sales. * Leasing/HP rather than purchase non-current asset. | **2** | | | Accept any other appropriate answer. | |