

Depreciation, as methods and rates used have a direct bearing on both the level of profit and the net asset value.

Research and development expenditure, where the decision whether or not to capitalise development expenditure will affect profit levels and balance sheet totals.

Stocks and long term contracts, as different valuation methods will affect the levels of gross and net profit and balance sheet values.

(Any 2 x 1 marks each)

(Total 20 marks)

PAPER 2

Question 1

- (a) Semi-fixed costs are those which are constant for a range of output **(1)**, then increase in steps **(1)** as output further expands. Semi-variables generally apply to overhead costs **(1)**. Examples, rent and property costs, management and supervision **(1)**.

4 Marks

- (b) Forecast Profit Statement For The Project.

	100 000	200 000	300 000	
	Units	Units	Units	
	£000	£000	£000	
Sales	700	1 400	2 050	2 Marks
less				
Annual Lease	60	60	60	2 Marks
Machinery Deprec	36	72	108	2 Marks
Raw materials	500	900	1 200	2 Marks
Labour	100	200	300	2 Marks
Supervision/Manage	18	36	79	2 Marks
Administration	<u>45</u>	<u>70</u>	<u>85</u>	2 Marks
	759	1 338	1 832	
Forecast profit/(loss)	<u>(59)</u>	<u>62</u>	<u>218</u>	1 Mark OF if at least
	<u>700</u>	<u>1 400</u>	<u>2 050</u>	four expenses deducted
				from sales.

Note: 1 mark for each row of sales or expenses if two items correct.

15 Marks

- (c) Consideration of relevant points including:
 Reference to profitability plus a decision **OF**
 Lack of experience in the market of the new product.
 Limited market research for product.
 Long term commitment for premises.
 Major capital investment in equipment and staff.
 Loss making unless high volumes of sales achieved.

Note: 1 mark for recognition plus 1 mark for development x 3 points.

6 Marks

(Total 25 Marks)

Question 2

(a) Service costing

- Costs of services rendered - average cost of service.
- Direct materials costs small.
- Tend to be average costs.
- Can be used for internal costing where profit or loss not relative.
- High fixed overheads.

Job costing

- Costs directly assigned to contract.
- Direct material costs significant.
- Establish costs of specific contract/job.
- Costing output to be sold for a profit.
- Notional profit calculated.
- Large projects, high costs, high risks.

Note: Up to 2 marks for a point of comparison x 2 points. No marks for examples.

4 Marks

(b) Total Operating costs of the 5 Ton and 8 Ton Lorries for One Year

	5 Ton Lorry £	8 Ton Lorry £
Wages -52 weeks	15 600 (1)	18 200 (1)
Depreciation - one year	5 000 (1)	7 000 (1)
Fuel costs	4 200 (1)	7 000 (1)
Licence	5 000	5 000 (1)
Insurance	6 800	10 500 (1)
Maintenance	12 000 (1)	10 000 (1) *1
Administration	<u>23 400 (1)</u>	<u>27 300 (1) *2</u>
	72 000	85 000

Cost per ton kilometre:

<u>Annual operating cost</u>	<u>£72 000 OF</u>	<u>£85 000 OF</u>
Kilometre tons	96 000 (1)	100 000 (1)

Cost per kilometre ton

£0.75 (1)OF £0.85 (1)OF *3

- Note:** *1 Maintenance £36 000 and £30 000 (1) OF.
 *2 Administration £70 200 and £81 900 (1) OF
 *3 No OF's if kilometre tons divisor used as 4, 5, 20 000 or 24 000.

16 Marks

(c) Arguments in support of diminishing balance:

1. The market value of lorries probably decreases significantly in the early years of ownership than in later years. Therefore, the book values will be higher than the market values.
2. As the lorries become older, significant maintenance costs are incurred. The result is that the total cost of depreciation and maintenance increases over the years, placing an increasing burden on profits.
3. Impact on recorded profit. The impact in given circumstances MUST be stated.

Note: 1 mark for recognition of point + up to 2 marks for development (MAX 5 marks). No marks for discussion of consistency concept.

(Total 25 Marks)

Question 3

(a) Limiting factor is a factor which at any time or over a period (1) may limit the activity of an entity (1), often one where there is a shortage or difficulty of supply (1). Use of an example (1).

4 Marks

(b)	Spade £	Rake £	Hoe £	Cutter £
Selling price	20	14	14	18
less Variable costs	15	9	8	15
CONTRIBUTION	5	5	6	3
	(1)	(1)	(1)	(1)

4 Marks

(c)	Contribution per £1 of labour	1.0	2.0	2.4	0.4
Ranking	3	2	1	4	
	(1)	(1)	(1)	(1)	(1)

Product mix and total contribution:

	Products	Total Labour Hours	Total Contribution
Hoe	20 000 x 0.5 hrs =	10 000 hrs (1)	£120 000
Rake	15 000 x 0.5 hrs =	7 500 hrs (1)	£ 75 000
Spade	22 500 x 1.0 hrs =	22 500 hrs (1)	£112 500
Cutters	0 x 1.5 hrs =	0 hrs	0
		40 000 hrs (1)	£307 500 (2)

Note: Marks awarded for correct product numbers or labour hours. Total contribution. 1 mark for any two contributions correct.

10 Marks

(d) In maximising the profit, no cutters will be manufactured and sold. The result will be that the product range will be restricted and customers may chose the products of a rival manufacturer who is able to offer the whole product range.

If the whole product range is not manufactured, capital equipment will remain idle and take up valuable premises space.

1 Mark for point plus up to 2 for development.

3 Marks

(e) If materials were in limiting production the ranking would be.

	Spade	Rake	Hoe	Cutter
Contribution per £1 of materials	0.83	1.25	1.5	1.0
Ranking	4	2	1	3
	(1)	(1)	(1)	(1)

4 Marks

(Total 25 Marks)

Question 4

- (a) Payback Year 1 £150 000 + Year 2 £120 000 + Year 3 £120 000
Year 4 £60 000 of the £80 000 cashflow.

Payback 3 years 9 months. (2)

Year	Cashflow	Factor	NPV(£)
0	£450 000	1.000 =	(450 000) (1)
1	£150 000	0.926 =	138.9 (1)
2	£120 000	0.857 =	102.8 (1)
3	£120 000	0.794 =	95.3 (1)
4	£80 000	0.735 =	58.8
5	£50 000	0.681 =	34.1
5	£25 000	0.681 =	<u>17.0</u> (1)
			(3.1) (1)

8 Marks

- (b) At 3 years 9 months, out of a 5 year project, there is a long payback period (1). The NPV is marginally negative, showing that the project will not provide a return sufficient to equal the cost of capital (1). Therefore, on the face of it, the project should/ should not be undertaken (1) **OF**. As the negative NPV is marginal at 8%, it would be a project which would be viable if Deepal could negotiate the loan at even one percent less interest (1).

MAX 3 Marks

- (c) Increased cashflows take account of the movement of liquid funds (1). Profit matches incomes to expenditures (1).

To convert cashflow to profit. The capital purchase (£450 000) will need to be matched (1) to each accounting year using the depreciation policy, here, straight line or £85 000 for each of the 5 years will need to be deducted from each years cash flow (1). The loan interest will also need to be considered (1).

MAX 4 Marks

(Total 15 Marks)

Question 5

- (a) Machine Hour Rate For Witkins Planer

	Answer £	Alternative £
Depreciation	1 920 (1)	1 920
Rent	1 050	1 050
Insurance	1 200 (1)	1 200
Cleaning	1 080	1 080
Power	3 150 (1)	4 500
Supervision	4 000 (1)	4 000
Labour cost- Operator	15 000 (1)	21 429
Labourer	12 500 (1)	17 855
Bonus	<u>2 100</u> (1)	<u>3 000</u>
	<u>42 000</u> (1)	<u>56 034</u>
divided by labour hours	1 750 (1)	2 500
= Hour rate	£24 per hour	£22.41 per hour

9 Marks

(b)

Quality of work.

Safety implications

Bonus not paid during breakdown or set up periods

Output limited by speed of machine not operator efficiency

Note: 1 mark for recognition and 1 mark for development on each point (MAX 6 marks).

(Total 15 Marks)

Question 6

(a)

Manufacturing Account for the month of April

	£	£
Opening stock of raw materials	3 500 (1)	
Purchases of raw materials	<u>20 700 (2) *1</u>	
	24 200	
less Closing stock of raw materials	<u>5 550 (2) *2</u>	
Cost of raw materials consumed	18 650	
Wages	<u>10 400 (1)</u>	
PRIME COST (1) *3		29 050
<u>Overheads</u>		
Rent	3 000	
Salaries (£4 500 + £500)	5 000 (1)	
General expenses (£2 200 - £150)	<u>2 050 (1)</u>	
		10 050
<u>Work in Progress</u>		
As at 1 April	6 200	
less		
As at 30 April	<u>5 300</u>	
		<u>900 (1)</u>
PRODUCTION COST (1) *4		<u>40 000</u>

Notes: *1. Any figure which is a combination of two figures from £8 400, £7 500 or £4 800 will be awarded (1) OF.

*2. A figure of £750 or £4 800 will be awarded (1) OF.

*3. No 'aliens' in PRIME COST section to be awarded mark.

*4. No omissions in account for award of PRODUCTION COST mark.

* To obtain any mark, expense MUST be in correct section of account.

11 Marks

- (b) Labour Efficiency Variance (1 430 - 1 300 hrs) x £7.50 = £975 (F) (2)
Labour Rate Variance 1 300 hrs x (£8.00 - £7.50) = £650 (A) (2)

Note: 1 mark for correct variance figure, plus 1 mark if correctly stated as (F) or (A)
If variance incorrect, NO MARK for stating (f) or (a).

4 Marks

(Total 15 Marks)

Question 7

- (a) Stock control Explanation of max/ min stocks/ Just in time (2)
Explanation of economic order quantities (1)
How application limits stock levels improving working capital (2)
- 5 Marks**
- (b) Debtors control Analysis of age of debts (2)
Dedicated resources to 'chase' debts/ Factoring (1)
Process of letters and calls to speed up payments (2)
- 5 Marks**
- (c) Cash budgeting Annual projection of cash movements (1)
All cash movements logged to time periods
of normally one month (2)
Monthly monitoring to ascertain variations and
determine corrective action. (2)
- 5 Marks**
- (d) Value for money Obtain competitive tenders for services (2)
Consider benefit against the cost (2)
Assess value against sum paid (1)
- Discussions concerning the falling value of money due to inflation.
No marks.
- 5 Marks**

(Total 20 Marks)

Question 8

- (a)
- | Process costing | Job costing |
|-------------------------------------|---|
| Continuous production | Normally 'one off' jobs |
| Product not individually identified | Product clearly identified |
| Product cost averaged | Cost attached to each identifiable unit |
| Example of industry eg chemicals | Example of industry eg builders |
- Note: 1 mark per point x 6**
MAX 3 marks process costing and 3 job costing.
- 6 Marks**
- (b)
- i) The losses or gains in a period over and above or below those anticipated as normal losses.
- ii) Secondary products to the process which have a value which is normally low in relation to the value of the main product.
- iii) Where two or more products are produced jointly by the process, each of significant value. Products are not identified as separate until after the point of separation.
- iv) The value which may be obtained from selling the normal loss probably for recycling purposes.
- Up to 2 marks per sub-section**
8 Marks

(c)

Explanation of equivalent production,

Note: 1 mark for recognition plus 1 mark for development.

Explanation of evaluating completed percentage of materials, labour and overheads.

Note: 1 mark recognition plus 1 mark for development.

Purposes of calculating the information, to value completed production, **(1)** closing WIP **(1)**,
or cost per unit **(1)**.

MAX 2 Marks

6 Marks

(Total 20 Marks)