MyStudyBro - Revision Exercise Tool

This Revision Handout includes the Questions and Answers of a total of 5 exercises!

Chapters:

Manufacturing - Unit 1 (Pearson Edexcel)

SECTION A

Answer BOTH questions in this section.

1 Wooden Gifts is a manufacturer and online retailer of wooden products.

The following balances were available at 31 December 2017.

	£
Non-current assets (at cost):	
Leasehold on building – 10 years	60 000
Manufacturing equipment	90 000
Computing equipment	75 000
Fixtures and fittings	15 000
Provisions for depreciation:	
Leasehold on building – 10 years	48 000
Manufacturing equipment	45 000
Computing equipment	35 000
Fixtures and fittings	6 000
Provision for unrealised profit	8 000
Inventory – 1 January 2017	
Raw materials	20 000
Work in progress	32 300
Finished goods	88 000
Purchases – Raw materials	85 000
Direct packaging costs	23 300
Trade payables	41 100
Trade receivables	8 600
Factory wages	72 000
Distribution wages	59 000
Management salaries	68 000
Power and heating	14 000
Capital	200 000
Drawings	30 000
Cash and bank	37 900
Website consultancy expenses	16 200
Advertising expenses	43 000
Postage on sales	37 000
Revenue	510 000
General expenses	18 800

Additional information at 31 December 2017

(1) Inventory –

Raw materials	£21 500
Work in progress	£26 000
Finished goods	£110 000

(2) Factory wages accrued were £4 000

75% of factory wages are direct and 25% are indirect.

(3) Advertising expenses of £5 500 were prepaid.

(4) Depreciation is charged as follows:

- leasehold on building at an appropriate rate
- manufacturing equipment at the rate of 20% per annum using the reducing balance method
- computing equipment at the rate of 25% per annum using the reducing balance method
- fixtures and fittings at the rate of 10% on cost.

(5) The following costs and expenses are to be apportioned to manufacturing.

Cost	**Manufacturing**
Leasehold on building – depreciation	60%
Manufacturing equipment – depreciation	100%
Management salaries	35%
Power and heating	70%
General expenses	25%

(6) Manufactured goods are transferred to the warehouse at cost plus 10% profit.

Required

(a) Prepare, for the year ended 31 December 2017, the:

(i) Manufacturing Account
(13)

(ii) Provision for Unrealised Profit Account
(4)

(iii) Statement of Profit or Loss and Other Comprehensive Income.
(14)

(b) Prepare the Statement of Financial Position at 31 December 2017.
(12)

The owner of Wooden Gifts is planning his business strategy for the next year. He is considering closing the manufacturing plant and purchasing all finished goods from an outside supplier.

(c) Evaluate the effects of a possible closure of the manufacturing plant.
(12)

(Total for Question 1 = 55 marks)

Question Number	Answer	Mark
1 (a)(i)	**AO1:(2), AO2(8), AO3(3)** **AO1: One mark for transferring balances to the manufacturing account.** **A02: Eight marks for balances requiring adjustment.** **AO3: Three marks for balances requiring adjustment and then apportionment.**	**(13)**

Wooden Gifts
Manufacturing Account for the year ended 31 December 2017

		£	£
Opening inventory of raw materials		20 000	
Purchases of raw materials		85 000	
		105 000	
Closing inventory of raw materials		(21 500)	
Cost of raw materials consumed			83 500 **(1) AO2**
Direct factory wages			57 000 **(1) AO3**
Direct packaging costs			23 300 **(1) AO1**
Prime cost			163 800 **(1of) AO2 + w no aliens**
Overheads:			
Indirect factory wages		19 000 **(1) AO3**	
Depreciation -	Leasehold on building	3 600 **(1) AO3**	
	Manufacturing equipment	9 000 **(1) AO2**	
Management salaries		23 800 **(1) AO2**	
Power and heating		9 800 **(1) AO2**	
General expenses		4 700 **(1) AO2**	
			69 900
			233 700
Work in progress –	1 January 2017	32 300	
	31 December 2017	(26 000)	
			6 300 **(1) AO2**
Cost of production			240 000
Manufacturing profit 10%			24 000 **(1of) AO2 + w**
Transferred to Trading Account			264 000 **(1of) AO1 + w no aliens**

Question Number	Answer	Mark
1 (a)(ii)	**AO1(3), AO3(1)** **AO1: Three marks for correctly naming the transfer and balancing.** **AO3: One mark for calculating the closing balance of unrealised profit.**	**(4)**

Provision for Unrealised Profit Account

Date	Details	£	Date	Details	£
2017			2017		
			Jan 1	Balance b/d	8 000 **(1) AO1**
Dec 31	Balance c/d	10 000	Dec 31	Income statement **(1) AO1**	2 000 **(1) AO1**
		10 000			10 000
			2018		
			Jan 1	Balance b/d	10 000 **(1of) AO3**

On credit side

Question Number	Answer	Mark
1 (a)(iii)	**AO1(4), AO2(8), AO3 (2)** **AO1: Four marks for transferring balances to the income statement.** **A02: Eight marks for balances requiring adjustment.** **AO3: Two marks for balances requiring adjustment and then apportionment.**	**(14)**

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2017

	£	£
Revenue		510 000
Opening inventory of finished goods	88 000	
Goods transferred from manufacture	264 000 **(1of)** **AO4**	
	352 000	
Closing inventory of finished goods	(110 000)	
Cost of sales		(242 000) **(1of)** **AO2+w**
Gross profit		268 000
Manufactured goods profit 10%		24 000 **(1of)** **AO2**
		292 000
Less Depreciation:		
Leasehold on building	2 400 **(1)** **AO3**	
Computing equipment	10 000 **(1)** **AO2**	
Fixtures and fittings	1 500 **(1)** **AO2**	
Distribution wages	59 000 **(1)** **AO1**	
Management salaries	44 200 **(1)** **AO2**	
Power and heating	4 200 **(1)** **AO2**	
Website consultancy expenses	16 200 **(1)** **AO1**	
Advertising expenses 43 000–5 500	37 500 **(1)** **AO2**	
Postage on sales	37 000 **(1)** **AO1**	
General expenses	14 100 **(1)** **AO2**	
Provision for unrealised profit	2 000 **(1of)** **AO3**	
		(228 100)
Profit for the year		63 900

Question Number	Answer	Mark
1 (b)	**AO1(3), AO2(8), AO3 (1)** **AO1: Three marks for transferring balances to the financial position statement.** **A02: Eight marks for balances requiring adjustment.** **AO3: One mark for adjusting the inventory of finished goods for unrealised profit.**	**(12)**

Statement of Financial Position at 31 December 2017

Non-current assets

	Cost	Accumulated depreciation	Carrying value	
	£	£	£	
Leasehold on building – 10 years	60 000	54 000	6 000	**(1of)** **AO2**
Manufacturing equipment	90 000	54 000	36 000	**(1of)** **AO2**
Computing equipment	75 000	45 000	30 000	**(1of)** **AO2**
Fixtures and fittings	15 000	7 500	7 500	**(1of)** **AO2**
	240 000	160 500	79 500	

Current assets				
Inventory – Raw materials		21 500		
Work in progress		26 000 **(1)** **AO2 for 3 inventories**		
Finished goods	110 000			
Less Provision for unrealised profit	(10 000) **(1of)** **AO3**	100 000		
		147 500		
Trade receivables		8 600 **(1)** **AO1**		
Other receivables		5 500 **(1)** **AO2**		
Cash and bank		37 900 **(1)** **AO1**		
			199 500	
Total assets			279 000	
Capital		200 000		
Profit for the year		63 900		
		263 900		
Drawings		(30 000)		
			233 900	**(1of)** **AO2**
Current liabilities				
Trade payables		41 100 **(1)** **AO1**		
Other payables		4 000 **(1)** **AO2**		
			45 100	
Total Capital and liabilities			279 000	

Question Number	Indicative Content	Mark
1 (c)	**AO1 (1), AO2 (1), AO3 (5), AO4 (5)** Points for continuing manufacturing The control of the production process will remain with Wooden Gifts. The quality of the product being produced can be assured by Wooden Gifts. Social accounting considerations should be considered. Discontinuing manufacturing could result in redundancy and an impact on the local community and other local businesses. Ensuing the continuity of supply of finished goods. If manufacture is retained the control to deliver the finished products on time is not passed to the supplier. The fixed costs are currently shared between production and administration if production was ceased costs such as rent would have to be borne by the administration alone. Points for discontinuing manufacturing The problems of manufacturing goods will be passed to the supplier. Obtaining materials of the required quality and labour issues will become the responsibility of the supplier. If the business is growing, the space requirement for manufacturing will increase. The majority of the existing space is occupied by manufacturing. If manufacturing is discontinued the space could be used for distribution or the excess space could be sub-let, costs reduced and income increased. Time and effort of paying and managing staff and maintaining non-current assets would be removed. Manufacturing non-current assets could be sold to release cash. Decision Candidates may conclude that Wooden Gifts should continue or discontinue manufacture. Candidates should support that decision with an appropriate rationale.	**(12)**

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-3	Isolated elements of knowledge and understanding recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
Level 2	4 - 6	Elements of knowledge and understanding, which are applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present.
Level 3	7 - 9	Accurate and thorough understanding, supported throughout by relevant application to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects. An attempt at an assessment is presented, using financial and non-financial information, in an appropriate format and communicates reasoned explanations.
Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and non-financial information and makes informed recommendations and decisions.

5 Lee Manufacturing makes two products, chairs and tables. Each product is made on a separate production line. The following information is available for the month of July 2018.

(1) Raw materials

The tables and chairs are made using the same type of wood raw material. Different sets of fittings are added to the tables and chairs to make the finished product.

	Wood for table and chairs	**Table fittings**	**Chair fittings**
Inventory 1 July 2018	200 metres @ £100 per metre	90 sets @ £25 each	400 sets @ £10 each
Receipts	200 metres @ £120 per metre	150 sets @ £30 each	200 sets @ £12 each
Issues	250 metres	200 sets	300 sets

- Lee Manufacturing uses the First In First Out (FIFO) method of **periodic** inventory valuation.
- In July, 150 metres of wood were used in the manufacture of tables and the remainder was used in the manufacture of chairs.

(2) Labour

- Five workers on the table production line worked 160 hours **each** in the month. Workers were each paid £6 per hour of which 90% was recorded as direct and 10% was recorded as indirect.
- Eight workers on the chair production line worked 175 hours **each** in the month. Workers were each paid £6 per hour for 160 hours and time and a third for 15 hours. 75% was recorded as direct and 25% recorded as indirect.

(3) Overheads

- Production supervisors salary was £3 900 and is to be apportioned on the numbers of workers supervised.
- Depreciation for the month was £6 600 of which £2 400 was apportioned to the production of tables.
- Other overheads totalled £7 500 and were apportioned 40% tables, 60% chairs.

(4) Work in progress

	Tables	**Chairs**
1 July 2018	£4 000	£5 200
31 July 2018	£3 850	£6 160

Required

(a) Prepare the Manufacturing Account, in **columnar format**, for the month of July 2018, showing the cost of production of tables and the cost of production of chairs. (A total column is not required).

(20)

(b) Explain the difference between **inventory valuation** and **inventory rotation**.

(4)

The accountant has advised Lee Manufacturing to use **perpetual** inventory valuation instead of **periodic** inventory valuation for its raw materials.

(c) Evaluate the accountant's advice.

(6)

(Total for Question 5 = 30 marks)

		Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

Question Number	Answer	Mark
5 (a)	**AO1 (5), AO2 (12), AO3 (3)** **AO1: Five marks for headings or posting given balances.** **A02: Twelve marks for adjusting and posting balances.** **AO3: Three marks for applying inventory valuation to derive balances.**	**(20)**

Manufacturing Account for the month of July 2018

	Tables		Chairs	
	£	£	£	£
Raw materials				
Wood	15 600**(2)AO3**		10 400 **(1)AO2**	
Fittings	5 550**(1)AO3**		3 000 **(1)AO2**	
Cost of raw materials		21 150		13 400
Direct labour		4 320 **(1)AO2**		6 480 **(2)AO2**
Prime costs **(1)AO1**		25 470		19 880
Factory Overheads:				
Indirect labour	480 **(1)AO1**		2 160 **(1of)AO2**	
Production supervisor	1 500 **(1)AO2**		2 400 **(1)AO2**	
Depreciation	2 400 **(1)AO2**		4 200 **(1)AO2**	
Other overheads	3 000**(1)AO1**		4 500 **(1)AO1**	
		7 380		13 260
Work in progress:				
1 July 2018	4 000		5 200	
31 July 2018	(3 850)		(6 160)	
		150 **(1)AO2**		(960) **(1)AO2**
Production cost **(1)AO1**		33 000		32 180

Workings

Wood for table
Wood (200@£100 + 50@120)=26 000 **(1)AO3** x $\frac{150}{250}$ = 15 600 **(1)AO3**

Wood for chairs 26 000 – 15 600 = 10 400

Table fittings
(90 @ £25 + 110@£30)= £5 550
Chair fittings
300@£10 = 3 000

Labour
Table
5 x 160 hrs x £6 = £4 800 x 90% =£ 4 320
Chair
8 x (160@£6 + 15@£8) = 8 640**(1)AO2** x 75% = 6 480 **(1)AO2**

Depreciation
Tables 160 x 5 = 800 x £3 = £2 400
Chairs 175 x 8 = 1 400 x £3 = £4 200
2 200 £6 600

Question Number	Answer	Mark
5 (b)	**AO1 (4)** **AO1: Four marks for distinguishing valuation from rotation.** Inventory valuation – inventory must be **valued at cost**. **(1)AO1** The valuation of the inventory may depend upon the **assumptions made about the value** of the receipts and issues made in an accounting period/it is a **theoretical value e.g. FIFO/LIFO**. **(1)AO1** Inventory rotation – rotation relates to the **physical movement** of inventory being received and issued from the stores. **(1)AO1** In this respect a business will **generally issue its oldest inventory first** to avoid deterioration/obsolescence. **(1)AO1**	**(4)**

Question Number	Indicative Content	Mark
5 (c)	**AO2 (1), AO3 (2), AO4 (3)** Points in favour of perpetual The approach will allow the valuation method to issue inventory at **prices which will vary to each issue made** in line with the method chosen. Periodic could result in **issue prices which do not reflect replacement cost** when prices are rising or falling rapidly. Points in favour of periodic It is a **simpler approach** because issue prices will probably be constant for the period. Issue **costs will not be changing every day**. Decision Candidates may be in favour or against the use of perpetual inventory valuation. Candidate's conclusion should be supported with an appropriate rationale.	**(6)**

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

6 Banwell Products manufactures goods using steel. The price of steel is currently variable.

The following information is available for the year ended 31 March 2017.

- Raw material:

  Inventory 1 April 2016 120 tons at £800 per ton

Date	**Receipts**	**Issues**
April – June 2016	80 tons at £750	90 tons
July – September 2016	70 tons at £700	60 tons
October – December 2016	100 tons at £650	80 tons
January – March 2017	60 tons at £600	70 tons

  Banwell Products issues raw materials to production using the First In First Out (FIFO) perpetual inventory valuation method.

- Wages and salaries:
  Manufacturing machinist wages £93 000
  Production management salaries £84 000
  Indirect manufacturing wages £16 800
  Administration wages and salaries £102 000
  Manufacturing assembly wages £83 500
  Manufacturing assembly wages prepaid at 31 March 2017 £6 500

- Other costs and expenses:
  Depreciation on manufacturing equipment £45 000
  Depreciation on administration equipment £16 000
  Rent of premises £37 000
  Rent owing at 31 March 2017 £5 500
  (80% of the rent relates to the factory)
  Insurance £40 000
  Insurance prepaid at 31 March 2017 £5 000
  (60% of the insurance relates to the factory)
  Marketing expenses £60 000

- Inventories at:

Inventories at:	1 April 2016	31 March 2017
Raw materials	To be calculated	To be calculated
Work in progress	£55 000	£47 300
Finished goods	£82 000	£73 000

- Banwell Products transferred production to finished goods at an agreed value of £640 000

Required

(a) Calculate the value of the inventory of raw materials at 31 March 2017 using the First In First Out (FIFO) perpetual inventory valuation method.
(4)

(b) Prepare the Manufacturing Account for the year ended 31 March 2017.
(14)

(c) Explain how the following would be accounted for in the Statement of Financial Position at 31 March 2017:

(i) manufacturing assembly wages prepaid
(2)

(ii) depreciation for the year on manufacturing equipment
(2)

(iii) provision for unrealised profit on manufacture.
(2)

The business is considering changing its method of valuing raw materials inventory to Last In First Out (LIFO).

(d) Evaluate the use of Last In First Out (LIFO) as a method of valuing the inventory of raw materials.
(6)

(Total for Question 6 = 30 marks)

TOTAL FOR SECTION B = 90 MARKS
TOTAL FOR PAPER = 200 MARKS

Question Number	Answer	Mark
6 (a)	**AO2 (4)** **A02: Four marks for selecting the units and prices remaining in the inventory at the end of each quarter.**	**(4)**

Date	Receipts	Issues	Balance
Opening balance			120 @ £800
April - June 2016	80 £750	90@ £800	30@ £800 80@ £750 **(1)AO2**
July – September 2016	70 @ £700	30 @ £800 30 @ £750	50 @ £750 70 @ £700 **(1)AO2**
October – December 2016	100 @ £650	50 @ £750 30 @ £700	40 @ £700 100 @ £650 **(1)AO2**
January – March 2017	60 @ £600	40 @ £700 30 @ £650	70 @ £650 60 @ £600 **(1)AO2**
Closing balance			£81 500

Question Number	Answer	Mark
6 (b)	**AO1 (5), AO2 (6), AO3 (3)** **A01: Five marks for recording the given expense in the account without adjustment.** **A02: Six marks for calculating the figure and inserting this correctly in the account.** **A03: Three marks for calculating the corrected figure and then carrying out the correct apportionment before applying the figure to the correct section of the account.**	

Banwell Products
Manufacturing Account for the year ended 31 April 2017

	£	£
Opening inventory		96 000
Purchases		210 000 **(1)AO2**
		306 000
Closing inventory		(81 500) **(1)ofA01**
Cost of raw materials		224 500
Machinists wages		93 000 **(1)AO1**
Assembly wages (83 500 – 6 500)		77 000 **(1)AO2**
Prime cost		394 500 **(1of)AO2w+f**
Manufacturing overheads:		
Production management salaries	84 000 **(1)AO1**	
Indirect manufacturing wages	16 800 **(1)AO1**	
Depreciation on equipment	45 000 **(1)AO1**	
Rent	34 000 **(1)AO3**	
Insurance	21 000 **(1)AO3**	
		200 800
		595 300 **(1)AO2**
Work in progress:		
Opening inventory 1 April 2016	55 000	
Closing inventory 31 March 2017	(47 300)	
		7 700 **(1)AO2**
Cost of production		603 000
Manufacturing profit		37 000 **(1of)AO3**
Transfer to trading account		640 000 **(1)AO2w+f**

(14)

Question Number	Answer	Mark
6 (c)(i)	**AO1 (4), AO2 (2)** **A01: Four marks for demonstrating knowledge of the treatment of prepaid expenses and depreciation.** **A02: Two marks for applying knowledge of unrealised profits to profits on manufacture.** The value of the prepaid wages would be would be recorded under the heading of **Other receivables (1)AO1** under **current assets**. **(1)AO1**	**(2)**

Question Number	Answer	Mark
6 (c)(ii)	The annual depreciation would be added to the accumulated depreciation and **deducted from the cost (1)AO1** to establish the **carrying (Net Book) value. (1)AO1**	**(2)**

Question Number	Answer	Mark
6 (c)(iii)	The value of the **inventory of finished goods (1)AO2** would be **reduced by the balance of the provision** for unrealised profit. **(1)AO2**	**(2)**

Question Number	Answer	Mark
6 (d)	**AO2 (1), AO3 (2), AO4 (3)** Potential positive arguments for LIFO • When prices are falling issues will be close to current replacement cost • Product/sales will not be overpriced in current market conditions. Potential negative points for LIFO • Not accepted by tax authorities or IAS • When prices are falling remaining inventory will become increasingly over-valued • LIFO may under state cost of sales which is against the prudence concept. NOT An evaluation of inventory rotation Decision Candidates may conclude that the arguments for or against outweigh the counter arguments. Having reached a decision the rationale for that position should be developed.	**(6)**

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

SECTION A

SOURCE MATERIAL FOR USE WITH QUESTION 1

1 Kiddy Kit is a manufacturer of children's clothing. The following trial balance was extracted from the books on 31 December 2015:

	Dr £	Cr £
Revenue		700 000
Purchases of raw materials	164 800	
Manufacturing wages	147 000	
Production management salaries	67 000	
Administrative management salaries	96 100	
Inventory at 1 January 2015:		
Raw materials	32 600	
Work in progress	51 500	
Finished goods	17 500	
Direct production expenses	19 000	
Indirect production expenses	16 200	
General expenses	27 400	
Marketing costs	44 500	
Rent and rates	60 000	
Non-current assets (at cost)		
Manufacturing equipment	206 000	
Office fixtures	80 000	
Provisions for depreciation:		
Manufacturing equipment		154 000
Office fixtures		32 000
Trade receivables	72 000	
Trade payables		64 200
Provision for doubtful debts		2 700
Capital		160 000
Drawings	27 800	
Bank		16 500
	1 129 400	1 129 400

Additional information at 31 December 2015

(1) Inventory:

Raw materials	£31 400
Work in progress	£48 700
Finished goods	£15 500

(2) Manufactured goods are transferred from manufacturing to finished goods at an agreed transfer price of £5 per item. During the year ended 31 December 2015 a total of 98 000 items were transferred to finished goods.

(3) Depreciation is charged as follows:

- manufacturing equipment at the rate of 25% per annum reducing balance
- office fixtures at the rate of 15% on costs.

(4) 70% of the rent and rates is apportioned to manufacturing.

(5) General expenses owing £1 100.

(6) The provision for doubtful debts is to be maintained at 5% of trade receivables.

(7) The owner of Kiddy Kit withdrew £1 500 by cheque for his private use on 30 December 2015. No entries had been made in the books.

Required:

(a) Prepare the:

(i) Manufacturing Account for the year ended 31 December 2015

(16)

(ii) Statement of Comprehensive Income for the year ended 31 December 2015

(14)

(iii) Statement of Financial Position at 31 December 2015.

(14)

An overseas supplier has offered to manufacture all the children's clothing for Kiddy Kit at the rate of £5 per item of clothing.

(b) Evaluate whether the owner of Kiddy Kit should accept the offer from the overseas supplier.

(8)

(Total for Question 1 = 52 marks)

Answer space for question 1 is on pages 2 to 8 of the question paper.

SECTION A

1(a)(i)

Kiddy Kit
Manufacturing Account for the year ended 31 December 2015

	£	£
Opening inventory of raw materials		32 600 √
Purchases of materials		164 800 √
		197 400
Less Closing inventory of raw materials		(31 400) √
Cost of Raw materials		166 000 √ w+f
Manufacturing wages		147 000 √
Direct production expenses		19 000 √
Prime cost √		332 000 √of if no aliens
Plus overheads:		
Indirect production expenses	16 200 √ must be added	
Production management salaries	67 000 √	
Depreciation – Manufacturing equipment	13 000 √	
Rent and rates	42 000 √	
		138 200
Work in progress – 1 January 2015	51 500	
31 December 2015	(48 700)	
		2 800 √
Production/manufacturing/factory cost		473 000 √of +w no aliens
Profit on manufacture		17 000 √of +w
Transferred to Income Statement		490 000 √ +w

(16)

(ii)

Statement of Comprehensive Income for the year ended 31 December 2015

	£	£
Revenue		700 000√
Less Opening inventory	17 500 √	
Transfers from Manufacturing Account	490 000 √of +w	
	507 500	
Closing inventory	(15 500) √	
Cost of sales		492 000 √of +w
Gross profit		208 000
Profit on manufacture		17 000 √of
		225 000
Less		
Administrative salaries	96 100 √	
General expenses 27 400 + 1 100	28 500 √	
Marketing	44 500 √	
Rent and rates	18 000 √	
Depreciation – Office fixtures	12 000 √	
Increase in PDD	900 √√ (√of)	
		(200 000)
Profit for the year		25 000 √ if no aliens
		225 000

(14)

(iii)

Statement of Financial Position at 31 December 2015

Non-current Assets			
	Cost	Accumulated depreciation	Carry over
	£	£	£
Manufacturing equipment	206 000	167 000	39 000 √of
Office fixtures	80 000	44 000	36 000 √of
	286 000	211 000	75 000 √of
Current Assets			
Inventory: Raw materials	31 400		
W.I.P	48 700		
Finished Goods	15 500		
		95 600 √	
Trade receivables	72 000		
Less Provision for doubtful debts	(3 600) √		
		68 400√of	
			164 000
			239 000
Capital:		£	£
Capital 1 January 2015		160 000	
Net profit		25 000 √of	
		185 000	
Less Drawings	27 800 √+ 1500√	(29 300)	
			155 700 √of
Current Liabilities			
Trade payables		64 200 √	
Other payables: General expenses		1 100 √	
Bank	16 500 √+ 1 500√	18 000	
			83 300
			239 000

(14)

(b) Valid answers may include:

Arguments for
- Fewer manufacturing problems
- Management can concentrate on trading
- Manufacturing assets can be sold to release cash
- Manufacturing space can be used to expand the business
- Manufacturing and admin costs may be reduced
- Might be able to develop other products to extend range.

Arguments against
- Security of supply from overseas
- Exchange rate fluctuations
- Supplier may increase prices in the future
- Social accounting aspects: impact on employment and local community
- Quality issues
- Cost of redundancies.

Profit and cost considerations (of)
- The factory is currently making a profit/loss
- Buying costs will be higher/lower
- Buying on credit could improve cash flow

√√ per valid point. Maximum **two** valid points for and **two** valid points against.

(8)

(Total: 52 marks)

2 Holborn Products manufactures parts for the motor industry. The following balances were extracted from the books on 30 April 2016.

	£
Inventories at 1 May 2015:	
Raw material	23 400
Work in progress	52 000
Finished goods	72 000
Purchases of raw materials	97 800
Carriage inwards	8 450
Manufacturing wages	81 400
Production management salaries	59 500
Non-current assets:	
Manufacturing equipment	
Cost	280 000
Provision for depreciation	160 000
Computing equipment	
Cost	150 000
Provision for depreciation	90 000
Computing technician wages	40 000
Factory consumables	45 200
Rent and rates	16 000
Electricity and water charges	15 600
General expenses	21 000
Property maintenance expenses	11 000
Provision for unrealised profit	12 000

Additional information at 30 April 2016

(1) Inventories:

Raw materials	£16 950
Work in progress	£58 000
Finished goods	£90 000

(2) Manufacturing wages of £2 600 were owing.

(3) All of the costs of computing are charged 60% to manufacturing and 40% to administration.

(4) Depreciation is charged on all non-current assets using the reducing balance method:

(i) manufacturing equipment at the rate of 20% per annum

(ii) computing equipment at the rate of 30% per annum.

(5) Factory consumables of £35 300 are direct.

(6) Half of the general expenses relate to manufacturing.

(7) Property maintenance expenses of £1 800 are owing.

(8) Rent and rates, electricity and water, property maintenance expenses are allocated 75% to manufacturing and 25% to administration.

(9) Production is transferred to finished goods at cost plus 20%.

Required

(a) Prepare, for the year ended 30 April 2016, the:

(i) Manufacturing Account

(21)

(ii) Provision for Unrealised Profit on Manufactured Goods Account

(5)

(iii) Manufacturing Wages Account.

(5)

The owner of Holborn Products is proposing changes to the way in which financial statements are prepared. There are four proposals.

Proposal 1
Include a sum for the skill of the workforce as a non-current asset in the Statement of Financial Position.

Proposal 2
Charge the full cost price of non-current assets to the year in which they are purchased.

Proposal 3
No longer provide for unrealised profit by removing the provision for unrealised profit on manufactured goods from the accounts.

Proposal 4
Charge the drawings of the owner to the Statement of Profit or Loss and Other Comprehensive Income.

(b) State, giving reasons for your answer, an accounting principle or concept that would **not** be complied with if **each** of the proposals 1, 2, 3 and 4 were introduced.

(12)

(c) Evaluate the use of International Accounting Standards (IAS) in the preparation of financial statements.

(12)

(Total for Question 2 = 55 marks)

TOTAL FOR SECTION A = 110 MARKS

Question Number	Indicative content
4 (a)	**AO1 (1), AO2 (2), AO3 (1)** **A01: One mark for identifying that depreciation relates to age and usage.** **A02: Two marks for explaining the impact upon the income for the period and non-current asset values in the financial position statement.** **A03: One mark for linking the need for depreciation to the application of accounting concepts.** • Non-current assets generally **fall in value** with age and usage (1)AO1 • The depreciation is a **cost/expense of a period of time** and therefore should be charged against income for that period/**profits should not be overstated** (1)AO2 • Because the non-current assets are generally falling in value this should be **reflected in the financial position statement** (1)AO2 • Charging depreciation complies with the **going concern**(1)AO3 • Charging depreciation complies with the **accruals concepts**. (1)AO3 Max 4 **Not** Prudence concept

Question Number	Indicative content
4 (b)	**AO2 (2)** **A02: One mark for calculating the depreciation on existing non-current assets and additions. One mark for calculating the depreciation on disposals.** Cost 30 April 2015 £30 000 + Additions £10 000 = £40 000 - Disposals £5 000 = £35 000 x 20% = £7000 (1)AO2 + Disposals £5 000 x 20%/2 £500 (1)AO2 = Total £7 500

Question Number	Indicative content
4 (c)	**AO1 (4), AO2 (4), AO3 (2)** **A01: Four marks for correctly recording the opening balances and bringing down the balances to the next period.** **A02: Four marks for correctly recording the transactions for the year.** **A03: Two marks for calculating the disposal sums and correctly recording in the accounts.**

Computer Account

		£			£
2015			2015		
1 May	Balance b/d	30 000 (1)AO1		Disposal	5 000 (1)AO3
			2016		
	Bank/cash	10 000 (1)AO2	30 April	Balance c/d	35 000 (1)AO2
		40 000			40 000
2016					
1 May	Balance b/d	35 000 (1of)AO1			

Computer- Provision for Depreciation Account

		£			£
2015			2015		
	Disposal(1)AO2	2 500 (1)AO3	1 May	Balance b/d	9 200 (1)AO1
2016			2016		
30 April	Balance c/d	14 200	30 April	Income statement	7 500(1of)AO2
		16 700			16 700
			1 May	Balance b/d	14 200 (1of)AO1

Question Number	Indicative content
4(d)	**AO1(4), AO2 (4)** **A01: Four marks for correctly recording or totalling figures in the statement.** **A02: Four marks for calculating and applying the correct figures to the statement.**

Extract
Non-current assets

	Cost		Accumulated depreciation		Carrying over
	£		£		£
Land & buildings	105 000 (1)AO2	-	9 400 (1)AO2	=	95 600
Computers	35 000 (1)AO2	-	14 200(1of)AO1	=	20 800
Fixtures & fittings	11 000 (1)AO1	-	5 400 (1)AO2	=	5 600
	151 000 (1of)AO1		29 000		122 000 (1of)AO1

Question Number	Indicative content
4(e)	**AO2 (1), AO3 (2), AO4 (3)** **A02: One mark for applying positive or negative aspects of Jabir's depreciation policy, drawing out key points.** **A03: Two marks for interpreting and analysing possible solutions to depreciating computers, using a developed chain of reasoning.** **A04: Three marks for evaluating the scenario counterbalancing the arguments giving weight to a range of financial and non-financial aspects to arrive at a logical conclusion.** Potential positive arguments for the business • Depreciation is being charged and therefore the accounting concepts are being complied with. • The method will reflect the principle of **equal usage equal charge** for each year. • Does not distort profits. Potential negative points for the business • Computers depreciate quickly due to obsolescence and therefore 20% is a fairly low figure for the early years. • In the early years the computer value in the financial position statement will be overstated. • A full year's depreciation in the year of purchase would result in high depreciation for non-current assets bought late in the year. **Not** Easier to calculate Consistent method

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.