Introductory Accounting

XXXX 2024

Examination Paper

Sample Assessment

Answer ALL questions.

Clearly cross out surplus answers.

Time: 2 hours

The maximum mark for this paper is 100.

Any reference material brought into the examination room must be handed to the invigilator before the start of the examination.

Candidates are allowed to use a scientific calculator during this examination.

Answer ALL questions		
		Marks
Question 1		
a)	Discuss whether each of the following items should be categorised as capital or as revenue: Purchase of premises of £800,000 Annual rental of equipment £40,000 Payment of wages of £1,000,000 Light and heating used during year £15,000 Depreciation of equipment £1,000	**10**
	Mark Scheme ***Each of these should be awarded 2 marks, with 1 mark for correctly getting capital or revenue, as below. The other mark for correctly identifying why it would be categorised in this way.*** • ***Purchase of premises of £800,000. This would be classed as capital expenditure, as premises can be used for more than a year.*** • ***Annual rental of equipment £40,000. This would be classed as revenue expenditure, as the benefit of the rental is within the year.*** • ***Payment of wages of £1,000,000 This would be classed as revenue expenditure, as payment is within a year.*** • ***Light and heating used during year £15,000. This would be classed as revenue expenditure; this expenditure is consumed throughout the year.*** • ***Depreciation of equipment £1,000. This would be classed as revenue expenditure, as this expenditure occurs and is consumed within the year.***	

		Marks
b)	An organisation named Pulp Ltd have apportioned their total production overheads to FIVE (5) of their main departments as follows: **Overhead costs** **£000s** Assembly 700 Finishing 600 Packing 500 Maintenance 300 Laboratory 150 The use of the service departments by the production departments and each other is estimated as: 	**10**

	Production			Service	
	Assembly	Finishing	Packing	Maintenance	Laboratory
	%	%	%	%	%
Maintenance	30	30	25	5	10
Laboratory	40	30	30	0	0

Calculate the final overhead costs of the productive cost centres if service department overheads are reapportioned ignoring all inter-service usage. (Calculate all figures to the nearest thousand).

Mark Scheme

	Departments				
	Assembly	***Finishing***	***Packing***	***Maintenance***	***Laboratory***
	£000s	***£000s***	***£000s***	***£000s***	***£000s***
Initial Overhead	***700***	***600***	***500***	***300***	***150***
Reapportioning of:					
Maintenance	***106 (1 mark)***	***106 (1 mark)***	***88 (1mark)***	***(300)***	
Laboratory	***60 (1 mark)***	***45 (1 mark)***	***45 (1 mark)***		***(150) (1 mark)***
Final Overhead	***866 (1 mark)***	***751 (1 mark)***	***633 (1 mark)***		

Total 20 Marks

			Marks
Question 2			
a)	Consider the costs below and then **classify** with a **reason** each of them as either fixed or variable, and as either direct or indirect.		
	i)	Flour, sugar, and butter used in production of cakes in a local bakery.	**2**
		Mark Scheme ***2 marks each – 1 mark for correctly identify fixed or variable and then 1 mark for direct or indirect)*** ***Variable and Direct – the amount of product used varies with production and is directly related to product.***	
	ii)	Electricity power for operating a large manufacturing organisation's machinery	**2**
		Mark Scheme ***2 marks each – 1 mark for correctly identify fixed or variable and then 1 mark for direct or indirect)*** ***Variable and Direct as amount of power varies with usage in the organisation and directly relates to the production.***	
	iii)	A TV advertising campaign for the launch of a new product	**2**
		Mark Scheme ***2 marks each – 1 mark for correctly identify fixed or variable and then 1 mark for direct or indirect)*** ***Fixed and Direct as cost of advertising doesn't vary with any output and is direct as it relates to the product.***	
	iv)	Managing Director's salary in a local enterprise	**2**
		Mark Scheme ***2 marks each – 1 mark for correctly identify fixed or variable and then 1 mark for direct or indirect)*** ***Fixed and Direct – the salary is fixed as the Director gets a paid a specific amount and directly related to production of the business.***	

			Marks
	v)	General rent of a factory	**2**
		Mark Scheme ***2 marks each – 1 mark for correctly identify fixed or variable and then 1 mark for direct or indirect)*** ***Fixed and Direct – rent payment is fixed as it doesn't vary with production and is related to the products produced***	
b)	Identify FIVE (5) different users that might be interested in financial information about a large limited or public company.		**5**
		Mark Scheme ***Below are some suggested users (1 mark each):*** ***1. Managers of the company – to manage the business effectively*** ***2. Shareholders of the company – assess how the business is performing*** ***3. Trade contacts – ability of the company to pay debts*** ***4. Providers of finance – the bank keeps up to date with repayments*** ***5. Inland Revenue – to assess tax***	
c)	Most of the application of cost accounting appear to relate to manufacturing companies. Can cost accounting be applied in other organisations? If so, give FIVE (5) examples of organisations where cost accounting could usefully be employed?		**5**
		Mark Scheme ***1 mark for each of the following or other suitable alternatives (up to 5 marks).*** ***i) Hospitals*** ***ii) Departmental stores*** ***iii) Banks*** ***iv) Colleges*** ***v) Transport Business***	
			Total 20 Marks

		Marks
Question 3		
a)	The materials contained in each assembly Z110 are: 3 Brackets @ £1.25 each 30 screws @ £0.02 each 6 Pulleys @ £0.67 each What is the expected variable cost of materials for producing FORTY (40) assemblies?	**6**
	Mark Scheme ***Material. Cost/Assembly*** ***£3 x 1.25. = 3.75 (1 mark)*** ***30 x 0.02. = 0.60 (1 mark)*** ***6 x 0.67 = 4.02 (1 mark)*** ***£8.37 (1 mark)*** ***Cost. = bx (1 mark)*** ***£8.37 x 40*** ***£334.80 (1 mark)***	
b)	The behaviour of a cost can be expressed algebraically as: $Cost = bx + cx_2 + dx_3$ Where b = labour hours c = material in kgs d = machine hours and x = output in units Calculate the cost at output levels of 80 units when b = 6, c = 0.7 and d = 0.04	**4**
	Mark Scheme ***Cost at 80 units = 6(80) + 0.7 (80x2) + 0.04 (80x3) = £25,440*** ***(1 mark for each of the THREE (3) terms and 1 mark for the correct answer)***	

		Marks
c)	A company makes a single product with a sales price of £10 and a variable cost of £6. Fixed costs are £60,000pa. Calculate the number of units to break even.	**4**
	Mark Scheme ***Contribution = Selling practice – Variable cost (1 mark)*** ***= £10 – 6*** ***= £4 (1 mark)*** $\boldsymbol{Break-even\ (units) = \frac{£60{,}000}{£4}}$ ***(1 mark)*** ***= 15,000 (1 mark)***	
d)	Using the same information, calculate sales at break-even point.	**2**
	Mark Scheme ***Break-even point (£ sales) = 15,000 x £10 (1 mark)*** ***= £150,000 (1 mark)***	
e)	James Pulp owns a small manufacturing plant, and also an administrative office. The size of the plant is 5,000 square metres, The size of the administrative office is 2,500 square metres, Rent for the entire facility £15,000 per month. Rent must be allocated between the TWO (2) departments.	**2**
	Mark Scheme ***The calculation would be:*** ***£15,000 (rent) ÷ 7,500 (square metres) (1 mark) = £2 per square metre (1 mark)***	
f)	**Define TWO (2) of the main methods for** allocating costs, used by most organisations	**2**
	Mark Scheme ***(1 mark for each of the following up to 2 marks):*** • ***Direct labour*** • ***Machine time used*** • ***Square footage/metre*** • ***Units produced***	
		Total 20 Marks

Marks

Question 4

a) A business has produced the following budgets for TWO (2) activity levels: **8**

Expense	**Budget for 5,000 units** £	**Budget for 6,000 units** £
Wages	16,000	17,200
Materials	25,000	30,000
Salaries	22,500	23,000
Depreciation	18,000	18,000
Other Overheads	18,500	21,000

Prepare a budget for an activity level of 6,200 units.

Mark Scheme

Expense	***Budget for 6,200 units £***	***Derived Cost Function***
Wages	*17,440*	*£10,000 + £1.20 unit*
Materials	*31,000*	*£5 per unit*
Salaries	*23,100*	*£20,000 + 0.50 per unit*
Depreciation	*18,000*	*Fixed*
Other Overheads	*21,500*	*£6,000 + £2.50 per unit*

(1 mark for each term in the derived cost function column – i.e., for** £10,000 + £1.20 unit, **1 mark for '**£10,000**', 1 mark for '**£1.20 unit**')

b) Classify each of the following as being usually fixed, variable or semi-variable costs.

i) Direct labour **1**

Mark Scheme

Semi-variable (1 mark)

ii) Factory rental **1**

Mark Scheme

Fixed (1 mark)

			Marks
	iii)	Supplies and other indirect materials	**1**
		Mark Scheme ***Variable (1 mark)***	
	iv)	Advertising	**1**
		Mark Scheme ***Fixed (1 mark)***	
	v)	Maintenance of machinery	**1**
		Mark Scheme ***Semi-variable (1 mark)***	
	vi)	Supervisory personnel	**1**
		Mark Scheme ***Fixed (1 mark)***	
c)	Explain how you would class each of the following – a sole trader, partnership or limited company and detail briefly why?		
	i)	Mrs Smith works as a florist under the business name 'FlowersRU'. She rents an office and employs an administrative assistant to answer the phone, keep files and make appointments.	**2**
		Mark Scheme ***This is likely to be a sole trader (1 mark) given the structure of the business – a single owner running and managing the business (1 mark).***	
	ii)	Ken and Bruce work together as electricians under the business name 'Sparks". They started the business EIGHT (8) years ago and work from a rented business unit on a business estate.	**2**
		Mark Scheme ***This is likely to be a partnership (1 mark) as the TWO (2) owners work together and share profits (1 mark).***	

			Marks
	iii)	Barbie and Ken own a restaurant jointly. They operate under the business name 'Chic Menu' and both participate in the running of the business. They agreed to share profits equally.	**2**
		Mark Scheme ***This business could be a partnership or limited company (1 mark), depending on the size of business, degree of risk and how it is structured. (1 mark)***	
			Total 20 Marks

Question 5

a) The following cash flows have been estimated for a project: **7**

Year	**0**	**1**	**2**	**3**	**4**	**5**
£	-2,000	+400	+600	+700	+600	+500

Assuming that the cost of capital is 10% and using the appropriate discount factors, calculate the project NPV and state whether the project is acceptable.

Mark Scheme

NPV = -£2,000 + (400 X 0.909) (1 mark) + (600 X 0.826) (1 mark)+ (700 X 0.751) (1 mark) + (600 X 0.683) (1 mark) + (500 X 0.621) (1 mark)

= + £105 (1 mark)
Since the NPV is >0, it is acceptable. (1 mark)

b)	**Goodman Builders Merchants Ltd** Goodman Builders Merchants Ltd is a recently established ltd company that sells building materials to builders and the general public. It wants to develop a good reputation for selling good quality products. The business previously operated as a sole trader for a few years, with John Goodman being the founding owner. The owner and other appointed Board members lack understanding of the new accounting responsibilities because of limited status, and the differentiation of accounting principles. The following issues have been raised by other members, and you must provide an explanation of the responsibility: o David Bell (Sales Director) sales budget, set in a recent department budget setting process. o The annual rental payment made in respect of the warehouse, used to store the building materials for sale to trade customers. o The recent salaries budgeted and agreed for each of the Board members, which will be paid at year end. o Payment made for both electricity and gas heating of the business premises. o Year-end sales figures for all stock sold. For **each** of the above financial details, explain the branch of accounting that they can be classified as and the relevant statement that each will be recorded within, if relevant.	**10**
	Mark Scheme • ***This is a budgeted figure (1 mark) and therefore is relevant to management accounting. (1 mark)*** • ***The rental payment is relevant to financial accounting (1 mark) and should be recorded in Statement of Profit or Loss (1 mark)*** • ***The budgeted salaries are relevant to budgets (1 mark) and thus management accounting. (1 mark)*** • ***Payments to be made are accruals and relevant to financial accounting (1 mark) and recorded in the statement of financial position. (1 mark)*** • ***The Year-end sales figures are relevant to financial accounting (1 mark) and recorded in Statement of Profit or Loss (1 mark)***	
c)	Explain the budget where managers must justify all costs based on need?	**2**
	Mark Scheme ***This is a zero-based budget (1 mark) which requires the budget to start from base zero rather than last year's budget and managers are required to justify all budgeted expenditure rather than just any changes from the previous year. (1 mark)***	

d)	Calculate ROCE when Operating profit is £280,000, and Capital employed is £1,400,000?	**1**
	Mark Scheme $\boldsymbol{ROCE}\ (\%) = \frac{\boldsymbol{Operating\ Profit}}{\boldsymbol{Capital\ Employed}} \times \mathbf{100}\%$ $\boldsymbol{ROCE}\ (\%) = \frac{\mathbf{£280{,}000}}{\mathbf{£1{,}400{,}000}} \times \mathbf{100}\% = \mathbf{20}\%$ ***(1 mark)***	
		Total 20 Marks

End of paper

Learning Outcomes matrix

Question	Learning Outcomes / Assessment Criteria assessed	Marker can differentiate between varying levels of achievement
1	LO1 & LO2	Yes
2	LO1 & LO2	Yes
3	LO1	Yes
4	LO1	Yes
5	LO1	Yes
[insert as many rows as there are questions in the QP]		

Grade descriptors

Learning Outcome	Pass (40-59%)	Merit (60-69%)	Distinction (70-100%)
1. Understand the purpose of management accounting and its importance to a business for sustainability and decision-making	Demonstrates adequate knowledge and understanding of the subject matter.	Demonstrates good knowledge and understanding of the subject matter.	Demonstrates comprehensive knowledge and understanding of the subject matter.
2. Analyse the financial health and performance of a business using information from financial statements and data	Provides consistent interpretation and evaluation of relevant information and ideas to complete tasks, address well defined problems, and give appropriate justification for conclusions.	Provides critical interpretation and evaluation of relevant information and ideas to complete tasks, address well defined problems, and give well explained and appropriate justification for conclusions.	Provides consistently critical interpretation and evaluation of relevant information and ideas to complete tasks, address well defined problems, and give well explained and highly appropriate justification for conclusions.
3. Recognise, describe and analyse the financial concepts in relation to non-current (fixed) assets, current assets, current liabilities and non-current (long-term) liabilities			
4. Recognise and discuss the accounting principles related to ownership interest, and recall, define, interpret and perform ratio analysis calculations	Demonstrates adequate ability to review effectiveness of methods, actions, and results.	Demonstrates sound ability to review effectiveness of methods, actions, and results.	Demonstrates comprehensive ability to review effectiveness of methods, actions, and results.
5. Recognise and discuss the principles of and issues around reporting corporate performance and reporting cash flows	Can adequately identify, select, and use appropriate information and/or skills, methods, and procedures to reach appropriate conclusions.	Can soundly identify, select, and use appropriate information and/or skills, methods, and procedures to reach well explained and	Can coherently identify, select, and use appropriate information and/or skills, methods, and procedures to reach well explained and highly appropriate

	Uses appropriate investigation and/or analysis of supplied information to inform conclusions.	appropriate conclusions. Uses detailed investigation and/or detailed analysis of supplied information to inform conclusions.	conclusions. Uses thorough and detailed investigation and/or consistently critical analysis of supplied information to inform well explained conclusions.