Teacher Resource Bank

GCE Accounting

Additional Sample Questions and Mark Schemes

for Units ACCN1- ACCN4

- Incorporating IAS Terminology

CONTENTS

The questions and mark schemes in this document relate to topics which are new for this specification, in that they were not included in the previous GCE Accounting specification (5121/6121) OR in that they have been modified from it.

The questions and mark schemes are presented using dual IAS terminology in the following style: **New IAS term (Old UK term)**. This style matches the approach being used in the question papers and mark schemes in the June 2010 and subsequent examinations.

ACCN 1 Additional Specimen Questions

1 **Total for this question: 34 marks**

Bharti owns a shop selling ladies fashion accessories. The following information has been extracted from the books of account at 30 June 2007.

	£
Bank overdraft	420
Capital account at 1 July 2006	17 430
Carriage inwards	295
Discounts allowed	140
Drawings	15 100
General expenses	1 345
Motor expenses	2 890
Motor van - provision for depreciation	2 520
Motor van at cost	4 200
Purchases	63 730
Rent and rates	6 150
Returns inwards	185
Returns outwards	335
Sales	102 310
Inventory (stock) at 1 July 2006	32 400
Trade payables (creditors)	6 640
Trade receivables (debtors)	380
Wages	2 840

Additional information not yet recorded in the books of account at 30 June 2007

(1) Inventory (stock) at 30 June 2007 was valued at £28 750.
(2) Motor expenses paid in advance amounted to £55.
(3) General expenses owing amounted to £120.
(4) Depreciation is to be provided on the motor van at 20% per annum using the straight-line method.

REQUIRED

1(a) Prepare an income statement (trading and profit and loss account) for the year ended 30 June 2007.

(20 marks)
(for quality of presentation: plus 1 mark)

1(b) Prepare a balance sheet at 30 June 2007.

(12 marks)
(for quality of presentation: plus 1 mark)

2 **Total for this question: 8 marks**

REQUIRED

2 Explain what interest each of the following stakeholders may have in the financial statements (final accounts) of a business.

Suppliers

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(2 marks)

Customers

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(2 marks)

Government

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(2 marks)

Employees

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(2 marks)

ACCN 1: Mark Scheme

1 **Total for this question: 34 marks**

Bharti owns a shop selling ladies fashion accessories. The following information has been extracted from the books of account at 30 June 2007.

	£
Bank overdraft	420
Capital account at 1 July 2006	17 430
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Additional information not yet recorded in the books of account at 30 June 2007

(1) Inventory (stock) at 30 June 2007 was valued at £28 750.
(2) Motor expenses paid in advance amounted to £55.
(3) General expenses owing amounted to £120.
(4) Depreciation is to be provided on the motor van at 20% per annum using the straight-line method.

REQUIRED

1(a) Prepare an income statement (trading and profit and loss account) for the year ended 30 June 2007.

Bharti
Income statement (trading and profit and loss account) for the year ended 30 June 2007 (1)

	£		£	
Sales			**102 310**	**(1)**
Less: returns inwards			**(185)**	**(1)**
			102 125	
Cost of sales *				
Opening inventory (stock)	**32 400**	**(1)**		
Purchases	**63 730**	**(1)**		
Less: returns inwards	**(335)**	**(1)**		
Carriage inwards	**295**	**(1)**		
	63 690			
Closing inventory (stock)	**(28 750)**	**(1)**	**67 340**	
Gross profit *			**34 785**	**(1OF)**
Less: expenses				
Discounts allowed	**140**	**(1)**		
General expenses (1345 (1) +120 (1))	**1 465**	**(1OF)**		
Motor expenses (2890 (1) – 55 (1))	**2 835**	**(1OF)**		
Rent and rates	**6 150**	**(1)**		
Wages	**2 840**	**(1)**		
Depreciation (4200 x 20%)	**840**	**(1)**	**14 270**	
Profit for the year *			**20 515**	**(1OF)**

20 marks

QWC
Quality of presentation: plus 1 mark for all three headings (*) in full

1(b) Prepare a balance sheet at 30 June 2007.

Bharti
Balance sheet at 30 June 2007 (1)

	£		£	
Non-current (fixed) assets *				
Motor van at cost	4 200	(1)		
Motor van accumulated Depreciation	(3 360)	(1)	840	
Current assets *				
Inventory (stock)	28 750	(1)		
Trade receivables (debtors)	380	(1)		
Prepayments	55	(1)		
	29 185			
Current liabilities *				
Trade payables (creditors)	6 640	(1)		
Accruals	420	(1)		
Bank overdraft	120	(1)		
	7 180			
Net current assets			22 005	
			22 845	
Capital account *				
Brought forward			17 430	(1)
Add: Profit for the year			20 515	(1OF)
			37 945	
Deduct: drawings			(15 100)	(1)
			22 845	

12 marks

QWC
Quality of presentation: plus 1 mark for all four headings (*) in full

2 **Total for this question: 8 marks**

REQUIRED

2 Explain what interest each of the following stakeholders may have in the financial statements (final accounts) of a business.

Suppliers
To assess whether the business is able to continue to pay for goods and services (1) according to agreed terms (1).

Customers
To assess the continued viability of the business to meet their needs (1). Will they be able to supply goods already ordered (1)?

Government
To assess how much income tax (1) and value added tax (1) is due from the business.

Employees
To assess whether the business is able to continue trading and therefore continue to provide employment (1) and pay wages that are due (1).

8 marks

ACCN 2: Additional Specimen Questions

1 **Total for this question: 10 marks**

Frith Ltd made a bonus issue of ordinary shares on 31 May 2007. The shares were issued on the basis of 1 new share for every 4 held. The directors of the company wish to retain reserves in their most distributable form.

The equity (capital and reserves) extract from the balance sheet, **before** the bonus issue, is shown below.

	£000
Equity (Capital and reserves)	
Issued ordinary shares of 10p each	1 600
Share premium account	250
Revaluation reserve	140
Retained earnings (Profit and loss account)	240
	2 230

REQUIRED

1(a) Prepare the equity (capital and reserves) extract from the balance sheet **after** the bonus issue.

(7 marks)

1(b) Explain **one** reason why a company might choose to make a bonus issue of shares.

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(3 marks)

2 **Total for this question: 30 marks**

The directors of Mellors Ltd have made a rights issue on the basis of 1 new share for every 2 held at an issue price of £1.50 each. The rights issue was fully subscribed.

An extract from the balance sheet immediately **before** the rights issue is shown below.

Balance sheet extract at 1 December 2007
Mellors Ltd

	£000
Non-current liabilities (Creditors: amounts falling due after more than one year)	
Loan	200
Equity (Capital and reserves)	
Issued ordinary shares of £1 each fully paid	100
Share premium account	50
Retained earnings (Profit and loss account)	25
	175

The directors have used all the funds generated by the rights issue to repay part of the loan.

REQUIRED

2(a) Prepare the equity (capital and reserves) section of the balance sheet of Mellors Ltd showing the effect of the rights issue.

(8 marks)

Workings

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2(b) State the value of the loan outstanding **after** the rights issue.

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(3 marks)

2(c) Explain the differences between a rights issue and a bonus issue of shares.

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(9 marks)

2(d) Calculate the gearing ratio **before** and **after** the rights issue. State the formula used.

Formula ....

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Before **After**

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(5 marks)

2(e) Comment on the gearing ratios calculated in **2**(d).

(5 marks)

ACCN 2: Mark Scheme

1 **Total for this question: 10 marks**

Frith Ltd made a bonus issues of ordinary shares on 31 May 2007. The shares were issued on the basis of 1 new share for every 4 held. The directors of the company wish to retain reserves in their most distributable form.

The equity (capital and reserves) extract from the balance sheet, **before** the bonus issue, is shown below.

	£000
Equity (capital and reserves)	
Issued ordinary shares of 10p each	1 600
Share premium account	250
Revaluation reserve	140
Retained earnings (Profit and loss account)	240
	2 230

REQUIRED

1(a) Prepare the equity (capital and reserves) extract from the balance sheet **after** the bonus issue.

Equity (capital and reserves)	**£000**	
Ordinary shares of 10p each	**2 000**	**(1OF) for adding**
Retained earnings (Profit and loss account) ***(240 - 10)***	**230**	**(1OF)**
	2 230	**(1) or (0)**

Workings

Shares issued 1 600 000 x 10 = 16 000 000
Bonus issue 16 000 000 / 4 = 4 000 000 shares x 10p (1) = £400 000 (1)

Bonus issue	**400 000**	
Share premium account	**(250 000)**	**(1)**
Revaluation reserve	**(140 000)**	**(1)**
Retained earnings (Profit and loss account)	**10 000**	

7 marks

1(b) Explain **one** reason why a company might choose to make a bonus issue of shares.

Possible reasons:
Reward shareholders when cannot pay dividend
Distribute un-distributable reserves
Restructure balance sheet
Make shares more saleable

1 mark for identifying reason; 0-2 marks for development. **3 marks**

2 **Total for this question: 30 marks**

The directors of Mellors Ltd have made a rights issue on the basis of 1 new share for every 2 held at an issue price of £1.50 each. The rights issue was fully subscribed.

An extract from the balance sheet immediately **before** the rights issue is shown below.

Balance sheet extract at 1 December 2007
Mellors Ltd

	£000
Non-current liabilities (Creditors: amounts falling due after more than one year)	
Loan	200
Equity (capital and reserves)	
Issued ordinary shares of £1 each fully paid	100
Share premium account	50
Retained earnings (Profit and loss account)	25
	175

The directors have used all the funds generated by the rights issue to repay part of the loan.

REQUIRED

2(a) Prepare the equity (capital and reserves) section of the balance sheet of Mellors Ltd showing the effect of the rights issue.

Mellors Ltd

	£000	
Equity (Capital and reserves)		
Issued share capital (ordinary shares of £1 each)	**150**	**(1) W1**
Share premium account	**75**	**(1) W2**
Retained earnings (Profit and loss account)	**25**	**(1)**
	250	**(1)**

Shares: 100/2 (1) = 50 (1) + 1 for adding to issued shares

Share premium:
50 000 shares (1OF) x £0.50 (1) = 25 000 + (1) for adding to share premium)

8 marks

2(b) State the value of the loan outstanding **after** the rights issue.

£125 000 (3OF) = [200 000 (1) – (50 000 (1OF) + 25 000 (1OF))]

3 marks

2(c) Explain the differences between a rights issue and a bonus issue of shares.

Explanation of rights issue: **0-4 marks**

A rights issue is a means of raising finance. The existing shareholders are given the "right" to purchase more shares, often at a discount. Provided the rights are taken up control of the company will not change.

Explanation of bonus issue: **0-4 marks**

A bonus issue is a "free" issue of shares. Shareholders are given free shares in relation to their existing shareholding; this is funded by transferring reserves into share capital. No finance is raised.

Highlighting the differences: 0-2 marks **max 9 marks**

2(d) Calculate the gearing ratio **before** and **after** the rights issue. State the formula used.

Formula: **Non-current liabilities (Creditors: amounts falling due after more than 1 year) x 100 (1)**
Equity (Capital and reserves)

Before	After
200 x 100 (1) / 175 = 114% (1)	**125 x 100 (1) / 250 = 50%(1OF)**

5 marks

2(e) Comment on the gearing ratios calculated in **2**(d).

Comments on 'before' ratio: **0-3 marks**
The gearing ratio is high as it is over 100% and this means high risk.

Comments on 'after' ratio: **0-3 marks**
Following the rights issue, the gearing ratio has fallen. It is now low geared as it is below 100% and this means less risk.

max 5 marks

ACCN 3: Additional Specimen Questions

1 **Total for this question: 9 marks**

The directors of Verfico plc provide the following balance sheet extracts.

	At 31 December 2006 £000	At 31 December 2007 £000
Assets		
Non-current assets (fixed assets)		
Property, plant and equipment	4 217	4 301

Additional information

(1) During the year ended 31 December 2007, property, plant and equipment which had originally cost £1 634 000, was sold. The depreciation charge on these non-current assets (fixed assets) up to 31 December 2007 was £920 000. The loss on disposal amounted to £294 000.

(2) During the year ended 31 December 2007, additions to property, plant and equipment cost £930 000.

REQUIRED

1 Prepare a detailed note to the accounts showing movements in property, plant and equipment during the year ended 31 December 2007.
(7 marks)

(for quality of presentation: plus 2 marks)

2 **Total for this question: 35 marks**

The following draft balance sheet of Groglin plc, an electrical goods retailer, has been prepared by the directors of the company.

Groglin plc
Balance sheet at 31 December 2007

	£000
Assets	
Non-current assets (fixed assets)	
Property, plant and equipment	3 000
	3 000
Current assets	
Inventories (stocks)	120
Trade receivables (debtors)	16
Cash and cash equivalents	28
Suspense	200
	364
	3 364
Liabilities	
Current liabilities (Creditors: amount falling due within 12 months)	
Trade payables (creditors)	(84)
Net assets	3 280
Shareholders' equity	
Called up share capital	2 000
Retained earnings and other reserves	1 280
	3 280

Additional information

After the preparation of the draft financial statements (final accounts) for the year ended 31 December 2007, the following items were discovered. They all need consideration when redrafting the balance sheet at 31 December 2007.

(1) The company has spent £15 million establishing the brand name 'Grogbest'. The finance director plans to include the brand name as an intangible asset on the balance sheet. It will be amortised over the next five years.

(2) Groglin plc purchased a delivery vehicle (included in property, plant and equipment) some years ago. The carrying amount (net book value) for the vehicle is £65 000. The vehicle has a recoverable amount of £50 000.

(3) On 1 January 2007, property, plant and equipment were revalued from a net book value of £2 000 000 to £2 500 000. The revaluation had not been included in the company's books of account. Non-current assets (fixed assets) are generally depreciated at 2% per annum, but no depreciation had been charged for the year ended 31 December 2007.

(4) No provision has been made for doubtful debts. The directors feel that 3% of trade receivables (debtors) would be appropriate.

(5) The directors of Groglin plc have valued all closing inventories (stocks) at cost. Included in the value of closing inventory (stock) were 10 microwave cookers that had been damaged. The microwave cookers cost £20 each and would normally sell for £50 each. The damaged microwave cookers could be sold for £30 each after the necessary repairs are carried out. The total cost of repairing the damaged microwave cookers will be £125.

REQUIRED

2 (a) Identify the appropriate International Accounting Standard (IAS) for **each** of the additional information items 1 - 5. *(5 marks)*

2 (b) Calculate the corrected retained earnings and other reserves balance at 31 December 2007, showing clearly the effect of each of the additional information items 1 – 5. (*8 marks)*

2 (c) Prepare a balance sheet at 31 December 2007 taking into account the additional information items 1 – 5. (*10 marks)*

2 (d) Discuss the reasons why limited companies are required to comply with International Accounting Standards (IAS). *(12 marks)*

ACCN 3: Mark Scheme

1 **Total for this question: 9 marks**

The directors of Verfico plc provide the following balance sheet extracts.

	At 31 December 2006 £000	At 31 December 2007 £000
Assets		
Non-current assets (fixed assets)		
Property, plant and equipment	4 217	4 301

Additional information

(1) During the year ended 31 December 2007, property, plant and equipment which had originally cost £1 634 000, was sold. The depreciation charge on these non-current assets (fixed assets) up to 31 December 2007 was £920 000.
The loss on disposal amounted to £294 000.

(2) During the year ended 31 December 2007, additions to property, plant and equipment cost £930 000.

REQUIRED

1 Prepare a detailed note to the accounts showing movements in property, plant and equipment during the year ended 31 December 2007.

	£000	
***Property, plant and equipment**		
***Net book value**		
***At beginning of the year**	**4 217**	**(1)**
***Additions at cost**	**930**	**(1)**
***Disposals**	**(714)**	**(2)**
***Depreciation for the year**	**(132)**	**(2)**
***At the end of the year**	**4 301**	**(1)**

7 marks

QWC
For quality of presentation: plus 2 marks
All 7 descriptions: 2 marks; 4 - 6 descriptions: 1 mark **2 marks**

2 **Total for this question: 35 marks**

The following draft balance sheet of Groglin plc, an electrical goods retailer, has been prepared by the directors of the company.

Groglin plc
Balance sheet at 31 December 2007

	£000
Assets	
Non-current assets (fixed assets)	
Property, plant and equipment	2 000
	2 000
Current assets	
Inventories (stocks)	120
Trade receivables (debtors)	16
Cash and cash equivalents	28
Suspense	200
	364
	2 364
Liabilities	
Current liabilities	
Trade payables (creditors)	(84)
Net assets	2 280
Shareholders' equity	
Called up share capital	1 500
Retained earnings and other reserves	780
	2 280

Additional information

After the preparation of the draft financial statements (final accounts) for the year ended 31 December 2007, the following items were discovered. They all need consideration when redrafting the balance sheet at 31 December 2007.

(1) The company has spent £15 million establishing the brand name 'Grogbest'. The finance director plans to include the brand name as an intangible asset on the balance sheet. It will be amortised over the next five years.

(2) Groglin plc purchased a delivery vehicle (included in property, plant and equipment) some years ago. The carrying amount (net book value) for the vehicle is £65 000. The vehicle has a recoverable amount of £50 000.

(3) On 1 January 2007, property, plant and equipment were revalued from a net book value of £2 000 000 to £2 500 000. The revaluation had not been included in the company's books of account. Non-current assets (fixed assets) are generally depreciated at 2% per annum, but no depreciation had been charged for the year ended 31 December 2007.

(4) No provision has been made for doubtful debts. The directors feel that 3% of trade receivables (debtors) would be appropriate.

(5) The directors of Groglin plc have valued all closing inventories (stocks) at cost. Included in the value of closing inventory (stock) were 10 microwave cookers that had been damaged. The microwave cookers cost £20 each and would normally sell for £50 each. The damaged microwave cookers could be sold for £30 each after the necessary repairs are carried out. The total cost of repairing the damaged microwave cookers will be £125.

REQUIRED

2 (a) Identify the appropriate International Accounting Standard (IAS) for **each** of the additional information items 1 - 5.

Item:		
1	**IAS 38**	**Intangible assets (1)**
2	**IAS 36**	**Impairment of assets (1)**
3	**IAS 16**	**Property plant and equipment (1)**
4	**IAS 37**	**Provisions, contingent liabilities and contingent assets (1)**
5	**IAS 2**	**Inventories (1)**

5 marks

2 (b) Calculate the corrected retained earnings and other reserves balance at 31 December 2007 showing clearly the effect of each of the additional information items 1 – 5.

		£	
Original balance		**1 280 000**	**(1)**
Item	**2**	**(15 000)**	**(1)**
	3	**(10 000)**	**(1)**
	4	**(480)**	**(1)**
	5	**(25)**	**[(200) (1) + (300 (1) – 175 (1))]**
		1 254 495	**(1OF)**

8 marks

2 (c) Prepare a balance sheet at 31 December 2007 taking into account the additional information items 1 – 5.

Groglin plc
Balance Sheet at 31 December 2007

	£	
Assets		
Non-current assets (fixed assets)		
Property, plant and equipment	**3 675 000**	**W1**
Current assets		
Inventories (stocks)	**119 975**	**W2**
Trade receivables (debtors)	**15 520**	**W3**
Cash and cash equivalents	**28 000**	
	163 495	
	3 838 495	
Liabilities		
Current liabilities		
Trade payables (creditors)	**(84 000)**	
Net assets	**3 754 495**	
Shareholders' equity		
Called up capital	**2 000 000**	
Retained earnings and other reserves	**1 754 495**	**W4**
	3 754 495	

Workings

W1 3 200 000 (1) – 15 000 (1) + 500 000 (1) – 10 000 (1)
W2 120 000 (1) – 25 (1)
W3 16 000 (1) – 480 (1)
W4 1 254 495 (1OF) + 500 000 (1)

10 marks

2 (d) Discuss the reasons why limited companies are required to comply with International Accounting Standards (IAS).

Although the standards are non-statutory (1) they set out the principles for preparing (1) and presenting (1) financial statements (final accounts). They are a "set of rules" (1) that companies must abide by (1); this makes "window dressing" more difficult. Non-compliance (1) would cast serious doubt on the reliability of the company's results (1). The auditors would have to draw attention to the non-compliance by qualifying the accounts (1). Shareholders and financial institutions might be unhappy with any investment they had made (1).
The application makes year-on-year comparisons possible (1). It helps multi-national companies ensure that all parts of the business in different countries apply the same rules (1). It allows shareholders and potential shareholders to make inter-firm comparisons (1), safe in the knowledge that they are all preparing accounting statements using the same standards and procedures. (1)

max 9 marks

Conclusion based on the above discussion. **max 3 marks**

Overall max 12 marks

ACCN 4: Additional Specimen Questions

Activity Based Costing (ABC)

1 **Total for this question: 4 marks**

REQUIRED

1 (a) Explain the term ‘activity based costing’. *(2 marks)*

1 (b) Explain the term ‘cost driver’. *(2 marks)*

2 **Total for this question: 10 marks**

Activity based costing was developed as an alternative to absorption costing.

REQUIRED

2 (a) Explain how activity based costing is used to calculate the cost of a product. *(4 marks)*

2 (b) Explain **two** benefits of using activity based costing as opposed to using absorption costing. *(6 marks)*

ACCN 4: Mark Scheme

Activity Based Costing (ABC)

1 **Total for this question: 4 marks**

REQUIRED

1 (a) Explain the term 'activity based costing'.

Activity based costing is a method of costing which identifies the activity which influences each indirect cost. The cost per unit of output is then calculated based on its use of this activity. **2 marks**

1 (b) Explain the term 'cost driver'.

A cost driver is an activity which causes costs to be incurred and to change.
2 marks

2 **Total for this question: 10 marks**

Activity based costing was developed as an alternative to absorption costing.

REQUIRED

2 (a) Explain how activity based costing is used to calculate the cost of a product.

Activity based costing analyses an organisation's indirect activities and groups their costs into cost pools (1), the factor which influences the costs is then identified, namely the cost driver (1), and a rate for each cost is calculated (1). This rate is then used to charge the organisation's output with cost, based on the output's use of the activity (1). **4 marks**

2 (b) Explain **two** benefits of using activity based costing as opposed to using absorption costing.

Modern production methods do not lend themselves to the use of absorption rates such as direct labour hours or machine hours (1). Modern integrated production systems can now often operate with minimal human intervention, e.g. automated methods of mass production (0-2).

Indirect costs can now account for the majority of product costs and should therefore be accounted for in a less arbitrary way than they would under absorption costing (1), e.g. simply absorbing based on just one basis does not acknowledge the complexity of costs which can make up overheads (0-2).

Both production methods and batch sizes can have a major impact on product costs, yet these are mainly ignored by absorption costing (1), e.g. the cost involved in repeatedly setting up equipment is much larger per unit of output for small production runs than for large ones (0-2).

Max 2 benefits: 1 mark for stating benefit and 0-2 marks for development.
max 6 marks

ACCN 4: Additional Specimen Questions

Labour Budgets

1 **Total for this question: 6 marks**

REQUIRED

1 (a) Explain the term 'labour budget'. *(2 marks)*

1 (b) Explain **two** uses of a labour budget for a manufacturing company. *(4 marks)*

2 **Total for this question: 20 marks**

Su Ling Ltd has the following production budget for the next quarter:

	Month 1	Month 2	Month 3
Production in units	2100	2400	3000

Each unit takes 6 hours to complete. Each labour hour is paid at a rate of £8 per hour.

There are 15 000 hours of labour available each month.

REQUIRED

2 (a) Prepare a labour budget for the quarter identifying any shortfall or surplus in monthly labour hours. *(6 marks)*

Part-time labour could be employed to cover each month's shortfall in hours. This would be paid at a rate of £14 per hour.

REQUIRED

2 (b) Calculate the percentage increase in total cost for the quarter if the part-time labour is employed to cover the shortfall in labour hours compared to the total cost of labour if the part-time labour is not employed. *(10 marks)*

2 (c) Describe how the labour budget could be used to prevent the employment of the part-time labour. Explain the limitation of using the labour budget in this manner. *(4 marks)*

ACCN 4: Mark Scheme

Labour Budgets

1 **Total for this question: 6 marks**

1 (a) Explain the term, 'labour budget'.

A labour budget plans the utilisation and control of labour, stated in hours and cost (2). **2 marks**

1 (b) Explain **two** uses of a labour budget for a manufacturing company.

A labour budget identifies any shortfall in the available number of hours for the planned production levels, so that remedial action can be taken (0-2).
It can be used to control the cost of labour, if co-ordinated with the cash budget (0-2).
It can plan ahead the need for future employment of personnel if production requirements exceed the labour hours currently available (0-2).

Plus any other relevant comment. **max 2 x 2 marks**

2 **Total for this question: 20 marks**

Su Ling Ltd has the following production budget for the next quarter:

	Month 1	**Month 2**	**Month 3**
Production in units	2100	2400	3000

Each unit takes 6 hours to complete. Each labour hour is paid at a rate of £8 per hour.

There are 15 000 hours of labour available each month.

REQUIRED

2 (a) Prepare a labour budget for the quarter identifying any shortfall or surplus in monthly labour hours.

	Month 1		**Month 2**		**Month 3**	
Production in units	**2 100**		**2 400**		**3 000**	
Labour hours required	**12 600**	**(1)**	**14 400**	**(1)**	**18 000**	**(1)**
Surplus (shortfall)	**2 400**	**(1)**	**600**	**(1)**	**(3 000)**	**(1)**

6 marks

Part-time labour could be employed to cover each month's shortfall in hours. This would be paid at a rate of £14 per hour.

REQUIRED

2 (b) Calculate the percentage increase in total cost for the quarter, if the part-time labour is employed to cover the shortfall in labour hours compared to the total cost of labour if the part-time labour is not employed.

Total cost without use of part-time hours:

8 (1) x (12600+14400+15000) (1OF) = £336 000 (1OF)

Total cost with the use of part-time hours:

14 (1) x 3000 (1OF) = £42 000 (1OF) + £336 000 = £378 000 (1OF)

Therefore percentage increase is:

42 000 (1OF) / 336 000 (1) x 100 = 12.5% (1OF)

10 marks

2 (c) Describe how the labour budget could be used to prevent the employment of the part-time labour. Explain the limitation of using the labour budget in this manner.

In months 1 and 2, there is a total of 3000 hours surplus to production requirements (1OF). This could be used to cover the shortfall in labour hours in month 3 (1OF). It would require inventories (stock) to be manufactured earlier and stored (1) but would be the cheaper option (1) as long as the planned production is accurate for the future levels of sales (1). Otherwise inventories (stock) will be manufactured needlessly and will remain unsold, thereby incurring extra costs (1).

For the use of the labour budget: max 2 marks and for the limitation: max 2 marks.

Overall max 4 marks