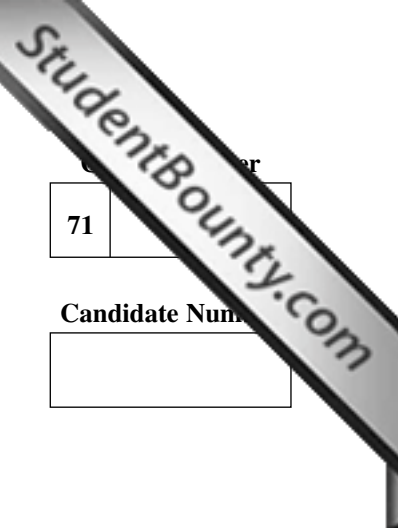




Rewarding Learning

ADVANCED  
General Certificate of Education  
2009



71

Candidate Number

# GCE Applied Business

## Assessment Unit A2 7

*assessing*

Finance

[A6B11]



A6B11

FRIDAY 12 JUNE, MORNING

### TIME

1 hour 30 minutes.

### INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number in the spaces provided at the top of this page.

Write your answers in the spaces provided in this question paper.

Answer **all three** questions.

### INFORMATION FOR CANDIDATES

The total mark for this paper is 80.

Quality of written communication will be assessed in questions **2(f)** and **3(d)**.

Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

### ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time.

If you do not have sufficient space to complete your answers, you may use the additional pages at the back of the booklet.

For Examiner's use only	
Question Number	Marks
1	
2	
3	

<b>Total Marks</b>	
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Study the information below and answer the questions that follow.

- 1 Ann runs a small cafeteria located near the M1 motorway at Sprucefield. The following trial balance for the business for the financial year ended 31 December 2008:

	Dr £	Cr £
Opening Capital		20 000
Sales		40 000
Purchases	15 000	
Opening Stock	1 000	
Marketing Expenses	2 000	
Administration Expenses	3 000	
Distribution Costs	4 000	
Loan Interest	1 000	
Premises	20 000	
Vehicles (at cost)	1 000	
Equipment (at cost)	20 000	
Loans		15 000
Creditors		2 000
Debtors	5 000	
Bank	5 000	
	77 000	77 000

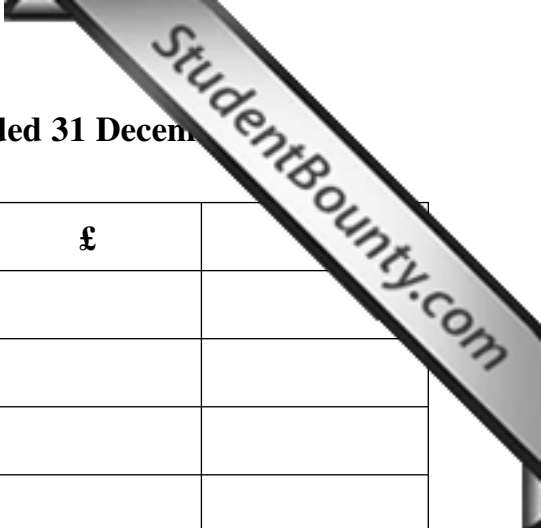
Notes:

- Closing Stock is valued at £1000.
- Marketing Expenses due and unpaid amounted to £300.
- Administration Expenses prepaid were £1000.
- Equipment and Vehicles are to be depreciated at a rate of 10% per annum, using the equal instalment method of depreciation.

- (a) Ann enlists your help in preparing the financial statements.

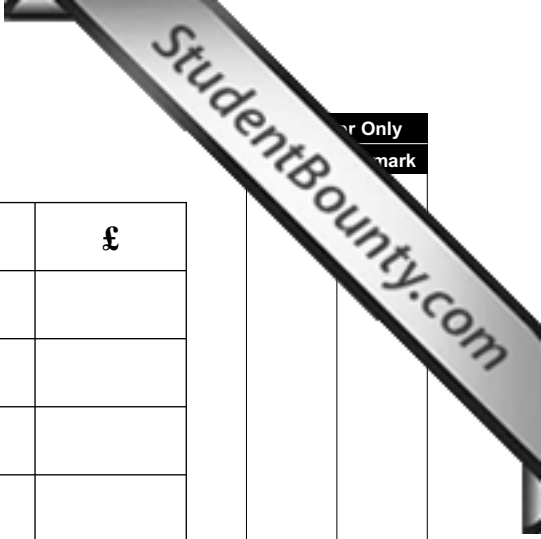
Using the information above, use pages 4 and 5 to prepare the financial statements for the financial year ended 31 December 2008, in accordance with generally accepted accounting principles.

Ann's Trading, Profit and Loss Account for the year ended 31 December



	£	

**Ann's Balance Sheet as at 31 December 2008**



For Only
mark

	£	£	£

[18]



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**(Questions continue overleaf)**

Study the information below and answer the questions that follow.

- 2 Dave owns “H<sub>2</sub>O”, a privately-run health club business located on the outskirts of a town. The health club has built up a good reputation over the years and many customers return on a regular basis. “H<sub>2</sub>O” offers a high quality service at what Dave considers to be a competitive price. The facilities provided for customers include use of a dry sauna, steam room, jacuzzi, gym, sun-bed and coffee bar.

Currently an entrance fee of £30.00 per customer is charged, which allows customers access to all facilities. This price attracts an average of 200 customers per week. For health and safety reasons, the health club can accommodate only 250 customers per week. The variable costs (£2000) are associated with the entry of 200 customers per week. The fixed costs are estimated at £3000 per week.

A local newspaper has printed a story indicating that the local council intends to provide similar facilities in the nearby leisure centre. Dave is currently investigating options to guarantee the long-term survival of the business. A summary of the **options** open to Dave are:

1. Do nothing, that is, leave the entrance fee unchanged;
2. Respond to customer feedback which has indicated that customers on low incomes (e.g. students and customers who are unemployed) are likely to use the facilities more often, if the entrance fee is lowered to £25.00 per customer. This is likely to:
  - A. maintain customer numbers at the current average per week; or
  - B. lead to an increase in the number of customers per week, up to the maximum allowable for health and safety reasons.

Dave thinks that carrying out a break-even analysis might provide some insight into the best way forward.

**You are required to:**

- (a) Calculate, for “H<sub>2</sub>O”:

- (i) The variable cost per customer:

\_\_\_\_\_ [1]

You may use this space for your calculations:

Examiner Only	
Marks	Remark



(ii) The number of customers currently required each week in order to break even:

\_\_\_\_\_ [2]

You may use this space for your calculations:

(iii) The current weekly level of profit which would accrue, based on an average of 200 customers using the facilities each week:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ [3]

You may use this space for your calculations:

- (b) Re-calculate the break-even point (in terms of the number of customers per week) for “H<sub>2</sub>O”, if the current entrance fee is lowered to £25.00 per customer.

\_\_\_\_\_ [2]

You may use this space for your calculations:

- (c) Re-calculate the weekly anticipated net profit/loss for “H<sub>2</sub>O”, if the entrance fee was lowered to £25.00 per customer and an average of 200 customers continued to use the facilities per week:

\_\_\_\_\_ [2]

You may use this space for your calculations:

- (d) Re-calculate the weekly anticipated net profit/loss for “H<sub>2</sub>O”, if the entrance fee was lowered to £25.00 per customer, and the number of customers using the facilities increased to the maximum capacity allowable under health and safety regulations:

\_\_\_\_\_ [2]

You may use this space for your calculations:





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**(Questions continue overleaf)**

Study the information below and answer the questions that follow.

- 3 GEN Limited produces and sells diesel generator sets from a production plant located in Armagh. The firm has recently won a large order to supply generator sets to a Saudi firm called MATGO, based in the Middle East. The order has been valued at £500 000.

The plant is mostly automated, enabling the direct labour content of production to be kept to a minimum. Activities are sub-divided into three operations, Production, Assembly and Painting. Each diesel generator set requires one hour's production time, half an hour's assembly time and half an hour's painting time. The direct labour costs are £6.50 per hour for Production, £6.00 per hour for Assembly and £6.00 per hour for Painting.

The total number of "Stores Issue Notes" issued to the Production Department was 600 whilst the number issued to the Assembly and Painting Departments was 200 each. Management have agreed that this will be the basis upon which to allocate the Stores Department costs to other departments.

A total of 52 000 machine hours were recorded in the company in relation to this contract, and were sub-divided between the various departments as shown in **Panel A** below:

**Panel A: Machine Hours**

Department	Number of Machine Hours
Production	30 000
Assembly	11 000
Painting	11 000
Total	52 000

(a) Complete **Table 1** to show the production overhead analysis and apportionment of overheads for the Saudi Arabian contract.

[10]

**Table 1**

**Production Overhead Analysis and Apportionment Table**

Overhead	Basis of Apportionment	Total Cost (£)	Production Dept. (£)	Assembly Dept. (£)	Painting Dept. (£)	Stores Dept. (£)
Indirect material	Direct	13 000	8 000	3 000	1 000	1 000
Indirect wages	Direct	12 000	6 000	3 000	2 000	1 000
Health/safety costs	Direct	16 000	6 000	5 000	4 000	1 000
Rates	Area	13 000	6 000	4 000	2 000	1 000
Depreciation	Plant cost	19 000	10 000	3 000	4 000	2 000
Energy costs	Power use	14 000	7 000	5 000	1 000	1 000
Water charges	Area	16 000	5 000	4 000	5 000	2 000
Canteen expenses	No. of staff	12 000	6 000	4 000	1 000	1 000
			54 000	31 000	20 000	
Stores	Stores issues					
Total overheads						

You may use this space for your calculations:

- (b) Complete **Table 2** to show the appropriate rates of overhead recovery for (i) the Production Department; (ii) the Assembly Department; and (iii) the Painting Department. All calculations must be shown in the box provided. [6]

**Table 2: Overhead Absorption Rates**

	<b>Production Dept.</b>	<b>Assembly Dept.</b>	<b>Painting Dept.</b>
Machine Hours			
Total Overheads (£)			
Overhead Rate per Machine Hour (£)			

You may use this space for your calculations:

- (c) Explain what is meant by the term “Overhead Absorption Rate”.

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[2]

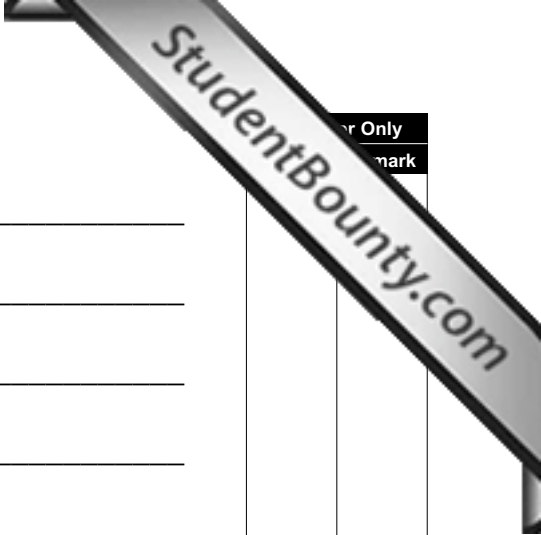






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