

Script 2 – A response to preparing financial statements and a good evaluation

1 (a) Prepare the:

(i) Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2017.

(17)

	£	£	£
Starts Revenue			525 000
Less Cost of Sales:			
Opening Inventory		17500	
Ordinary Goods Purchased		90600	
		108100	
Less Closing Inventory		(20800)	(87300)
Gross Profit			437700
Less Expenses:			
Plumbing technicians' wages		139200	
Management Salaries (75000 - 18000)		57000	
Motor vehicle Expenses (65000 + 12000)		45000	
Electricity Gas		5200	
Rent of premises (32000 - 4000)		28000	
Marketing Expenses (65000 + 1900)		66900	
Bank loan Interest (3000 + 1800)		4800	
Provisions for Doubtful Debts (2100 - 900)		1200	
Depreciation: Motor Vehicles		36000	
Office Equipment		6000	
Loose Tools		12000	(401800)
Net Profit			35900

Statement of Financial Position

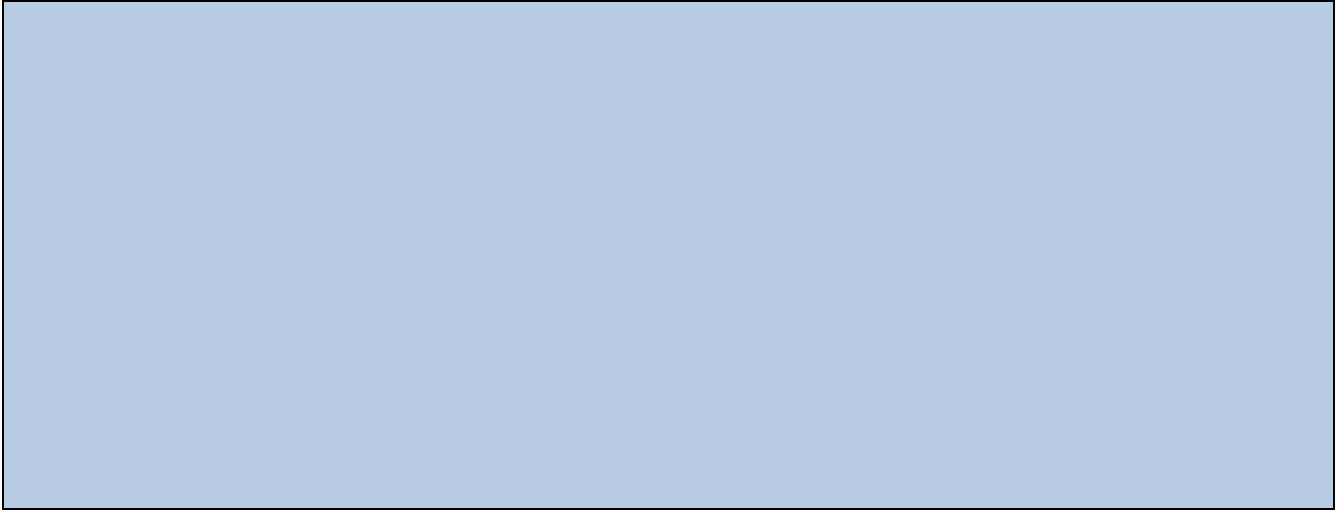
	Cost	Depn	NBV
	£	£	£
<u>Non Current Assets:</u>			
Motor Vehicles	180 000	108 000	72 000
Office equipment	40 000	31 000	9 000
Loose tools	38 000	20 000	18 000
	<u>258 000</u>	<u>159 000</u>	<u>99 000</u>

<u>Current Assets:</u>			
Inventory		20 800	
Trade Receivables	70 000	79 900	
Provision for Depreciation	(21 000)	67 900	
Other Receivables		4 000	
Bank and cash		<u>31 000</u>	<u>95 800</u>
Total Assets			<u>194 800</u>

<u>Equity and liabilities:</u>			
Opening Capital		65 000	
Add Net Profit		<u>35 900</u>	
		100 900	
Less Drawings		<u>(18 000)</u>	
		82 900	

Current Liabilities:

Bank Short term loan 8%	60000	
Trade Payables (45200 + 2500)	<u>48200</u>	<u>108200</u>
Total Equity & Liabilities		<u>191100</u>



(b) Calculate the:

- (i) total cost (including overheads and profit) of employing **one** plumbing technician for the next financial year

(7)

Wages	10 000	139 200 $\div 12 = 11600$
Employment taxes	2000	11600
Depreciation ^{Motor} 6000 $\div 12$	500	
Motor vehicle expenses	4000	
Depreciation loose tools	1000	
	<u>17500</u>	

Total Cost for one plumbing technician 17500

- (ii) hourly rate that Amsha should charge customers in the next financial year for plumbing technician services.

(2)

$$45 \times 50 \times \frac{1}{80} \text{ per hour} = 281.25 \text{ hours} \times 12 = 3375 \text{ hours}$$

$$17500 \times 12 = 210000$$

$$3375 \times 0.8 = 2700$$

$$210000 \div 2700 = 77.78 \text{ per hour}$$

Student's answer to Question 1 (c) and (d)

Amsha remunerates his plumbing technicians on a day work basis. He is considering changing the method of remuneration to a group bonus scheme.

(c) Explain how a group bonus scheme would operate.

(4)

A group bonus scheme would allow a lot of plumbers to work and a bonus on their pay will be calculated on the total hours worked by the whole group in one day. The hours saved by the whole group will increase their bonus ~~are~~ for each plumber.

(d) Evaluate, from Amsha's perspective, the use of a group bonus scheme for remunerating the plumbing technicians.

(12)

A group bonus scheme would increase the productivity for the workers as they will want to save time when working. The bonus will make the group work faster ~~saving~~ in making the prices for each work less to the customers as less hours will be paid by the customer thus increasing volume of Revenue. Using a group bonus scheme will increase labour productivity, labour input in relation to labour outputs. In contrast, workers might rush their work causing bad quality plumbing. Also if one of the workers does not save time to increase the bonus pay, he will still get a bonus from the time saved by other workers. Surveillance of the workers work will be needed to make sure the quality and productivity are good, thus increasing the expenses. Using a group bonus scheme can be beneficial to a business as long as the workers are checked for how productive and the quality of their work.

