

Script 10 – A response to the costing, projected returns and evaluation

Student's answer to Question 5 (a)

5 (a) Explain the terms:

(i) fixed cost

(2)

Fixed cost is the cost that don't vary according to the output. i.e. insurance

(ii) semi-fixed cost.

(2)

semi-fixed cost is the cost that remain fixed ~~until~~ until a certain ^{limit of} output and starts to be vary according to the output. i.e. electricity

Student's answer to Question 5 (b)

(b) Explain, with the use of appropriate accounting concepts and conventions, how the furniture and equipment depreciation will be charged to the total cost of the Sunshine Villa for the year.

(4)

~~Furniture and~~ equipment should be charge by reducing balance method since it use more in the first few year. Furniture should should straight line since it use evenly.

The should ~~change~~ depreciation because of consistency concept. It states that business will continue operation without evidences ~~&~~ contrary therefore they shouldn't record it as expense right a way. They should appertion it ~~to~~ ^{with} the benefit received ~~in~~ that period since the business will still operating in long run therefore it can be charge ~~&~~ over number of years.

Student's answer to Question 5 (c)

(c) Calculate for the Sunshine Villa, for the year ended 30 April 2017, the:

(i) total costs

(10)

	5600	
interest	79600	
electricity	5600	
water and gas	2400	
cable TV	900	
insurance	800	
management and marketing	2000	
repair and maintenance	3200	
cleaning	2000	
depreciation	45000 4500	
total cost	41000 27000	

(ii) profit or loss

(3)

profit	31250	31250
total cost	(41000)	(27000)
loss/profit	(9750)	4250

(iii) return on capital employed.

(3)

$$\frac{4250 + 5600}{140000 + 60000} \times 100 = 4.925\%$$



Student's answer to Question 5 (d)

Before purchasing the Sunshine Villa a friend of John advised him of alternative investments for his savings. The friend advised that he could have deposited the money in a bank and obtained interest of 3% per annum.

(d) Evaluate John's decision to purchase the Sunshine Villa.

(6)

John's made a good decision because by deposited the money in a bank he will earn less than profit that ~~the~~ he can get from purchasing sunshine villa of £ 2450 ($4250 - (3\% \times 6000)$), so it is better than he doesn't deposited his saving.

However,

It is more safe to put money in the bank and earn interest since there is no risk, but by purchasing ~~at~~ Sunshine Villa there is risk more.

In conclusion, it is good that John didn't deposit his saving in bank since he can use ~~get 2361x higher than the interest~~

his money to a higher ~~profit~~ earning and he can be a boss of himself by ~~to~~ operating Sunshine Villa.

