1(a)(i)

AO1:(4) AO2(9) :AO3(4)
AO1: Four marks for recording balances
AO2: Nine marks for adjusting and recording balances
AO3: Four marks for calculating cost of raw materials, prime cost and power and water

Wincombe Manufacturing
Manufacturing Account
For the year ended 31 December 2022

	£	£
Opening inventory of raw materials	36 900	
Purchases of raw materials	204 000	
Returns of raw materials	(6 800)	
	234 100	
Closing inventory of raw materials	(27 900)	
Cost of raw materials	206 200 AO3**(1)**	
Manufacturing wages	197 000 AO1**(1)**	
Royalties (12 500 + 2 500)	15 000 AO2**(1)**	
Direct expenses	11 800 AO1**(1)**	
Prime cost		430 000 AO3 **(1of) +w**
		No aliens
Production overheads:		
Management salaries	105 000 AO2**(1)**	
Indirect expenses	29 200 AO1**(1)**	
Rent and rates payable	13 200 AO2**(1)**	
Insurance	6 000 AO2**(1)**	
Power and water	21 000 AO3**(1)**	
Depreciation – Manufacturing machinery	18 000 AO2**(1)**	
Depreciation – Computer equipment	4 000 AO3**(1)**	
		196 400
		626 400 AO2 (**1of)**
Work in progress – 1 January 2022	46 700	No aliens
31 December 2022	(45 600)	1 100 AO2**(1)**
Cost of production		627 500 AO1**(1of) +w**
Profit on manufacture		17 500 AO2 **(1of) + w**
Transfer value / Trading Account		645 000 AO2 **(1) +w**

(ii) **AO1:(5) AO2(12) :AO3(1)**

AO1: Five marks for recording balances
AO2: Twelve marks for adjusting balances
AO3: One mark for calculating depreciation on the computer equipment

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2022

	£	£
Income		
Revenue		811 000
Less		
Opening inventory of finished goods	64 000	
Goods transferred from manufacturing	645 000 AO1 **(1of)**	
	709 000	
Closing inventory of finished goods	(58 500)	
Cost of sales:		(650 500) AO2 **(1of) +w**
Gross profit		160 500 AO2 **(1of) +w**
Other incomes		
Rent received	7 500 AO1 **(1)**	
Profit on manufacturing	17 500 AO2 **(1of)**	
Reduction in provision for unrealised profit	500 AO2 **(1)**	
		25 500
		186 000
Less Expenses		
Administrative wages	78 000 AO1 **(1)**	
Management salaries	20 000 AO2 **(1)**	
Advertising expenses	20 850 AO2 **(1)**	
Rent and rates payable	4 800 AO2 **(1)**	
Insurance	4 000 AO2 **(1)**	
Power and water	9 000 AO2 **(1)**	
Irrecoverable debts	3 650 AO1 **(1)**	
Depreciation – Computer equipment	8 000 AO3 **(1)**	
Office fixtures	4 500 AO2 **(1)**	
Irrecoverable debts allowance increase	1 900 AO1 **(1)**	
Provision for legal claim	7 800 AO2 **(1)**	
		(162 500)
Profit for the year		23 500 AO2 **(1of)+w**
		No aliens

(18)

(iii) **AO1:(3) AO2(1)**

AO1: Three marks for recording balances
AO2: One mark for transfer to income statement

Provision for Unrealised Profit Account

Date	Details	£	Date	Details	£
2022			2022		
31 Dec	Income statement	500 AO2**(1)**	1 Jan	Balance b/d	2 000 AO1**(1)**
	Balance c/d	1 500 AO1**(1)**			
		2 000			2 000
			2023		
			1 Jan	Balance b/d	1 500 AO1**(1)**

(4)

(b) **AO1:(4)**
AO1: Four marks for explanation

To ensure that the **profit is not overstated** AO1**(1)** by **recording profit on unsold inventory**. AO1**(1)**

This will also ensure that the **inventory is not overvalued** AO1**(1)** by deducting the value of the provision from the inventory AO1**(1) in the statement of financial position.**

(4)

(c) **AO1 (1), AO2 (1), AO3 (5), AO4 (5)**

Own figure rule applies

Positive points in favour of accepting the offer

Wincombe Manufacturing would be able to concentrate on other aspects of their business.
Problems in production would become the concern of the other supplier.
The manufacturing space could be used to expand the business or raise additional income by renting it out.
Manufacturing non-current assets could be sold increasing the liquidity of the business and funding other expansion plans that Wincombe Manufacturing might have.

Negative points for not accepting the offer

Wincombe Manufacturing would lose control of the manufacturing process.
There may be quality issues with the products supplied.

The price of £21.50 may gradually be raised in real terms in the future.
If more units are required in future. The other supplier may be unable to supply these.
Some of the fixed costs are apportioned, these will now have to all be borne by administration.
Need to consider social accounting aspects of the decision. Jobs would be lost and the community would suffer with a major loss of income in the area.

Accept any other valid points

Decision
Candidates may conclude that Wincombe Manufacturing should accept or reject the offer. Candidates should support that decision with an appropriate rationale.

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-3	Isolated elements of knowledge and understanding recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
Level 2	4 - 6	Elements of knowledge and understanding, which are applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present.
Level 3	7 - 9	Accurate and thorough understanding, supported throughout by relevant application to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects. An attempt at an assessment is presented, using financial and non-financial information, in an appropriate format and communicates reasoned explanations
Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and non-financial information and makes informed recommendations and decisions.

(12)

Q1	**Total marks**	**55**