

General Certificate of Education
January 2005
Advanced Level Examination



ACCOUNTING
**Unit 7 Further Aspects of Accounting for
Management and Decision-making**

ACC7

Monday 24 January 2005 Afternoon Session

In addition to this paper you will require:
an answer book for Accounting.
You may use a calculator.

Time allowed: 1 hour 15 minutes

Instructions

- Use blue or black ink or ball-point pen.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is ACC7.
- Answer **all** questions.
- All workings must be shown and clearly labelled; otherwise marks for method may be lost.
- Make and state any necessary assumptions.
- Do all rough work in the answer book. Cross through any work you do not want marked.

Information

- The maximum mark for this paper is 105. This includes up to 5 marks for the Quality of Written Communication.
- Mark allocations are shown in brackets.
- Question 4 is the synoptic question which assesses your understanding of the relationship between the different aspects of Accounting.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary, where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

Answer **all** questions.

1

Total for this question: 19 marks

Dounes Ltd manufactures one product.

The following variances have been calculated for the year ended 31 December 2004.

	£	
Material price	1400	Adverse
Material usage	600	Favourable
Labour rate	2400	Favourable
Labour efficiency	900	Adverse
Sales price	1800	Adverse
Sales volume	200	Favourable

Budgeted total cost was £124 600.

REQUIRED

- (a) Explain the term “variance”. *(2 marks)*
- (b) Explain **one** possible cause of **each** variance. *(12 marks)*
- (c) Calculate the actual total cost for the year ended 31 December 2004. *(5 marks)*

2

Total for this question: 20 marks

Stan Bede Ltd manufactures one product with a selling price of £60 per unit.

Sales and production are expected to be 9000 units per quarter.

Stock of finished goods at the beginning of the year will be 1000 units and will be maintained at this level.

The cost per unit is expected to be:

	£
Direct labour	12.25
Direct material	16.25
Production overhead (variable and fixed)	18.00
Selling and administration overhead	<u>6.50</u>
Total	<u>53.00</u>

Fixed production overhead is expected to be £49 500 per quarter. Selling and administration overhead is to be treated as a fixed cost.

REQUIRED

- (a) State the absorption cost per unit. *(1 mark)*
- (b) Calculate the marginal cost per unit for the first quarter. *(7 marks)*
- (c) Prepare a statement comparing the forecast profit for the first quarter, using
- (i) marginal costing
 - (ii) absorption costing. *(12 marks)*

TURN OVER FOR THE NEXT QUESTION

Turn over ►

3

Total for this question: 19 marks

Wesley Rise wishes to purchase a machine with an initial cost of £180 000 plus a delivery charge of £20 000. The machine is expected to last 5 years.

The cost of capital is 12%.

The discount factors are:

Year 1	0.893
Year 2	0.797
Year 3	0.712
Year 4	0.636
Year 5	0.567

The cash inflows generated by the machine are expected to be:

	£
Year 1	60 000
Year 2	80 000
Year 3	120 000
Year 4	120 000
Year 5	80 000

The cash outflows are expected to be £40 000 each year. A major overhaul of the machine is expected to be carried out at a cost of £20 000 in year 4.

REQUIRED

- (a) Calculate the payback period for the machine. *(2 marks)*
- (b) Calculate the net present value for the machine. *(13 marks)*
- (c) Advise whether the machine should be purchased. Give reasons for your decision. *(4 marks)*

TURN OVER FOR THE NEXT QUESTION

Turn over ►

4

Total for this question: 42 marks

Wenbo Zhang intends to invest £40 000 in a manufacturing company.

Extracts from the published accounts for Claxon plc, which is based in the UK, are shown below.

Summarised Profit and Loss Accounts for the years ended 30 September

	2004	2003
	£000	£000
Turnover	4183	3756
Cost of sales	(2307)	(2020)
Gross profit	<u>1876</u>	<u>1736</u>
Overheads	(1210)	(1265)
Net profit	<u><u>666</u></u>	<u><u>471</u></u>

Summarised Balance Sheets as at 30 September

	2004	2003
	£000	£000
Fixed assets	5214	3030
Current assets		
Stock	1795	1689
Debtors	1395	1595
Bank	136	–
	<u>3326</u>	<u>3284</u>
Creditors: falling due within one year		
Creditors	(1974)	(1461)
Bank overdraft	–	(150)
	1974	1611
Net current assets	<u>1352</u>	<u>1673</u>
	6566	4703
Creditors: falling due after more than one year		
Long-term bank loan	(2500)	(1500)
	<u>4066</u>	<u>3203</u>
Capital and reserves		
Share capital	3100	2500
Retained earnings	966	703
	<u><u>4066</u></u>	<u><u>3203</u></u>

REQUIRED

- (a) Calculate the following ratios for **each** of the two years:
- (i) net profit margin
 - (ii) overheads/turnover
 - (iii) return on capital employed
 - (iv) liquid capital (acid test) ratio
 - (v) debtor collection period. *(20 marks)*
- (b) Write a report to Wenbo Zhang, explaining whether the company was a better prospect for investment in 2004 than in 2003. Use the results of the ratio calculations in (a) to justify your decision. *(14 marks)*
(Report format: 2 marks)

Claxon plc has discovered that its current main supplier uses cheap child labour in a Third World country. Wenbo Zhang has heard a rumour that Claxon plc is considering changing this major supplier to a UK company.

REQUIRED

- (c) Discuss the possible implications of this information for Wenbo Zhang. *(6 marks)*

END OF QUESTIONS

THERE ARE NO QUESTIONS PRINTED ON THIS PAGE