

General Certificate of Education
June 2008
Advanced Level Examination



ACCOUNTING

ACC7

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

Friday 13 June 2008 1.30 pm to 2.45 pm

For this paper you must have:

- an 8-page answer book.

You may use a calculator.

Time allowed: 1 hour 15 minutes

Instructions

- Use black ink or black 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 to be marked.

Information

- The maximum mark for this paper is 105.
Five of these marks will be awarded for using good English, organising information clearly and using specialist vocabulary where appropriate.
- The marks for questions are shown in brackets.
- Question 3 is the synoptic question which assesses your understanding of the relationship between the different aspects of Accounting.

Answer **all** questions.

Total for this question: 30 marks

1

One of the assembly machines at Roberts Ltd needs to be replaced.

A replacement machine will cost £200 000, which is payable on purchase.

The replacement machine is expected to last 4 years, but will need a complete maintenance check in year 3 at a cost of £50 000.

The existing machine assembles 4000 units a year. The number of units assembled by the replacement machine is expected to be 25% lower in year 1 than the existing machine due to the time lost during installation and testing. In year 2 it is expected that 4500 units will be assembled and this will increase by 20% each year compared to the previous year.

The existing machine produces units at a cost of £26 each, whereas the replacement machine will produce units at a cost of £24 each. The selling price is currently £42 per unit but with the improved quality provided by the replacement machine this will increase to £45 per unit. From year 3, it is expected that the cost of manufacture will increase by 25% each year and the selling price will increase by 30% each year compared to the previous year.

The cost of capital is 14%.

The following is an extract from the present value table for £1.

	14%
Year 1	0.877
Year 2	0.769
Year 3	0.675
Year 4	0.592

It is assumed that all units produced are sold.

REQUIRED

- (a) Calculate the expected net cash flows for each year, using the replacement machine. *(12 marks)*
- (b) Calculate the payback period for the replacement machine. *(2 marks)*
- (c) Calculate the net present value for the replacement machine using the expected net cash flows. Assume that revenues are received and costs are paid at the end of each year. *(6 marks)*
- (d) Compare the two methods of capital investment appraisal. *(4 marks)*

(e) Prepare comparative budgeted trading accounts for year 1 for:

(i) the existing machine and

(ii) the replacement machine.

(6 marks)

Total for this question: 16 marks

2

Spencer Ltd manufactures a single product, the Spenz.

The following information relates to the month of May 2008.

	Budgeted	Actual
Production	2400 units	2200 units
Direct material	5 kilos at £5.50 per kilo per unit	£66 000 (13 200 kilos)
Direct labour	6 hours at £4.50 per hour per unit	£70 400 (17 600 hours)

The budgeted profit for May 2008 was £26 000.

REQUIRED

(a) Calculate the material price **and** material usage sub-variances.

(4 marks)

(b) Calculate the labour rate **and** labour efficiency sub-variances.

(4 marks)

(c) Calculate the actual profit for Spencer Ltd for the month ended May 2008.

(4 marks)

(d) Explain **two** possible ways in which the variances will affect the current workforce.

(4 marks)

Turn over for the next question

Turn over ►

Total for this question: 54 marks

3

Jameson Ltd manufactures one product. The following information relates to the two production and two service departments for one four-week period.

	Production departments		Service departments	
	Machining	Assembly	Maintenance	Canteen
Overheads	£143 500	£154 700	£165 800	£176 900
Direct machine hours	18 845	14 050	–	–
Direct labour hours	6 065	20 350	–	–

The service departments' overheads are apportioned to the production departments on the following basis:

	Machining	Assembly	Canteen
Maintenance	60%	30%	10%
Canteen	40%	60%	–

REQUIRED

- Prepare an overhead apportionment schedule apportioning the service departments' overheads to the appropriate departments for one period. *(8 marks)*
- Calculate the overhead absorption rates for **each** production department. State the bases used and give a reason for each choice. *(8 marks)*

The manager of Jameson Ltd calculates selling price per unit based on full cost plus a 25% mark-up.

The costs per unit are:

- materials: 3 metres at £4 per metre;
- labour: 7 hours at £8 per hour.

Each unit takes 3 hours in the machining department and 4 hours in the assembly department. All overheads are fixed.

REQUIRED

- Calculate the full cost per unit. *(5 marks)*
- Calculate the selling price per unit. *(3 marks)*
- Calculate the number of units Jameson Ltd has to produce and sell in each period to break even. *(4 marks)*
- Explain **two** limitations of break-even analysis. *(4 marks)*

A new overseas customer has placed an order for 2500 units at £100 each. Additional delivery costs of £7500 will be paid by Jameson Ltd. The new customer has not traded with any UK company before but has requested 2 months' credit terms.

REQUIRED

- (g) Write a report to the directors of Jameson Ltd recommending whether or not the new order should be accepted. Consider **both** financial **and** non-financial factors. Justify your decision. *(Report format: 2 marks)*
(Report: 10 marks)

The business operates over 13 periods a year. Each period consists of four weeks with five working days in each week.

The sales for the next four periods are expected to be:

	Period 1	Period 2	Period 3	Period 4
Units	11 500	12 000	14 000	12 500

Assume that sales accrue evenly within each period.

The stock at the start of period 1 was 4600 units. It is the policy to maintain the closing stock of units at a level which is sufficient to cover 8 days of sales for the next period. However, storage constraints restrict stock to a maximum of 5000 units.

REQUIRED

- (h) Prepare the production budget in units for **each** period for periods 1–3. *(7 marks)*
- (i) Calculate the **total** direct production cost for periods 1–3. *(3 marks)*

END OF QUESTIONS

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