General Certificate of Education
Advanced Level Examination
June 2014

Accounting ACCN4

Unit 4 Further Aspects of Management Accounting

Monday 9 June 2014 1.30 pm to 3.30 pm

For this paper you must have:
- an AQA 12-page answer book
- a calculator.

Time allowed
- 2 hours

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Instructions
- Use black ink or black ball-point pen.
- Write the information required on the front of your answer book. The **Paper Reference** is ACCN4.
- Answer **all** questions.
- All workings must be shown and clearly labelled; otherwise marks for method may be lost.
- Do all rough work in your answer book. Cross through any work you do not want to be marked.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 90.
- Four of these marks will be awarded for:
  - – using good English
  - – organising information clearly
  - – using specialist vocabulary where appropriate.

Answer **all** questions.

Task 1 **Total for this task: 21 marks**

Sammy Ltd commenced trading on 1 April 2013 manufacturing dog coats.

The following information is available.

The standard cost of one dog coat is calculated on the basis of:

- direct materials: 0.4 metres at £17.25 per metre
- direct labour: 6 minutes in the cutting department and 8 minutes in the finishing department
- workers in both departments are paid £9.00 per hour.

There are no other variable costs.

The Finance Manager, Sallyanne Pennard, calculates the selling price based on marginal cost plus 25%.

The annual factory fixed costs are expected to be £147 000.

The target profit for the year ending 31 March 2014 is £21 750, assuming that all production is sold.

0 1 Calculate the selling price per dog coat. Clearly identify the marginal cost per dog coat and state your answer in pounds and pence.

[4 marks]

0 2 Calculate how many dog coats have to be produced and sold during the year to achieve the target profit of £21 750.

[4 marks]

0 3 Calculate the percentage mark-up on the absorption cost that would be required to achieve the target profit of £21 750. Assume that both the number of dog coats to be sold and the selling price remain constant. State your answer to 2 decimal places.

[7 marks]

0 4 Explain to the directors of Sammy Ltd **two** disadvantages of using absorption costing as opposed to marginal costing.

[6 marks]

Task 2 **Total for this task: 18 marks**

Sammy Ltd commenced trading on 1 April 2013. The business operates over 13 periods per financial year. Sallyanne, the Finance Manager, has introduced a system of budgetary control.

During the first year of trading, material purchases are expected to be as follows.

Periods	**Material purchases**
1–4	1600 metres
5–6	2400 metres
7–13	2880 metres

Material costs £17.25 per metre.

Sallyanne has negotiated credit terms with the suppliers who provide 75% of the materials.
She expects to pay 90% of the amount owed to these suppliers one period after purchase, and the remaining amount due will be paid two periods after purchase.

The suppliers who provide 25% of the materials will be paid in cash in the period the material is purchased.

0 5 Prepare a trade payables budget for **each** of the periods 4–7 inclusive.

[18 marks]
[includes 1 mark for quality of presentation]

Turn over for the next question

Task 3 **Total for this task: 22 marks**

Sallyanne, the Finance Manager of Sammy Ltd, has decided to use marginal costing.

The standard cost of one dog coat is calculated on the basis of:

- direct materials: 0.4 metres at £17.25 per metre
- direct labour: 6 minutes in the cutting department and 8 minutes in the finishing department
- workers in both departments are paid £9.00 per hour.

The annual factory fixed costs were expected to be £147 000.

At 31 March 2014, the following information is available for the first year of trading.

- 74 000 dog coats had been produced.
- 32 000 metres of material had been purchased at a total cost of £576 000.
- There were no raw materials in inventory at 31 March 2014.
- The amount of time spent on each dog coat was the same as standard.
- Actual factory fixed costs were £135 000.
- The total direct labour cost was £148 000.

0 6 Prepare a manufacturing account for the year ended 31 March 2014 based on actual costs.

[6 marks]
[includes 1 mark for quality of presentation]

0 7 Calculate the material sub-variances for the year ended 31 March 2014.

[6 marks]

0 8 Assess whether Sallyanne, the Finance Manager, will be pleased with the results for the year. Justify your answer.

[10 marks]

Task 4 **Total for this task: 29 marks**

In the first year of trading, Sammy Ltd had rented a cutting machine. The directors are now considering buying a new cutting machine for £110 000. The machine has an estimated useful life of four years and will have no residual value at the end of four years.

The finance for the new machine would be raised through a bank loan repayable over four years. The repayments on the bank loan, together with interest would be £35 000 per annum.

The company's cost of capital is 15%.

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

	15%
Year 1	0.870
Year 2	0.756
Year 3	0.658
Year 4	0.572

If the company purchases the new machine

- fixed factory costs would be £135 000 per annum excluding depreciation
- training would be required in the first year at a cost of £12 000
- the contribution per dog coat would be £3.00
- production capacity would be 80 000 dog coats per annum, an increase of 5000 dog coats on current capacity.

If the company does not purchase the new machine, it has the option of buying in the additional 5000 dog coats from a Far Eastern country at a price that would result in a contribution of £2.80 per dog coat. The directors understand that delivery of the dog coats would take three weeks from the date of order. The directors have also heard rumours that the supplier makes use of child labour in its workforce.

0 9 Calculate the payback period of the new machine in years and days.

[8 marks]

1 0 Calculate the net present value of the new machine.

[6 marks]

1 1 Advise the directors on whether they should buy the new machine or continue renting the current machine and purchase additional dog coats from the Far Eastern country. Consider the financial and non-financial implications of each option.

[15 marks]
[includes 2 marks for quality of written communication]

END OF QUESTIONS

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