Please write clearly in block capitals.

Centre number						Candidate number				

Surname ______________________________

Forename(s) ______________________________

Candidate signature ______________________________

A-level
ACCOUNTING

Unit 4 Further Aspects of Management Accounting

Friday 17 June 2016 Morning Time allowed: 2 hours

Materials
For this paper you must have:
- a calculator

Instructions
- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- All workings must be shown and clearly labelled; otherwise marks for method may be lost.
- Do all rough work in this 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.
- You will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

Answer **all** questions in the spaces provided.

1 **Total for this question: 16 marks**

The following information relates to the business of Allam Limited, manufacturer of beds.

Balances at 1 April 2015	£000
Inventory	
Raw materials	53
Finished goods	18
Work in progress	19
Non-current assets at net book value	
Factory machinery	106
Loose tools	14
Office equipment	33
Prepayment – premises rental	9
Provision for unrealised profit	3
Receipts and payments during the year ended 31 March 2016	
General expenses – factory	105
General expenses – office	45
Premises rental	125
Purchase of finished goods	32
Purchase of raw materials	251
Revenue	983
Wages – factory operatives	112
Wages – factory supervisors	29
Wages – sales and administrative staff	24
Balances at 31 March 2016	
Inventory	
Raw materials	62
Finished goods	30
Work in progress	26
Non-current assets at net book value	
Factory machinery	90
Loose tools	12
Office equipment	26
Prepayment – premises rental	14

Additional Information

(1) There were no purchases or disposals of non-current assets during the year.
(2) Premises rental is to be apportioned 80% to the factory and 20% to the office.
(3) Finished goods are transferred from the factory at cost plus 20%.
(4) The closing inventory of finished goods comprised only goods manufactured by Allam Limited.

Workings

1 (a) Prepare the manufacturing account for Allam Limited for the year ended 31 March 2016.

[13 marks]
[includes 2 marks for quality of presentation]

Allam Limited
Manufacturing Account for the year ended 31 March 2016

Extra space

1 (b) Calculate the amount to be shown in the balance sheet for the provision for unrealised profit at 31 March 2016.

[3 marks]

16

Turn over for the next question

2 **Total for this question: 12 marks**

CH Products manufactures parts for the electronics industry. The manufacture is heavily machine based in two production departments; machining and finishing. In addition, a stores department supplies both production departments. The company operates a system of activity based costing.

2 (a) Explain the following terms:

2 (a) (i) Cost pool

[2 marks]

2 (a) (ii) Cost driver

[2 marks]

2 (b) State **one** example of a cost pool for CH Products and an associated cost driver.

[2 marks]

2 (c) State **three** advantages of operating a system of activity based costing.

[3 marks]

Advantage 1 ______________________________

Advantage 2 ______________________________

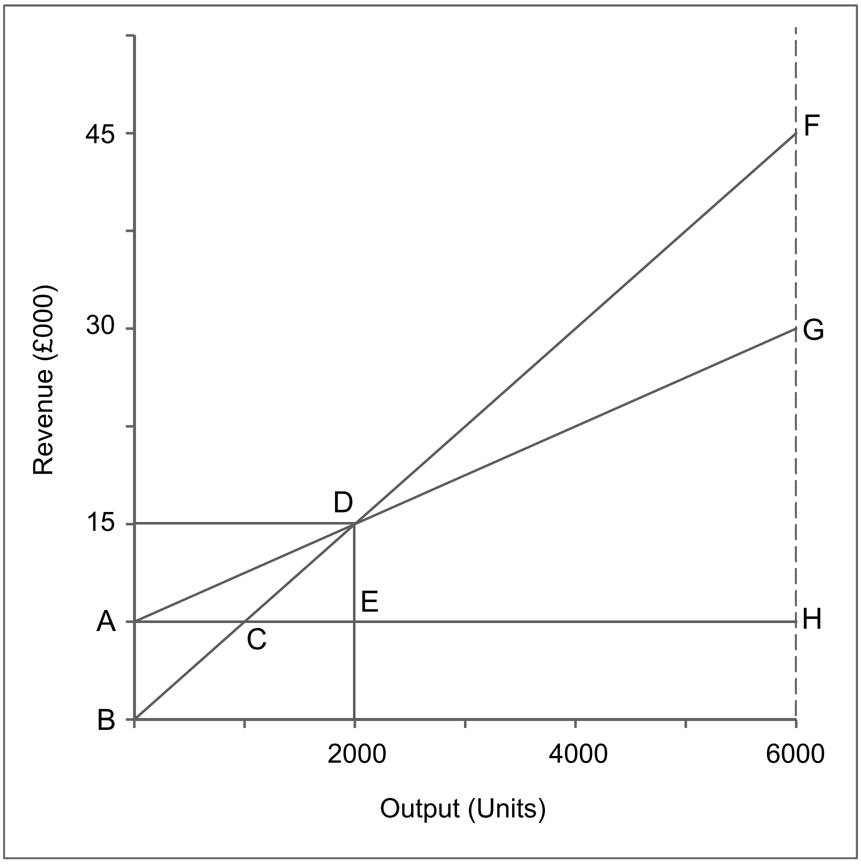
Advantage 3 ______________________________

Question 2 continues on the next page

Turn over ►

Charlotte Ltd is a manufacturing company recently taken over by CH Products. This company operates a system of marginal costing. The directors have produced the following breakeven chart to assist in their management of the business.

Breakeven Chart



2 (d) Identify the correct reference for each of the following, by referring to the chart above. (Tick **one** box only in each part).

2 (d) (i) Total cost

[1 mark]

	✓
Point A to Point G	
Point A to Point H	
Point B to Point F	

2 (d) (ii) Profit at an output of 6000 units

[1 mark]

	✓
Point A to Point G	
Point F to Point G	
Point G to Point H	

2 (d) (iii) Margin of safety at an output of 6000 units

[1 mark]

	✓
Point A to Point E	
Point A to Point H	
Point E to Point H	

12

Turn over for the next question

3 **Total for this question: 32 marks**

Zelta Frames manufactures window frames. The company operates a system of marginal costing. The standard cost data for one window frame is as follows:

Direct materials	15 metres of wood at £1.80 per metre
Direct labour	1.5 hours at £8.40 per hour

The following budgeted information was available for the year ended 31 December 2016:

Inventory of finished goods	150 units
Inventory of direct materials	12 000 metres of wood
Sales	22 200 units @ £55

It is expected that both production and sales are spread evenly over the year. Inventories of finished goods and direct materials are expected to remain constant throughout the year.

For the year ended 31 December 2016, the annual fixed overheads were budgeted to be £108 000.

3 **(a)** Calculate the budgeted contribution and the budgeted profit for March 2016.

[5 marks]

The actual results for Zelta Frames for the month of March 2016 were as follows:

Sales	1900 units @ £57
Direct materials used	29 260 metres of wood costing £57 057
Direct labour cost	3040 hours costing £26 296

The actual fixed overheads for the month of March 2016 cost £9000.

3 (b) Calculate the actual contribution and the actual profit for March 2016.

[5 marks]

3 (c) Calculate the sub-variances for direct materials and direct labour for March 2016.

[8 marks]

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3 (d) Calculate the sales price variance for March 2016.

[3 marks]

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Zelta Frames' accountant has calculated that as a result of the actual sales volume being in excess of the budgeted sales volume, additional contribution of £770 will be gained.

3 (e) Complete the following table to reconcile the budgeted profit for March 2016 with the actual profit.

[7 marks]

	£	
Budgeted profit for March 2016		
Sales volume additional contribution	770	Favourable
Sales price variance		
Direct material price variance		
Direct material usage variance		
Direct labour rate variance		
Direct labour efficiency variance		
Actual profit for March 2016		

3 (f) State **four** benefits of maintaining a system of standard costing.

[4 marks]

Benefit 1 ______________________________

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Benefit 2 ______________________________

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Benefit 3 ______________________________

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Benefit 4 ______________________________

____

____

32

4 **Total for this question: 30 marks**

Buckley Products is a large supplier of kitchen units situated in rented premises on a small industrial estate in a large market town in the north of England. The components for the kitchen units are purchased from a major manufacturer and assembled and fitted by Buckley Products' employees. The company currently has 8 employees.

The company has been established for ten years and turnover and profits have both risen by an average of 10% per annum for each year. Due to the current financial climate and the competitive nature of the market, the directors feel that the cash received from sales will remain at its current level for the next five years.

The current annual turnover is £4M, 80% of which is to trade customers, mainly local builders, and the remaining 20% is direct to the public at the same profit margin. Profit for the year ended 31 October 2015 was £320 000.

The directors are considering whether the company should set up a production line to manufacture the units themselves, rather than buying in.

The cost to the company of buying in the units will be £250 000 next year and this is expected to increase by 10% per annum in each subsequent year. The directors are projecting that Buckley Products' turnover will remain static over the same period.

The initial cost of the necessary machinery would be £180 000 and the directors estimate that it would have a useful life of five years and an estimated residual value of £30 000. The machinery would be depreciated on a straight-line basis.

To finance the purchase, the directors have been offered a five-year bank loan for the full amount required at an interest rate of 12% per annum.

The directors estimate that the following costs would be incurred.

	Direct materials £000	Wages £000	Maintenance £000	Other costs (including depreciation) £000
Year 1	90	65	10	60
Year 2	105	70	12	65
Year 3	120	76	15	70
Year 4	138	82	20	75
Year 5	155	90	25	80

4 (a) Calculate the net cash savings of purchasing the machinery for each year and in total, if the directors decide to manufacture the units rather than buy in the units.

[6 marks]

4 (b) Calculate the payback period of the machinery.

[2 marks]

4 (c) Calculate the net present value of the machinery. The discount factors for 12% are as follows:

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

[7 marks]

The directors have recently been informed that the annual rent on the company's premises is to increase by 75% from the current figure of £80 000. As a result of this increase and the fact that more space would be required, they are considering relocating the business to a remote location on the outskirts of a small village, thirty miles away, where suitable premises are available at an annual rent of £50 000.

4 (d) Advise the directors whether they should invest in the machinery and relocate the business or whether they should continue to buy in the units. Consider both financial and non-financial issues and give reasons for your advice.

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

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30

END OF QUESTIONS

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