

**OXFORD CAMBRIDGE AND RSA EXAMINATIONS**

**Advanced GCE**

**ACCOUNTING**

**2503**

Management Accounting 1

Friday

**16 JUNE 2006**

Morning

1 hour 30 minutes

Each candidate must be given:

(1) one copy of this question paper, 2503;

(2) one 12-page Answer Book.

Item (2) is sent with the stationery parcel.

**Candidates may use calculators in this examination.**

**TIME** 1 hour 30 minutes

**INSTRUCTIONS TO CANDIDATES**

Complete the front page of the Answer Booklet as directed.

Answer **all** questions.

You must show the calculations leading to your answers.

**INFORMATION FOR CANDIDATES**

The maximum mark for this paper is 100.

**Continuous prose responses are required to questions in this paper. You will be assessed on your form and style of writing, the clarity and coherence of your organisation of information, your use of specialist accounting vocabulary and conventions, the legibility of text and your spelling, grammar and punctuation.**

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**This question paper consists of 4 printed pages.**

1 EC Ltd manufactures a single product.

The standard cost per unit for the month of May 2006 was:

	£
Direct materials (£2 per metre)	8.00
Direct labour (£12 per hour)	30.00
Variable overheads (£6 per direct labour hour)	15.00

Budgeted production for May 2006 was 24 000 units.

Budgeted sales for the month were 20 000 units at £75 each.

The actual results for May 2006 were:

	£
Sales (18 500 units)	1 480 000
Materials (82 500 metres)	181 500
Labour (50 000 hours)	662 500
Variable overheads	342 000

Actual production for May 2006 was 22 000 units.

#### REQUIRED

- (a) Outline **two** types of standards which may be used in a standard costing system. [4]
- (b) Explain the purpose of standard costing. [4]
- (c) Calculate each of the following variances:
- (i) sales price; [2]
  - (ii) sales volume; [2]
  - (iii) material price; [2]
  - (iv) material usage; [2]
  - (v) labour rate; [2]
  - (vi) labour efficiency; [2]
  - (vii) total variable overhead. [2]
- (d) Advise the management of EC Ltd of possible explanations for the material and labour variances. [8]

Total marks [30]

- 2 Layla Ltd is a major employer in a rural area. The directors are replacing the main production line. The directors can choose between System A or System B.

Details of the two systems are as follows:

	System A	System B
System cost at start	£320 000	£375 000
Estimated useful life	4 years	4 years
Scrap value at end of year 4	£16 000	£32 000

Layla Ltd depreciates its fixed assets using the straight line method.

System A produces slightly toxic waste which would be taken by lorry through the local town for disposal elsewhere. System B would require fewer production staff.

Estimated receipts and costs (excluding depreciation) are as follows:

Receipts

	System A £000	System B £000
Year 1	224	280
Year 2	300	360
Year 3	400	400
Year 4	280	240

Costs (excluding depreciation)

	System A £000	System B £000
Year 1	124	167
Year 2	188	196
Year 3	273	268
Year 4	152	116

All receipts and payments of costs take place at the end of the year. Layla Ltd's cost of capital is 9% per annum.

Extract from present value tables of £1 at 9%:

Year 1	0.917
Year 2	0.842
Year 3	0.772
Year 4	0.708

## REQUIRED

- (a) Calculate for each system (work to two decimal places where appropriate):
- (i) net cash flows for each year; [4]
  - (ii) payback; [2]
  - (iii) net present value; [8]
  - (iv) the accounting rate of return (defined by the company as average profit to initial capital outlay). [8]
- (b) Evaluate the financial implications of each system. [6]
- (c) Discuss **three** non-financial factors Layla Ltd needs to consider before buying either system. [9]

Total marks [37]

[Turn over

- 3 Badge Ltd has prepared the following production budget for the period 1 June – 31 October 2006.

Production budget (units)

	June	July	August	September	October
Opening stock	2000	2400	2500	2350	2750
Production	4400	4900	4850	5100	5050
	6400	7300	7350	7450	7800
Sales	4000	4800	5000	4700	5500
Closing stock	2400	2500	2350	2750	2300

- Each unit of production requires 4 kilos of raw material at £3 per kilo.
- Each month the exact quantity of raw materials is bought to meet the following month's production requirements. Half of the purchases are paid for in the month of purchase and a 2% prompt settlement discount is received. The remainder is paid in full in the following month.
- The selling price is £40 per unit. Half of all sales are for cash, the remainder being paid for in full in the following month.
- Commission is payable on sales at 2.5% of sales revenue. This is paid in the month in which customer payment is received.
- General expenses are £140000 each month. This amount includes depreciation of office equipment of £10000 each month. General expenses are paid in the month in which they are incurred.
- Badge Ltd's budgeted bank balance at 30 June 2006 is £1100.

REQUIRED

- (a) The Cash Budget for each of the three months July, August and September 2006. [18]
- (b) The Budgeted Balance Sheet extract as at 30 September 2006 to show:
- bank
  - debtors
  - creditors (for raw materials) [3]
- (c) Discuss the benefits and limitations of a system of budgetary control. [12]

Total marks [33]