

OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Advanced GCE

ACCOUNTING

2504

Management Accounting 2

3808/7808

Friday

16 JUNE 2006

Morning

1 hour 30 minutes

Each candidate must be given:

- (1) one copy of this question paper, 2504;
- (2) one 12-page Answer Book.
- (3) squared paper, if required.

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.

This question paper consists of 4 printed pages.

- 1 Heisler Construction Ltd had a two year contract to build a new health centre. The contract commenced on 1 April 2004. At the end of the first year of trading, Heisler Construction Ltd had failed to make a profit. This resulted in no profit provision being available to be carried down to year two. At 31 March 2005 the following balances were remaining on the contract account:

	£
Materials	300 000
Plant hire prepaid	60 000
Direct labour accrued	175 000
Plant	400 000
Sub contract charges accrued	70 000

In addition to the above, the following costs were incurred during the second year of trading:

	£
Materials	320 000
Plant hire	150 000
Direct labour	400 000
Sub contract charges	300 000
Head office charge	120 000

At 31 March 2006 there were no accruals or prepayments outstanding and plant had no residual value. The value of work not certified at that date was £200 000.

The contract allows Heisler Construction Ltd to receive payment for work certified by the architect less a 10% retention. Payments received during the year ended 31 March 2006 amounted to £1 350 000, this being the exact amount due for the work certified.

REQUIRED

- (a) The Contract Account for the year ended 31 March 2006 (i.e. for the second year of the contract). [18]
- (b) Identify and explain, with an example of each, **two** accounting concepts you have applied in answering part (a) above. [6]
- (c) Explain the purpose of the 10% retention on this contract. [3]

Total marks [27]

- 2 Garratt Ltd manufactures metal components for the motor vehicle industry. It has prepared the following budget for the year ending 30 September 2007.

Direct materials		£	1 150 000
Direct labour:			
Cutting department	(38 000 hours)	250 800	
Pressing department	(36 000 hours)	225 000	
Forming department	(52 000 hours)	351 000	
Assembling department	(22 000 hours)	132 000	
			<u>958 800</u>
Prime cost			2 108 800
Factory overheads:			
Cutting department		182 400	
Pressing department		219 600	
Forming department		254 800	
Assembling department		116 600	
			<u>773 400</u>
Cost of production			2 882 200
Administration costs			576 440
Total Costs			<u><u>3 458 640</u></u>

Factory overheads are absorbed by departmental direct labour hour rates. Administration costs are absorbed by a percentage of the cost of production.

An enquiry, reference NGG16, has been received by Garratt Ltd for a supply of components. The following direct costs have been estimated:

Direct materials		£	70 078
Direct labour:			
Cutting department		6 600	
Pressing department		4 500	
Forming department		8 100	
Assembling department		3 000	
			<u>22 200</u>
Prime cost			<u><u>92 278</u></u>

The direct labour costs are based on budgeted hourly rates.

REQUIRED

- (a) Calculate for **each** department:
- the budgeted direct labour cost per hour; [4]
 - the budgeted direct overhead absorption rate per direct labour hour. [4]
- (b) Prepare a detailed statement showing the total cost for enquiry NGG16. [12]
- (c) The selling prices of Garratt Ltd are based on a 25% net profit to sales percentage. Calculate the selling price for enquiry NGG16. [3]
- (d) Discuss why Garratt Ltd may have chosen to base and apply its overhead absorption using direct labour hours. [4]
- (e) (i) State **two** alternative methods the business could have used to absorb its overheads. [2]
- (ii) Explain the circumstances in which **each** method would have been appropriate. [4]

Total marks [33]

[Turn over

- 3 Mallet and Meyer plc manufactures industrial workwear. The company's budgeted costs and selling prices for the year ending 30 September 2007 are as follows:

Product	Female workwear		Male workwear	
	£	£	£	£
Selling price per unit		30		40
Variable costs per unit:				
Direct wages		10		16
Direct materials – cloth	6		8	
– other	<u>2</u>		<u>2</u>	
		8		10
Expected sales		10000 units		12000 units

The company allocates half of its annual fixed costs of £84000 to each product.

REQUIRED

- (a) Calculate the break-even output in units and sales value for female workwear. [3]
- (b) Prepare a contribution to sales graph for male workwear. [3]
- (c) Calculate the total budgeted profit for Mallet and Meyer plc assuming the expected sales volume is achieved. [3]
- (d) Since preparing the budget, Mallet and Meyer plc has been informed that there is a world shortage in the supply of the cloth used in the manufacture of workwear. It has now forecast that there will be cloth only to the value of £130000 available during the year ending 30 September 2007.
- Calculate the maximum profit the company could now make during the budgeted year. [12]
- (e) Evaluate the usefulness of break-even analysis for decision making. [10]
- (f) Discuss three uses of marginal costing in decision making. [9]

Total marks [40]