



ADVANCED GCE
ACCOUNTING
 Management Accounting

F003

Candidates answer on the Answer Booklet

OCR Supplied Materials:

- 8 page Answer Booklet

Other Materials Required:

- Calculators may be used

Friday 16 January 2009
Afternoon

Duration: 1 hour 30 minutes



INSTRUCTIONS TO CANDIDATES

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer **all** the questions.
- You must show the calculations leading to your answers.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is **100**.
- In these two questions/sub-questions, you will be assessed on the quality of your written communication. In one of these questions, the focus will be on your ability to present numerical information legibly and in an appropriate accounting format. In the other, you will be assessed on the legibility and style of writing, the clarity and coherence of your arguments and the accuracy of your spelling, punctuation and grammar.
- This document consists of **8** pages. Any blank pages are indicated.



**A calculator may
be used for this
paper**

- 1 Mawdlam Manufacturing started in business on 1 January 2006, and the following information is available for its first three years in business.

	2006	2007	2008
	£	£	£
Total fixed costs	30 000	33 000	35 000
Direct materials per unit	7	8	8
Direct labour per unit	4	4	5
Variable overheads per unit	2	3	3
Sales (units)	9 500	10 675	11 715
Production (units)	10 000	11 000	12 100

A selling price of £20 per unit was maintained for all sales during the three year period.

REQUIRED

- (a) A statement showing the gross profit for each of the three years under the FIFO method of valuing issues of stock, if the company used:

(i) the marginal costing approach to valuing stock; [12]

(ii) the absorption costing approach to valuing stock. [9]

- (b)* Assess the policies adopted by Mawdlam Manufacturing in relation to:

- production; [11]
- sales pricing.

Total marks [32]

- 2 Tondee Ltd has produced the following budgeted data for its next financial year.

Direct materials	£ 750 000
Direct labour	£ 500 000
Production overhead	£1 500 000
Labour hours	62 500 hours
Machine hours	37 500 hours

For each job undertaken, general administration expenses of 20% are added to the total production costs to give a total cost to the company. The selling price to customers is based on a 20% net profit margin.

The cost sheet for job 150915 shows the following details:

Direct materials	£2 400
Direct labour	£1 500
Labour hours used	190 hours
Machine hours used	120 hours

REQUIRED

- (a) Calculate overhead absorption rates by each of the following methods:

- percentage of prime cost;
- labour hour rate;
- machine hour rate.

[3]

- (b) Calculate the different selling prices for job 150915 using each of the overhead rates calculated in part (a). [10]

- (c) Evaluate the suitability of each of the three methods in part (a) in absorbing overhead costs. [9]

- (d) Some businesses have replaced traditional methods of overhead absorption by activity based costing.

Discuss the appropriateness of introducing activity based costing within a business. [9]

Total marks [31]

- 3 The following is a summary of the Balance Sheet for Newton Ltd as at 31 December 2008.

	£	£
<i>Fixed Assets (net)</i>		250 000
<i>Current Assets</i>		
Stock	204 800	
Debtors	120 000	
Bank	<u>182 300</u>	
	507 100	
<i>Current Liabilities</i>		
Creditors	204 800	
Wages and salaries	<u>15 000</u>	
	219 800	
		<u>287 300</u>
		<u>537 300</u>
<i>Capital and Reserves</i>		<u>537 300</u>

The company is in the process of preparing budgets for the three months ending 31 March 2009, and the following information is available.

- (i) Sales throughout 2009 will continue at the 2008 price of £80 per unit (providing a 25% gross profit on cost). The total sales quantity for the four months ending 30 April 2009 is estimated at 13 440 units.

Sales for January and February 2009 are estimated at 3 200 units per month. Sales for March and April 2009 are estimated to be 10% higher than in January and February 2009.

Half the sales are paid for in full in the month in which sales are made and the remainder is paid in full in the following month. No discount applies to sales. This policy has been in operation since March 2008.

- (ii) It has been company policy since March 2008 to arrange purchases such that stock at the end of each month exactly covers sales for the following month. Purchases received to the end of February 2009 are paid in full in the month following purchase. Effective from 1 March 2009, all purchases will be paid in the month received and a 2.5% discount for prompt payment will apply.
- (iii) General expenses (excluding depreciation) are £12 400 per month, payable in the month they are incurred. Depreciation on fixed assets is estimated at £40 000 for the financial year ending 31 December 2009. This accrues evenly throughout the financial year.
- (iv) Wages and salaries of £15 000 each month are paid one month in arrears. This amount has been fixed since August 2008. Following a review of its catering facility, Newton Ltd is planning to change from using its own caterers to outside caterers. This change will take place on 1 April 2009. As a consequence, three employees each earning £900 a month will be made redundant on 31 March 2009. On this date, each of the three employees will also receive their wages for March 2009, together with arrears for February 2009. Also on this date, each of the three employees will receive a £3 000 redundancy payment. For budgetary purposes, the redundancy payment is to be treated as a Profit and Loss expense.

REQUIRED

- (a)* The Cash Budget for each of the three months ending January, February and March 2009 **and** the Budgeted Trading and Profit and Loss Account for the three months ending 31 March 2009. [28]
- (b) Discuss **three** factors which a company should consider when planning to change from using its own caterers to outside caterers. [9]

Total marks [37]

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