

**Accounting**

Advanced GCE

Unit **F014**: Management Accounting

**Mark Scheme for January 2011**

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Question Number	Expected Answer	Mark	Rationale																																																																																																																			
1 (a)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 15%; text-align: center;"><u>A</u></th> <th style="width: 15%; text-align: center;"><u>B</u></th> <th style="width: 15%; text-align: center;"><u>C</u></th> <th style="width: 25%;"></th> </tr> </thead> <tbody> <tr> <td>Selling price</td> <td style="text-align: center;">53</td> <td style="text-align: center;">48</td> <td style="text-align: center;">40</td> <td></td> </tr> <tr> <td>Variable costs</td> <td style="text-align: center;"><u>35</u></td> <td style="text-align: center;"><u>28</u></td> <td style="text-align: center;"><u>26</u></td> <td></td> </tr> <tr> <td>Contribution per unit</td> <td style="text-align: center;"><u>18(1)</u></td> <td style="text-align: center;"><u>20(1)</u></td> <td style="text-align: center;"><u>14(1)</u></td> <td></td> </tr> <tr> <td> </td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td><u>Contribution</u></td> <td style="text-align: center;"><u>18</u></td> <td style="text-align: center;"><u>20</u></td> <td style="text-align: center;"><u>14</u></td> <td></td> </tr> <tr> <td>Limiting factor</td> <td style="text-align: center;">1.2</td> <td style="text-align: center;">1</td> <td style="text-align: center;">0.8</td> <td></td> </tr> <tr> <td> </td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Priority (2)</td> <td style="text-align: center;">15 3rd</td> <td style="text-align: center;">20 1st</td> <td style="text-align: center;">17.5 2nd</td> <td></td> </tr> <tr> <td> </td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Machinist hours available</td> <td></td> <td style="text-align: center;">89,000</td> <td></td> <td></td> </tr> <tr> <td>B 30,000 x 1</td> <td></td> <td style="text-align: center;"><u>(30,000)</u></td> <td style="text-align: center;">(1)</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">59,000</td> <td></td> <td></td> </tr> <tr> <td>C 40,000 x 0.8</td> <td></td> <td style="text-align: center;"><u>(32,000)</u></td> <td style="text-align: center;">(1)</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">27,000</td> <td></td> <td></td> </tr> <tr> <td>A 22,500 x 1.2</td> <td></td> <td style="text-align: center;"><u>(27,000)</u></td> <td style="text-align: center;">(2)</td> <td></td> </tr> <tr> <td> </td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Contribution B 20 x 30,000</td> <td></td> <td style="text-align: center;">600,000</td> <td style="text-align: center;">(1)</td> <td></td> </tr> <tr> <td>Contribution C 14 x 40,000</td> <td></td> <td style="text-align: center;">560,000</td> <td style="text-align: center;">(1)</td> <td></td> </tr> <tr> <td>Contribution A 18 x 22,500</td> <td></td> <td style="text-align: center;"><u>405,000</u></td> <td style="text-align: center;">(1)</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">1,565,000</td> <td></td> <td></td> </tr> <tr> <td>Fixed costs</td> <td></td> <td style="text-align: center;"><u>800,000</u></td> <td style="text-align: center;">(1)</td> <td></td> </tr> <tr> <td>Profit</td> <td></td> <td style="text-align: center;"><u><u>765,000</u></u></td> <td style="text-align: center;">(1)</td> <td></td> </tr> </tbody> </table>		<u>A</u>	<u>B</u>	<u>C</u>		Selling price	53	48	40		Variable costs	<u>35</u>	<u>28</u>	<u>26</u>		Contribution per unit	<u>18(1)</u>	<u>20(1)</u>	<u>14(1)</u>		 					<u>Contribution</u>	<u>18</u>	<u>20</u>	<u>14</u>		Limiting factor	1.2	1	0.8		 					Priority (2)	15 3rd	20 1st	17.5 2nd		 					Machinist hours available		89,000			B 30,000 x 1		<u>(30,000)</u>	(1)				59,000			C 40,000 x 0.8		<u>(32,000)</u>	(1)				27,000			A 22,500 x 1.2		<u>(27,000)</u>	(2)		 					Contribution B 20 x 30,000		600,000	(1)		Contribution C 14 x 40,000		560,000	(1)		Contribution A 18 x 22,500		<u>405,000</u>	(1)				1,565,000			Fixed costs		<u>800,000</u>	(1)		Profit		<u><u>765,000</u></u>	(1)		[14]	<p><b>Must show contribution for mark.</b></p> <p><b>Marks for correct priority.</b></p> <p><b>Allow marks against quantities.</b></p> <p><b>Marks for these values regardless of priority.</b></p>
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(b)		<u>A</u>	<u>B</u>	<u>C</u>				
	Hours	1.2	1	0.8				
	x	<u>8.50</u>	<u>8.50</u>	<u>8.50</u>				
	New cost	10.20	8.50	6.80				
	Was	<u>9.60</u>	<u>8.00</u>	<u>6.40</u>				
	Increase	<u>0.60</u>	<u>0.50</u>	<u>0.40</u>				
	Contribution A	17.40	(2)	x 24,000			417,600	(1)
	Contribution B	19.50	(2)	x 30,000			585,000	(1)
	Contribution C	13.60	(2)	x 40,000			<u>544,000</u>	(1)
	Total contribution						1,546,600	
	Fixed costs						<u>800,000</u>	(1)
	Profit						<u>746,600</u>	(1)
		[11]						

Question Number	Expected Answer	Mark	Rationale
(c) *	<p><u>Option 1</u> This generates more profit (1), however customer demand is not met (1).</p> <p>If customers move to other suppliers (1), then risk of business being lost (1), and reputation may suffer (1).</p> <p>If unable to produce to budget (1), then less work for assembly department (1), who may be made redundant (1).</p> <p>Could some assembly department be retrained as machinists (1), although need to ensure assembly department requirement can be met (1).</p> <p><u>Option 2</u> This generates less profit (1), however the business is able to meet customer demands (1).</p> <p>Competitors may react (1) and increase their wage rates (1).</p> <p>Assembly workers may not be happy (1), and may seek a similar wage increase (1).</p> <p>All demands are estimates (1) and may not materialise (1). Reasoned conclusion (1).</p> <p><b>6 x 2 marks (max 8 marks for each option) (1 for point plus 1 for development)</b></p> <p style="text-align: right;">(12) QWC (2)</p>	[14]	<b>Allow movement in variable costs/contribution.</b>
	<b>Total marks</b>	<b>[39]</b>	

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2 (a)	<p style="text-align: center;">Contract Account</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 35%;">Machinery b/d</td> <td style="width: 15%; text-align: right;">600,000(1)</td> <td style="width: 35%;">Direct labour b/d</td> <td style="width: 15%; text-align: right;">58,000(1)</td> </tr> <tr> <td>Materials b/d</td> <td style="text-align: right;">255,000(1)</td> <td>Sub contractors b/d</td> <td style="text-align: right;">35,000(1)</td> </tr> <tr> <td>Plant hire b/d</td> <td style="text-align: right;">47,000(1)</td> <td>Profit provision b/d</td> <td style="text-align: right;">90,000(1)</td> </tr> <tr> <td>Direct labour</td> <td style="text-align: right;">480,000(1)</td> <td>Cost to date c/d</td> <td style="text-align: right;">3,379,000(1)</td> </tr> <tr> <td>Materials</td> <td style="text-align: right;">895,000(1)</td> <td></td> <td></td> </tr> <tr> <td>Plant hire</td> <td style="text-align: right;">255,000(1)</td> <td></td> <td></td> </tr> <tr> <td>Sub contractors</td> <td style="text-align: right;">820,000(1)</td> <td></td> <td></td> </tr> <tr> <td>Architects fees</td> <td style="text-align: right;">90,000(1)</td> <td></td> <td></td> </tr> <tr> <td>Head office</td> <td style="text-align: right;">120,000(1)</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>3,562,000</u></td> <td></td> <td></td> </tr> <tr> <td>Cost to date b/d</td> <td style="text-align: right;">3,379,000</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>3,379,000</u></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>3,562,000</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td>Work certified</td> <td style="text-align: right;">3,330,000(1)</td> </tr> <tr> <td></td> <td></td> <td>Profit and Loss</td> <td style="text-align: right;">49,000(1)</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>3,379,000</u></td> </tr> </table>	Machinery b/d	600,000(1)	Direct labour b/d	58,000(1)	Materials b/d	255,000(1)	Sub contractors b/d	35,000(1)	Plant hire b/d	47,000(1)	Profit provision b/d	90,000(1)	Direct labour	480,000(1)	Cost to date c/d	3,379,000(1)	Materials	895,000(1)			Plant hire	255,000(1)			Sub contractors	820,000(1)			Architects fees	90,000(1)			Head office	120,000(1)				<u>3,562,000</u>			Cost to date b/d	3,379,000				<u>3,379,000</u>					<u>3,562,000</u>				Work certified	3,330,000(1)			Profit and Loss	49,000(1)				<u>3,379,000</u>	[15]	<p><b>Allow totals.</b>  <b>Marks for correct value with reasonable narrative.</b></p>
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(b)	<p>Whole loss (1) should be written off to Profit and Loss Account (1), in the period (1). Application of Prudence concept (1).</p> <p><b>(3 x 1 mark)</b></p>	[3]																																																																	
(c)	<p>The 10% retention provides an incentive (1) for satisfactory completion (1) of contract. It puts the customer in a stronger position (1) if faulty work (1) is subsequently found (1).</p> <p><b>(3 x 1 mark)</b></p>	[3]																																																																	
<b>Total marks</b>	<b>[21]</b>																																																																		

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(ii)	<p><u>Actual Cost</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">Wood 3,600 x 3.95</td> <td style="text-align: right;">14,220</td> </tr> <tr> <td>Paint 950 x 6.60</td> <td style="text-align: right;">6,270</td> </tr> <tr> <td>Labour 1,550 x 8.10</td> <td style="text-align: right;">12,555</td> </tr> <tr> <td>Variable overheads</td> <td style="text-align: right;">2,955</td> </tr> <tr> <td>Fixed overheads</td> <td style="text-align: right;"><u>7,500</u></td> </tr> <tr> <td>Total actual cost</td> <td style="text-align: right;"><u><b>43,500(2)</b></u></td> </tr> </table> <p>Per unit <math>\frac{43,500}{500} = 87(1)</math></p>	Wood 3,600 x 3.95	14,220	Paint 950 x 6.60	6,270	Labour 1,550 x 8.10	12,555	Variable overheads	2,955	Fixed overheads	<u>7,500</u>	Total actual cost	<u><b>43,500(2)</b></u>	[3]	Must show total standard cost for (2).
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(b) (i)	MPV (wood) $(4 - 3.95)3,600 = 180$ (F)(2) (paint) $(6.50 - 6.60)950 = 95$ (A)(2)	[4]	<ul style="list-style-type: none"> <li>• 2 for correct value with correct A/F</li> <li>• 1 for correct value with no A/F or incorrect A/F</li> <li>• All other responses 0.</li> </ul>
(ii)	MUV (wood) $[(700 \times 5) - 3,600]4 = 400$ (A)(2) (paint) $[(200 \times 5) - 950]6.50 = 325$ (F)(2)	[4]	
(iii)	LRV $(8 - 8.10)1,550 = 155$ (A)(2)	[2]	
(iv)	LEV $[(300 \times 5) - 1,550]8 = 400$ (A)(2)	[2]	
(v)	TVO $(3,000 - 2,955) = 45$ (F)(1)	[1]	
(vi)	TFO $(7,500 - 7,500) = 0$ (1)	[1]	

Question Number	Expected Answer	Mark	Rationale
(c)	<p>Wood: Cheaper material (1), inferior quality (1) and using more (1).</p> <p>Paint: More expensive material (1), better quality (1) and using less (1).</p> <p><b>(2 x 2 marks)</b> <b>(1 for point plus 1 for development)</b></p>	[4]	<b>Must relate to each material, rather than general.</b>
(d)	<p>Allows management by exception (1). By studying variances management attention is directed (1) towards those areas (1), which are not proceeding to plan (1).</p> <p>Variance analysis enables comparison (1) of actual and predetermined standards (1). Management can be held responsible (1) for those variances under its control (1).</p> <p>Aid to pricing (1), product and price policies can be formulated (1), before production takes place (1). Prices can be based on standard costs (1).</p> <p><b>(2 x 3 marks)</b> <b>(1 for point plus up to 2 for development)</b></p>	[6]	<b>Best two benefits.</b>
	<b>Total marks</b>	<b>[30]</b>	

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(b)	<p>Consistent production each year <b>(1)</b>, regardless of sales <b>(1)</b>.</p> <p>Sales quantity declines <b>(1)</b>, over period, with increase in closing stock <b>(1)</b>, and stock holding costs <b>(1)</b>.</p> <p>Selling price increase each year <b>(1)</b> and decrease in demand <b>(1)</b>.</p> <p>Consistent production <b>(1)</b>, likely to mean security of employment <b>(1)</b>.</p> <p>Decline in profit <b>(1)</b> from 2009 to 2010 <b>(1)</b>.</p> <p><b>(3 x 2 marks)</b> <b>(1 for point plus 1 for development)</b></p>	[6]	
	<b>Total marks</b>	<b>[30]</b>	

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