OCR
RECOGNISING ACHIEVEMENT

Monday 30 January 2012 – Afternoon

A2 GCE ACCOUNTING

F014/01/RB Management Accounting

RESOURCE BOOKLET

F027080112

To be given to candidates at the start of the examination

Duration: 2 hours

INSTRUCTIONS TO CANDIDATES

- The information required to answer questions 1–4 is contained within this Resource Booklet.

INFORMATION FOR CANDIDATES

- Your Quality of Written Communication will be taken into account when marking your answers to the two questions/sub-questions labelled with an asterisk (*).
- 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.

INSTRUCTION TO EXAMS OFFICER / INVIGILATOR

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1 John Mathias commenced business as a computer retailer on 1 July 2011. During the first six months of trading his transactions were:

Month	*Purchases of computers*	*Sales of computers (units)*
July 2011	50 @ £200 each	38
August 2011	70 @ £200 each	60
September 2011	60 @ £206 each	80
October 2011	70 @ £206 each	64
November 2011	96 @ £190 each	50
December 2011	52 @ £210 each	98

The selling price of all computers sold during the period 1 July 2011 to 30 September 2011 was based on a mark up of 50% on the July 2011 purchase price. The selling price was increased by 3% for all sales during the period 1 October 2011 to 31 December 2011. During the six month period 1 July 2011 to 31 December 2011 expenses were £4 000 each month.

REQUIRED

(a) The closing stock valuation as at 31 December 2011, using the following methods of stock valuation (periodic basis):

(i) FIFO. **[3]**

(ii) LIFO. **[3]**

(b) The net profit for the six months ended 31 December 2011 under the LIFO method of stock valuation (periodic basis). **[5]**

(c) Discuss the appropriateness of the LIFO method of stock valuation. **[4]**

Total marks [15]

2 Stone plc has been awarded the contract for the construction of a new factory. The contract is estimated to last two years. Work commenced on 1 January 2011 and the following details are available as at 31 December 2011.

	£
Machinery purchased	420 000
Materials purchased	1 200 000
Materials returned to suppliers	62 000
Materials on site as at 31 December 2011 not yet used	190 000
Direct labour paid	740 000
Plant hire paid	128 000
Paid to sub-contractors	96 000
Architect's fees paid	49 000
Cost of work not yet certified	128 000
Payment received from customer	2 125 000

Additional information:

(i) Direct labour accrued as at 31 December 2011 amounted to £32 000.

(ii) Plant hire prepaid as at 31 December 2011 amounted to £5 000.

(iii) All the machinery was delivered to site on 1 January 2011. The machinery is estimated to last the life of the contract with no residual value. Included in the machinery is one machine which cost £60 000. This machine was transferred to another contract on 30 April 2011. The value at which the transfer took place reflected exactly the machinery value at 30 April 2011. The company uses the straight line method of depreciation with the charge being applied for each part of the year.

(iv) The payment received from the customer represents payment for all work certified by the architect less a 15% retention.

(v) The attributable profit formula used by the company is:

$$\text{apparent (notional) profit} \times \frac{2}{3} \times \frac{\text{cash received}}{\text{work certified}}$$

REQUIRED

(a)* The Contract Account for the year ended 31 December 2011. The balances brought down at 1 January 2012 should be shown in the Contract Account. **[19]**

(b) With reference to **two** accounting concepts, explain why the profit taken by Stone plc is reduced by the formula in note **(v)**. **[6]**

(c) Discuss the social responsibilities a construction company may have to each of the following:

- the local economy
- its labour force. **[8]**

Total marks [33]

3 Jomat plc, an airline operator, currently operates from only one United Kingdom airport, Danport. It has total fixed costs of £810 000 per annum. The variable costs and revenue per flight are:

	£
Direct labour	4 000
Other variable costs	10 000
Revenue per flight	18 500
Number of flights per annum	400

The company is considering extending its operations in the next financial year to three other United Kingdom airports. Fixed costs would increase by £150 000 for each of the three additional airports which might be used.

The estimated variable costs and revenue per flight for each additional airport would be as follows:

	Elton	Franley	Gomerton
	£	£	£
Direct labour	5 500	3 700	3 800
Other variable costs	10 100	10 300	11 200
Revenue per flight	17 000	13 800	16 000
Number of flights per annum	300	290	280

The estimated revenue per flight would be lower than for current operations until sufficient demand is generated.

There is a possibility that there will be a national shortage of the direct labour used by Jomat plc, and that only £3 654 000 worth of this direct labour will be available in total for the next financial year.

REQUIRED

(a) On the basis of operating from Danport only:

(i) profit for year, showing the contribution per flight. **[3]**

(ii) break-even in flight numbers **and** sales value. **[2]**

(iii) margin of safety in flight numbers **and** as a percentage. **[2]**

(b) On the basis of extending its operations, calculate the maximum profit Jomat plc could achieve in the next financial year if:

(i) there was no shortage of direct labour. **[5]**

(ii) direct labour was limited to £3 654 000. **[10]**

(c) On the basis of **(b)(i)**, where there is no shortage of direct paid labour, discuss whether or not maximum profit is the best target for Jomat plc to aim for in the next financial year. **[9]**

(d) Discuss **two** other factors which Jomat plc should consider in its long term planning. **[4]**

Total marks [35]

4 Two years ago Mann Ltd spent £20 000 on market research for new products. Following this it was decided to delay the introduction of the products. The company is now considering two new product developments, only one of which will be undertaken. Details of each product are given below.

Product		18	19
		£	£
Fixed asset cost at start		130 000	180 000
Sales:	Year 1	100 000	140 000
	Year 2	100 000	130 000
	Year 3	140 000	100 000
	Year 4	120 000	60 000
	Year 5	80 000	40 000

Net profit as a percentage of sales is estimated to be 10% each year for each product for years 1 and 2. It is then estimated to be 15% each year for each product for years 3, 4 and 5.

Both fixed assets will last five years and are to be depreciated by the straight line method. A nil residual value is estimated for the fixed asset for product 18 at the end of year 5. The fixed asset for product 19 is to be sold at the end of year 5 and is estimated to have a residual value of £15 000.

The capital cost is payable immediately a product is introduced.

The cost of capital is 10%.

Extract from present value tables of £1 @ 10%.

Year 1	0.909
Year 2	0.826
Year 3	0.751
Year 4	0.683
Year 5	0.621

REQUIRED

(a) For each product:

(i) the net cash flow for each year. **[4]**

(ii) payback (to two decimal places). Assume even cash flows throughout each year. **[4]**

(iii) net present value. Assume all cash flows take place at the end of each year. **[8]**

(iv) accounting rate of return (to two decimal places). The accounting rate of return is defined by the business as average net profit for the product to initial capital outlay. **[4]**

(b)* Evaluate the usefulness of each of the appraisal methods stated in part **(a)**. **[14]**

(c) Explain how the original market research costs should be treated in the appraisal process. **[3]**

Total marks [37]

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