ADVANCED GCE

ACCOUNTING **F014 RB**

Unit F014: Management Accounting

RESOURCE BOOKLET

Duration: 2 hours

To be given to candidates at the start of the examination

INSTRUCTIONS TO CANDIDATES

- The information required to answer questions 1–2 is contained within this Resource Booklet.
- Do not hand this Resource Booklet in at the end of the examination. It is not needed by the Examiner.

INFORMATION FOR CANDIDATES

- This document consists of **8** pages. Any blank pages are indicated.

Answer **all** questions.

1* The following is a summary of the Balance Sheet for Jade plc as at 31 December 2006.

	£	£
Fixed Assets at cost		65,000
Less depreciation to date		14,000
		51,000
Current Assets		
Stock	60,000	
Trade Debtors	35,000	
Bank	14,300	
	109,300	
Current Liabilities		
Trade Creditors	30,000	
		79,300
		130,300
Capital and Reserves		130,000

The company is in the process of preparing budgets for the three months ending 31 March 2007, and the following information is available.

(i) Budgeted sales (which provide a gross profit of 25% on cost) are:

	£
December 2006	70,000
January 2007	75,000
February 2007	65,000
March 2007	100,000
April 2007	90,000

Half the sales are paid for in the month in which the sales are made and attract a 2% cash discount. The remainder are paid net the following month.

(ii) It has been company policy since January 2006 to arrange purchases such that stock at the end of each month exactly covers sales for the following month. Half of the purchases are paid in the month received and the company have negotiated a 2.5% discount for prompt payment. The remainder are paid net the following month.

(iii) Expenses (excluding depreciation) are £8,400 per month, payable in the month they are incurred.

(iv) The company will be purchasing additional fixed assets costing £17,000 on 1 January 2007, with 50% payable in February 2007 and the balance in May 2007. Depreciation on all fixed assets is at the rate of 10% per annum on cost (rates being charged from the date of purchase).

REQUIRED

The Cash Budget for the three months ending 31 March 2007, and the Budgeted Trading and Profit and Loss Account for the three months ending 31 March 2007.

Total marks [27]

2 Clearwater Construction plc is the contractor for the building of a replacement high technology factory for a multinational company. The total value of the contract is £8,500,000 over a three year period. The contract commenced on 1 January 2006, and the following details are available as at 31 December 2006.

	£
Material purchased	848,200
Materials transferred out to another site	8,000
Materials on site not yet used	38,000
Direct labour	448,000
Direct labour accrued	19,500
Indirect labour	63,000
Indirect labour accrued	2,400
Plant delivered to site	120,000
Head office charges	48,000
Cost of work not yet certified	86,000

Clearwater Construction plc has received payment of £1,555,500 which represents work certified as completed by the architects as at 31 December 2006, less a 15% retention.

The plant is estimated to last the life of the contract, and no residual value is expected. The company uses the straight line method of depreciation.

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 2006. **[16]**

(b) State and briefly explain the accounting concept involved in the calculation of profit to be credited to the accounts for the year ended 31 December 2006. **[3]**

(c) It is intended that the new factory be fully automated with the consequence of a number of redundancies amongst existing employees. From the social responsibility viewpoint, what factors should the business consider, and what assistance could it give to employees who will eventually be made redundant at the site (the majority of whom it is anticipated will be taking early retirement)? **[9]**

Total marks [28]

3 Sandstone Limited manufactures three products A, B and C. Budgeted costs and selling prices for its next financial year are as follows:

Product	A	B	C
	£	£	£
Selling price per unit	65	64	82
Variable costs per unit:			
Direct wages:			
Machinists (£8 per hour)	24	16	32
Packers (£6 per hour)	6	6	9
Direct materials	12	10	15
Variable overheads	5	8	6
Expected sales (units)	12,000	16,000	18,000

The total annual fixed costs are £600,000.

Owing to a high demand in the local area for machinists, the directors of Sandstone Limited have forecast that only 100,000 machinists' hours will be available for its production for the next financial year. This will lead to a shortage of machinists' hours and the company is considering the following options.

Option 1

To utilise the existing machinists to produce the maximum profit available.

Option 2

To increase the hourly rate for machinists to £9 per hour. This would attract additional machinists and Sandstone Limited would be able to increase production to meet the expected sales. The rate would be payable to all machinists for the full financial year. No other changes would be made.

REQUIRED

(a) A statement to show the maximum profit Sandstone Limited could make in its next financial year under Option 1. Show the contribution per unit for each product, and the ranking of each product in your calculations. **[13]**

(b) A statement to show the maximum profit Sandstone Limited could make in its next financial year under Option 2. Show the contribution per unit for each product in your calculations. **[9]**

(c)* Evaluate the options being considered by Sandstone Limited. **[14]**

Total marks [36]

4 Monarch plc had estimated the following factory indirect costs for its financial year ended 31 December 2006.

	£
Indirect wages	610,000
Repairs and maintenance	95,600
Canteen	35,200
Insurance of machinery	27,000
Insurance of premises	24,000
Heating and lighting	32,500
Consumables	4,900
	829,200

The company calculated a suitable overhead absorption rate for each of the two production departments using the following information.

	Production Departments		Service Departments	
	Machining	Assembly	Maintenance	Canteen
Machine cost (£)	375,000	125,000	-	-
Direct machine hours	270,000	30,000	-	-
Direct labour hours	75,000	303,000	-	-
Premises area (square metres)	7,200	6,400	1,600	800
Number of employees	48	81	15	6
Consumables (£)	821	1,382	1,330	1,367

The proportion of work done by each service department was:

	Machining	Assembly	Maintenance	Canteen
Maintenance (%)	75	25	-	-
Canteen (%)	30	55	15	-

The actual results for the year ended 31 December 2006 were as follows:

	Machining	Assembly
Factory indirect costs (£)	397,100	412,600
Direct machine hours	275,000	29,500
Direct labour hours	78,000	290,000

REQUIRED

(a) Calculate, using appropriate bases, the overhead absorption rate for each of the production departments. **[19]**

(b) Calculate the amount of overhead that would be over or under absorbed by each production department, using the actual results provided. **[4]**

(c) Discuss the problems associated with using predetermined overhead absorption rates, indicating how an inaccurate rate of overhead absorption can adversely affect the profits of a business. **[6]**

Total marks [29]

Paper Total [120]

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