

ADVANCED GCE ACCOUNTING

F014

Management Accounting

Candidates answer on the Question Paper

OCR Supplied Materials:

None

Other Materials Required:

None

SPECIMEN 2010

Duration: 2 hours



Candidate Forename			(Candidate Surname			
Centre Numb	per			Candidate N	umber		

INSTRUCTIONS TO CANDIDATES

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the boxes above.
- 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.
- Do not write in the bar codes.
- Write your answer to each question in the space provided; however additional paper may be used if necessary.

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 120.
- * 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 16 pages. Any blank pages are indicated.



© OCR 2010 [500/2187/4] DC (SLM) 13545 OCR is an exempt Charity



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		

79,300 130,300 Capital and Reserves 130,000

Trade Creditors

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:

30,000

	£
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.

SOCIO COCIO COCIO

- (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).



© OCR 2010

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:

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.



J	

[16]

© OCR 2010



.....

Turn over _

(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	Α	В	С
	£	£	£
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

CONTRACTOR CONTRACTOR

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 financia year under Option 1. Show the contribution per unit for each product, and the ranking of each product in your calculations.

*80000003 *

[13]
[IV]



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

* 80000003 *

© OCR 2010

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



[14]
Total marks [36]

Turn over

© OCR 2010



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:

	Mac	hining	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



© OCR 2010

REQUIRED

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

80000003

■ © OCR 2010



(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]



■ © OCR 2010





Copyright Information

OCR is committed to seeking permission to reproduce all third-party content that it uses in its assessment materials. OCR has attempted to identify and contact all copyright holders whose work is used in this paper. To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced in the OCR Copyright Acknowledgements Booklet. This is produced for each series of examinations, is given to all schools that receive assessment material and is freely available to download from our public website (www.ocr.org.uk) after the live examination series.

If OCR has unwittingly failed to correctly acknowledge or clear any third-party content in this assessment material, OCR will be happy to correct its mistake at the earliest possible

For queries or further information please contact the Copyright Team, First Floor, 9 Hills Road, Cambridge CB2 1GE.

OCR is part of the Cambridge Assessment Group; Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.

