

Surname		Other Names	
Centre Number		Candidate Number	
Candidate Signature			

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General Certificate of Education  
 June 2006  
 Advanced Subsidiary Examination



**ACCOUNTING**  
**Unit 4 Introduction to Accounting for Management and Decision-making**

**ACC4**

Wednesday 7 June 2006 1.30 pm to 2.30 pm

**You will need no other materials.**  
 You may use a calculator.

Time allowed: 1 hour

**Instructions**

- Use blue or black ink or ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- Answer the questions in the spaces provided.
- All workings must be shown and clearly labelled; otherwise marks for method may be lost.
- Make and state any necessary assumptions.
- Do all rough work in this book. Cross through any work you do not want marked.

**Information**

- The maximum mark for this paper is 80.  
 4 of these marks are for the Quality of Written Communication.
- The marks for questions are shown in brackets.
- You are reminded of the need for good English and clear presentation in your answers. Some questions involve only numerical work; all other questions should be answered in continuous prose. Quality of Written Communication will be assessed in all prose answers.

For Examiner's Use			
Number	Mark	Number	Mark
1		3	
2			
Total (Column 1) →			
Total (Column 2) →			
Quality of Written Communication			
TOTAL			
Examiner's Initials			

Answer **all** questions in the spaces provided.

**Total for this question: 19 marks**

**1**

Susie Ng owns a small manufacturing business. Information for the years ended 31 December 2004 and 31 December 2005 is as follows.

	<b>2004</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Sales	320 000	280 000
Cost of sales	160 000	160 000
Overheads	140 000	90 000
Current assets	420 000	360 000
Current liabilities	140 000	180 000

**REQUIRED**

- (a) Calculate a relevant ratio to show the liquidity of the business for **each** of the two years. State the formula used.

Formula

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Ratio calculations

	<b>2004</b>		<b>2005</b>
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*(5 marks)*

- (b) Calculate **one** relevant ratio to show the profitability of the business for **each** of the two years. State the formula used.

Formula

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Ratio calculations

	<b>2004</b>	<b>2005</b>
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(7 marks)

**Question 1 continues on the next page**

**Turn over ▶**

(c) Write a report to Susie explaining the significance of the ratios calculated.

**Report**

To: .....

From: .....

Date: .....

Subject: .....

*(Report headings: 1 mark)*

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*(6 marks)*

**Turn over for the next question**

**Turn over ►**

**Total for this question: 29 marks**

2

Ian hopes to start a new business on 1 March selling surfboards. His balance at bank on that day will be £3200.

He intends to sell each surfboard for £160. On 1 June, the price will increase to £190 per surfboard.

The variable cost per surfboard is expected to be £85.

In preparation for the summer season Ian intends his stock level to be 60 surfboards by 1 June. Thereafter, he will only produce enough to satisfy demand.

**Note:** Assume each month consists of 4 weeks.

Ian hopes to employ his brother, Malcolm, to help out in the workshop for 3 months from 1 March. Malcolm will be paid £40 per day for 5 days a week.

With Malcolm's help, Ian hopes to make up to a maximum of 10 surfboards a week, whereas he can only make up to 6 surfboards alone.

Expected sales are:

<b>1 March to 30 April</b>	<b>May</b>	<b>1 June onwards</b>
4 surfboards a week	7 surfboards a week	10 surfboards a week

The stock on 31 July is expected to be 28 surfboards.

His fixed overheads, excluding depreciation, are expected to be £500 per month.

Any bank surplus over £1000 at the end of each month will be taken as Ian's personal drawings.

All transactions will be on a cash basis.

**REQUIRED**

- (a) Prepare a production budget for each of the 5 months ending 31 July, assuming Malcolm is employed.

**Production budget (units/surfboards)**

	<b>March</b>	<b>April</b>	<b>May</b>	<b>June</b>	<b>July</b>

*(16 marks)*

- (b) Prepare a cash budget for each of the 5 months ending 31 July. Include the maximum amount that Ian can withdraw for personal use.

**Cash budget**

	<b>March</b> <b>£</b>	<b>April</b> <b>£</b>	<b>May</b> <b>£</b>	<b>June</b> <b>£</b>	<b>July</b> <b>£</b>

*(13 marks)***Turn over for the next question****Turn over ►**

**Total for this question: 28 marks**

3

Drew Armstrong manufactures and sells two products, an ink pen and a novelty ruler.

	<b>Selling price per unit</b>	<b>Direct costs per unit</b>	<b>Expected demand for the next 3 months</b>
Ink pen	£8.00	£6.20	4200
Novelty ruler	£2.50	£0.60	8400

Drew is working at full capacity but, due to staff long-term sickness, he can only produce 3000 ink pens and 6000 novelty rulers over this period.

He is worried that he will lose customers during these three months. Drew can buy the deficit stock from a rival supplier who will supply the ink pen for £3.10 and the novelty ruler for £0.40. However, these goods will only be partly completed. The ink pen will require extra costs of £4.00 per pen and the novelty ruler will require extra costs of £1.10 per ruler.

### REQUIRED

- (a) (i) Define the term 'contribution'.

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 (2 marks)

- (ii) State the formula used to calculate contribution per unit.

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 (1 mark)



(b) Calculate the **total** contribution to satisfy expected demand:

(i) if Drew manufactures both products himself and there is no staff sickness;

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*(5 marks)*

(ii) if there is staff sickness and he buys in the deficit stock.

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*(7 marks)*

**Question 3 continues on the next page**

**Turn over ►**

(c) Explain whether Drew Armstrong should buy in the deficit stock for the next three months.

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*(6 marks)*

At the end of the three months, Drew finds out that the staff on long-term sickness leave cannot return in the immediate future. It will be expensive to appoint and train replacement staff. Alternatively, he can purchase a new machine that will significantly increase production. The purchase of the new machine will be financed by a long-term loan. Drew believes that, after installation, he can make 5% of the workforce redundant and retrain some of the remaining staff.

**REQUIRED**

- (d) Explain the possible effects of the purchase of the new machine on the current staff.

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*(7 marks)*

**END OF QUESTIONS**

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