

General Certificate of Education  
June 2007  
Advanced Level Examination



**ACCOUNTING**  
**Unit 7 Further Aspects of Accounting for  
Management and Decision-making**

**ACC7**

Friday 22 June 2007 1.30 pm to 2.45 pm

**For this paper you must have:**

- an answer book for Accounting.

You may use a calculator.

Time allowed: 1 hour 15 minutes

**Instructions**

- Use blue or black ink or ball-point pen.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is ACC7.
- Answer **all** questions.
- 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 the answer book. Cross through any work you do not want to be marked.

**Information**

- The maximum mark for this paper is 105.  
Five of these marks will be awarded for using good English, organising information clearly and using specialist vocabulary where appropriate.
- The marks for questions are shown in brackets.
- Question 4 is the synoptic question which assesses your understanding of the relationship between the different aspects of Accounting.

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Answer **all** questions.

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**Total for this question: 21 marks**

**1**

The directors of Mihail Manufacturing Ltd forecast a profit of £72 100 for the year ended 31 March 2007. The company operates a system of standard costing.

At the year end, it was discovered that the number of units sold and total sales revenue were as expected. Production levels were also as expected. However, the following information is available for materials and labour.

	<b>Standard</b>	<b>Actual</b>
Material price per metre	£4	£3.50
Metres of material	1200 metres	1250 metres
Labour rate per hour	£12	£13
Hours of labour	600 hours	520 hours

**REQUIRED**

- (a) Define the term 'variance', used in standard costing. *(2 marks)*
- (b) Calculate **both** the material price variance **and** the material usage variance for the year ended 31 March 2007. *(6 marks)*
- (c) Calculate **both** the labour rate variance **and** the labour efficiency variance for the year ended 31 March 2007. *(6 marks)*
- (d) Prepare a profit reconciliation statement to calculate the actual profit for the year ended 31 March 2007. *(7 marks)*

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**Total for this question: 14 marks**

2

Robert intends to purchase a new machine costing £60 000.

The cost of capital is 8%.

The discount factors are:

Year 1	0.926
Year 2	0.857
Year 3	0.794
Year 4	0.735

The annual net cash flow is expected to be £26 000 per annum for the next three years.

**REQUIRED**

- (a) Calculate the payback period for the machine. *(3 marks)*
- (b) Calculate the net present value for the machine. *(6 marks)*
- (c) Assess the usefulness of the net present value method of capital investment appraisal. *(5 marks)*

**Turn over for the next question**

**Turn over ►**

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**Total for this question: 15 marks**

**3**

Dario Uno produces a single product.

The following information is available for the year ending 31 October 2007.

- (1) The expected costs per unit are:
  - materials 40 metres at £2.50 per metre;
  - labour 3 hours at £16 per hour.
- (2) The expected production is 26 000 units per year.
- (3) The fixed overheads of £39 000 are absorbed using labour hours.
- (4) The selling price is based on full cost plus 20%.

**REQUIRED**

- (a) Calculate the overhead absorption rate per hour. *(3 marks)*
- (b) Calculate the selling price per unit. *(6 marks)*
- (c) Compare the advantages of using absorption costing with the advantages of using marginal costing to set a selling price. *(6 marks)*

**Turn over for the next question**

**Turn over ►**

**Total for this question: 50 marks**

4

Nora manufactures hair bands.

She employs six people who each work six hours per day, five days per week. Each hair band takes 12 minutes to make. At this rate of production, each employee would be paid £240 per week.

The materials for each hair band cost £1.20.

The selling price for each hair band is £3.10.

Total fixed costs are £225 per week.

Nora expects to manufacture and sell 900 hair bands in week 1.

**REQUIRED**

- (a) Calculate the number of hair bands made per hour. *(2 marks)*
- (b) Calculate the contribution per hair band. *(8 marks)*
- (c) Calculate break-even in units for week 1. *(3 marks)*
- (d) Calculate the profit for week 1 using the expected production and sales of 900 hair bands. *(7 marks)*

In week 2, there was an order for an extra 150 hair bands. The extra labour hours were covered for that week by paying overtime at £12 per hour.

In week 3, one of the employees was off sick. Nora asked the remaining staff to complete the work so that production levels remain at 900 hair bands per week. Extra hours were paid at £12 per hour.

**REQUIRED**

- (e) Calculate for **each** of the three weeks:
- (i) the number of labour hours required to meet the production targets; *(4 marks)*
- (ii) the total labour costs. *(8 marks)*

After the staff member returned from sick leave, a new regular order was received. This would increase production levels to 1050 hair bands per week.

To fulfil the regular extra production levels, Nora has decided not to pay overtime. Instead, she is considering whether to:

- increase the working week for the current staff to six days, or
- employ part-time staff at £5.50 per hour.

**REQUIRED**

- (f) Analyse the financial and non-financial effects that each of Nora's proposals would have on the current workforce and on her profitability. *(12 marks)*

Nora could purchase the extra hair bands at £2.95 each.

**REQUIRED**

- (g) Assess, showing calculations, whether Nora should purchase the hair bands for the extra order, instead of increasing the working week for current staff or employing part-time staff. *(6 marks)*

**END OF QUESTIONS**

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