General Certificate of Education
Advanced Level Examination
January 2010

Accounting ACCN4

Unit 4 Further Aspects of Management Accounting

Monday 1 February 2010 9.00 am to 11.00 am

For this paper you must have:
- a 12-page answer book.

You may use a calculator.

Time allowed
- 2 hours

Instructions
- Use black ink or black 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 ACCN4.
- 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 your answer book. Cross through any work that you do not want to be marked.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 90.
  Four of these marks will be awarded for:
  – using good English
  – organising information clearly
  – using specialist vocabulary where appropriate.

Answer **all** questions.

Total for this question: 21 marks

1 The production manager of Matt Daniels Ltd is considering the purchase of either machine Heath or machine Field.

The following information is available.

	Heath	**Field**
Purchase price	£169 000	£250 000
Annual production (units)	13 000	18 000
Expected life	8 years	12 years

Each unit of production has a selling price of £6 and costs £4 to manufacture.
Machine Field needs specialised maintenance at an annual cost of £3000.

Matt Daniels Ltd is experiencing cash flow problems.

REQUIRED

(a) Calculate the payback period for each machine. *(8 marks)*

(b) Advise the production manager of Matt Daniels Ltd which machine should be purchased. Justify your recommendation. *(13 marks)*

Total for this question: 16 marks

2

Hall Ltd manufactures a single product.

The budgeted costs per unit were:

	£
Direct materials (£8 per kilo)	16
Direct labour (£15 per hour)	45

Production for February was expected to be 4000 units.

The actual costs for February were:

	£
Materials (5000 kilos)	60 000
Labour (9250 hours)	157 250

Actual production in February was 3700 units.

REQUIRED

(a) Calculate the material price and material usage sub-variances. *(6 marks)*

(b) Calculate the labour rate and labour efficiency sub-variances. *(6 marks)*

(c) Prepare a statement reconciling the budgeted costs with the actual costs for February. *(4 marks)*

Turn over for the next question

Total for this question: 18 marks

3 Giorgi Gates Ltd manufactures wooden gates.
The direct labour cost per gate is $1\frac{1}{2}$ hours at £7.20 per hour.

Budgeted production of gates for the year ending 31 March 2011 is to be as follows:

	1 April to 31 October	November	December	January	February	March
Gates per month	1000	800	200	200	800	1000

The following budgeted information is available for the year ending 31 March 2011.

	£
Stock at 1 April 2010	
Raw materials	12 500
Work in progress	16 000
Finished goods	23 000
Administration expenses	65 400
Factory overheads	151 900
Purchases of raw materials	360 000
Sales	924 000
Selling and distribution costs	62 000

Additional information

(1) At 31 March 2011, stock is expected to be:

	£
Raw materials	17 400
Work in progress	18 000
Finished goods	39 000

(2) One quarter of the budgeted administration expenses are to be apportioned to the factory.

REQUIRED

(a) Prepare a quarterly direct labour budget for the year ending 31 March 2011. *(8 marks)*

(b) Prepare the budgeted manufacturing account for the year ending 31 March 2011, showing clearly the prime cost. *(8 marks)*
(for quality of presentation: plus 2 marks)

Turn over for the next question

Total for this question: 35 marks

4

Pot Proud Ltd manufactures ornamental garden pots in three different sizes: 20 cm, 40 cm and 60 cm diameters.

The financial director believes that profit is not being maximised. The company is operating at full capacity by manufacturing 12 000 pots of each size. He believes that they are overstocked at the year end as production exceeds demand.

The following information is available for the year ending 31 March 2011.

	Pot sizes		
	20 cm	**40 cm**	**60 cm**
Demand for pots (in units)	8000	2000	10 000
Direct labour time per pot	30 minutes	45 minutes	60 minutes
Direct materials per pot	2 metres	4 metres	6 metres

Additional information

(1) The selling price is to be set at marginal cost plus 50% mark-up.
(2) Raw materials cost £5 per metre.
(3) Direct labour is paid at £8 per hour. There are 13 500 direct labour hours available.

REQUIRED

(a) Calculate the optimum production that would maximise profits. *(15 marks)*

The financial director is considering changing the method of calculating the selling price to being based on Activity Based Costing (ABC).

REQUIRED

(b) Currently, overheads are not considered when setting the selling price. Explain the difference between ABC and marginal costing. Make a recommendation to the financial director on whether he should change the method of calculating the selling price. *(8 marks)*

During April 2009, forty 60 cm pots had been returned by customers because they were cracked. It was discovered that there was a fault in the casting process. The total cost of the repairs would be financed by a bank loan of £70 000 at 8% interest per annum.

A competitor is willing to supply Pot Proud Ltd with the pots at a cost of £9600 per 200 pots.

The factory is not able to work at full capacity without the repairs to the casting process and as a result 35% of the workforce would have to be made redundant.

REQUIRED

(c) Discuss whether the casting process should be repaired or whether the pots should be purchased from the competitor. Include a financial analysis of each option and any other relevant information which should be considered. *(10 marks)*
(for quality of written communication: plus 2 marks)

END OF QUESTIONS

There are no questions printed on this page