RECOGNISING ACHIEVEMENT

ADVANCED GCE **F003**

ACCOUNTING

Management Accounting

FRIDAY 6 JUNE 2008

Morning

Time: 1 hour 30 minutes

Additional materials (enclosed): Answer Booklet (8 page)

Additional materials (required):
Calculators may be required

CUP/T58762

INSTRUCTIONS TO CANDIDATES

- Write your name in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.
- Read each question carefully and make sure you know what you have to do before starting your answer.
- Answer **all** the questions.
- You must show the calculations leading to your answers.

INFORMATION FOR CANDIDATES

- The number of marks for each question is given in brackets [ ] at the end of each question or part question.
- The total number of marks for this paper is **100**.
- The quality of your written communication will be taken into account when marking your answers to the questions labelled with an asterisk (*).
- 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 **4** printed pages.

  [Turn over

1 Clare Traders has prepared the following forecasts for the five months ending 31 October 2008.

	June	July	Aug	Sept	Oct
	£	£	£	£	£
Sales	280 000	250 000	270 000	280 000	290 000
Wages	24 000	26 000	20 000	28 000	30 000
General expenses	30 000	33 000	31 000	34 000	35 000

Other information available.

(i) All sales provide 60% gross profit on cost. Half the sales are paid for in the month in which sales are made and attract a 2.5% cash discount. The remainder are paid net in the month following sale.

(ii) It is company policy to arrange purchases such that stock at the end of each month exactly covers forecast sales for the following month. Half of the purchases are paid for in the month received. The remainder are paid in the month following purchase. No discount received applies to purchases.

(iii) Three-quarters of the wages are paid in the current month and the remaining quarter in the following month.

(iv) Depreciation of £9 000 each month is included in general expenses. Payment for general expenses is made in the month in which expenses are incurred.

(v) Equipment which originally cost £18 000 is to be sold for £1 000 on 15 July 2008. The receipt for this disposal is to be received on this date. New equipment costing £120 000 is to be purchased and paid for in full on 15 July 2008. Depreciation for this equipment has been included in general expenses.

(vi) The bank balance at 1 July 2008 is estimated to be £34 000.

REQUIRED

(a)* The Cash Budget for **each** of the three months ending 31 July, 31 August and 30 September 2008. [25]

(b) Advise the business on **three** actions it should consider when a cash budget shows a deficit cash flow position. [6]

(c) Discuss **three** advantages of a budgetary control system to a business such as Clare Traders. [9]

Total marks [40]

2 During 2005 Roman plc spent £42 000 on market research to investigate the potential market for new products. Further market research costing £20 000 was carried out during 2006. It was then decided to delay the production of a new product. During 2008 it was decided to introduce one new product and the company is investigating two product developments, only one of which will be undertaken. The capital cost for project A is £90 000, and for project B £120 000. The estimated annual profitabilities of these two separate projects are given below.

	Project A		Project B	
	£	£	£	£
Sales		240 000		310 000
Cost of sales	100 000		138 000	
Expenses	94 000	194 000	116 000	254 000
Net profit		46 000		56 000

It is estimated that the above will continue for each year of each project's life. Project A is estimated to have a life of five years and project B a life of four years.

Depreciation is included in the amount shown for expenses and is calculated on a straight line basis, assuming a residual value of £5 000 for project A, and a nil residual value for project B.

The capital cost would be payable at the start of the period. All other costs and revenues take place at the end of each year.

The company's cost of capital is 10%.

Extract from present value tables of £1 @ 10%.

Year 1	0.909
Year 2	0.826
Year 3	0.751
Year 4	0.683
Year 5	0.621

REQUIRED

(a) Calculate for **each** project (where appropriate the calculation should be to two decimal places):

(i) payback; [4]

(ii) net present value; [15]

(iii) accounting rate of return (defined by the business as average net profit to initial capital cost). [2]

(b)* State which of the two projects you would recommend, justifying the reasons for your recommendation. [14]

Total marks [35]

3 Shields plc commenced a long term contract on 1 May 2007 for the building of a replacement factory for a multinational company. At the financial year end 30 April 2008, the following details are available.

	£
Materials purchased	1 305 000
Materials transferred in from another site	200 000
Materials returned to suppliers	10 000
Materials on site not yet used	50 000
Plant purchased and delivered to site on 1 May 2007	270 000
Direct labour paid	740 000
Plant hire paid	95 000
Paid to sub-contractors	230 000
Architect's fees paid	70 000
Cost of work not yet certified	167 000
Payment received from customer	2 970 000

Additional information.

(i) Direct labour accrued at 30 April 2008 amounted to £60 000.

(ii) Plant hire prepaid at 30 April 2008 amounted to £8 000.

(iii) The plant purchased on 1 May 2007 is estimated to last three years from that date, with a residual value of £15 000. The company uses the straight line method of depreciation.

(iv) The payment received from the customer represents payment for all work certified less a 10% retention.

(v) 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 30 April 2008, showing all appropriate balances brought down on 1 May 2008. [17]

(b) **(i)** identify the concept involved in the calculation of profit to be credited to the accounts for the year ended 30 April 2008. [1]

(ii) Explain why this concept is appropriate in this situation. [3]

(c) Discuss why the customer has negotiated a 10% retention. [4]

Total marks [25]