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OCR
RECOGNISING ACHIEVEMENT

**ADVANCED GCE**

# ACCOUNTING

Management Accounting

**F014/RB**

**RESOURCE BOOKLET**

**To be given to candidates at the start of the examination**

**Thursday 24 June 2010**
**Afternoon**

**Duration:** 2 hours

*OCE/14089*

**INSTRUCTIONS TO CANDIDATES**

- The information required to answer questions 1–4 is contained within this Resource Booklet.
- Do not hand this Resource Booklet in at the end of the examination. It is not needed by the Examiner.

**INFORMATION FOR CANDIDATES**

- This document consists of **8** pages. Any blank pages are indicated.

**INSTRUCTION TO EXAMS OFFICER/INVIGILATOR**

- Do not send this Resource Booklet for marking; it should be retained in the centre or destroyed.

1 Kingsbridge Ltd manufactures a single product.

The standard cost per unit for the month of April 2010 was:

| | |
|---|---|
| Materials | 7 kilos at £7 per kilo |
| Labour | 3 hours at £9 per hour |
| Variable overheads | 2 hours at £4 per hour |
| Fixed overheads | 2 hours at £3 per hour |

Budgeted (standard) production and sales for April 2010: 3000 units

The standard selling price allows for a standard profit margin of 25%.

Actual results for April 2010 were:

| | |
|---|---|
| Production | 3200 units |
| Sales | 3100 units at £125 each |
| Materials | £160560 for 22300 kilos |
| Labour | £89300 for 9400 hours |
| Variable overheads | £25000 |
| Fixed overheads | £18800 |

**REQUIRED**

**(a)** For Kingsbridge Ltd, calculate the following variances from standard:

**(i)** material price; **[2]**

**(ii)** material usage; **[2]**

**(iii)** labour rate; **[2]**

**(iv)** labour efficiency; **[2]**

**(v)** total variable overhead; **[2]**

**(vi)** total fixed overhead; **[2]**

**(vii)** sales price; **[2]**

**(viii)** sales volume. **[2]**

**(b)** For Kingsbridge Ltd, prepare a statement reconciling budgeted (standard) cost and actual cost for April 2010. **[6]**

**(c)** Discuss **two** problems with introducing a standard costing system. **[4]**

**Total marks [26]**

**2** Cama plc is preparing budgets for the three months ending 30 September 2010. The following information is available.

**(i)** Budgeted sales:

| | | |
|---|---|---|
| Budgeted sales: | July 2010 | 9 900 units |
| | August 2010 | 8 700 units |
| | September 2010 | 8 400 units |
| | October 2010 | 9 000 units |

The budgeted selling price on all units is £30 per unit; this price has been unchanged throughout 2010. The selling price is based on a 50% mark up on cost. Half the sales are paid for in the month in which sales are made and attract a 2% cash discount. The remainder of sales are paid in full in the month after the sale takes place. Sales in June 2010 were 9 000 units.

**(ii)** It is company policy to arrange purchases such that the stock at the end of each month exactly covers budgeted sales for the next month. All purchases are on credit and are paid for in three equal consecutive monthly instalments. The first instalment is paid in the month of purchase. No discount received applies to purchases.

**(iii)** The payment policies for sales receipts and purchase payments have remained unchanged for the past 12 months.

**(iv)** Rates are £5 000 per month. These are paid quarterly in advance, with due dates January, April, July and October each year.

**(v)** Other expenses (excluding depreciation) are £75 000 each month and are paid in the month incurred.

**(vi)** The company has proposed an ordinary share dividend of £0.04 per share with payment planned in August 2010. The issued ordinary share capital is £775 000 and the shares have a par value of £0.50 each.

**(vii)** The bank balance at 1 July 2010 is estimated to be £30 000.

**REQUIRED**

**(a)** For Cama plc, the Cash Budget for **each** of the three months ending July, August and September 2010 **and** the Budgeted Trading Account for the three months ending 30 September 2010. **[23]**

**(b)*** Discuss the actions which Cama plc could take based on the position shown by the Cash Budget. **[11]**

**Total marks [34]**

**3** IGW Ltd currently manufactures a single product, garden seats. It is now considering increasing its product range to include wooden gates.

Estimated revenues/costs per unit for its next financial year are:

| | Garden seats | Wooden gates |
|---|---|---|
| | £ | £ |
| Selling price | 56 | 62 |
| Material cost | 22 | 20 |
| Labour cost at normal rates | 12 | 16 |
| Variable overheads | 6 | 8 |
| | | |
| Annual sales (units) | 15 000 | 6 000 |

The labour rate for each product is based on a normal hourly rate of £8. Any overtime worked is paid at 1.5 times the normal hourly rate. The company has a maximum number of 30 000 hours available at the normal rate, and a maximum of 2 000 hours available at the overtime rate.

If the existing product only is produced, then fixed costs are estimated to be £130 000 for the year. If the new product is added to production, then fixed costs would increase to £180 000 for the year.

**REQUIRED**

**(a)** Calculate the annual profit if IGW Ltd continues to produce garden seats only. Show the contribution per unit in your calculations. **[5]**

**(b)** Calculate the annual maximum profit if IGW Ltd produces garden seats and wooden gates. Show the contribution per unit in your calculations. **[16]**

**(c)** Discuss whether IGW Ltd should increase its product range to include wooden gates. **[6]**

**Total marks [27]**

 

4 Coalbrook Engineering has estimated the following factory indirect costs for its next financial year.

| | £ |
|---|---|
| Indirect wages | 1 480 500 |
| Repairs and maintenance | 241 400 |
| Rent and rates | 48 000 |
| Insurance of premises | 23 400 |
| Insurance of machinery | 18 600 |
| Depreciation of machinery | 12 000 |
| Heating and lighting | 31 600 |
| Sundries | 20 250 |

The company wishes to calculate a suitable overhead absorption rate for each of its two production departments and the following information is available:

| | *Production Departments* | | *Service Departments* | | |
|---|---|---|---|---|---|
| | *Machining* | *Finishing* | *Canteen* | *Maintenance* | *Stores* |
| Machine cost (£) | 240 000 | 120 000 | – | 40 000 | – |
| Direct machine hours | 209 000 | 8 800 | – | 2 200 | – |
| Direct labour hours | 42 000 | 180 000 | – | – | – |
| Floor area (square metres) | 7 000 | 3 500 | 1 400 | 700 | 1 400 |
| Number of employees | 70 | 42 | 7 | 14 | 7 |
| Sundries (£) | 6 110 | 3 564 | 3 675 | 1 746 | 5 155 |

The proportion of work done by service departments is:

| | *Machining* | *Finishing* | *Canteen* | *Maintenance* | *Stores* |
|---|---|---|---|---|---|
| Canteen (%) | 50 | 40 | – | 6 | 4 |
| Maintenance (%) | 80 | 20 | – | – | – |
| Stores (%) | 60 | 30 | – | 10 | – |

**REQUIRED**

**(a)*** For Coalbrook Engineering, calculate, using appropriate bases, the overhead absorption rate for **each** of the two production departments. **[21]**

**(b)** For Coalbrook Engineering, calculate the production cost of job 1912 (where appropriate to two decimal places), using the following information:

| | *Machining* | *Finishing* |
|---|---|---|
| Direct materials (£) | 320 | 70 |
| Direct labour (£) | 130 | 50 |
| Machine hours | 10 | 4 |
| Labour hours | 5 | 8 |

**[4]**

**(c)** Explain why a business might recover less in overheads than the amount spent on overheads during a period. **[4]**

**(d)** Activity based costing is sometimes used as an alternative to traditional methods of overhead absorption. Explain **two** limitations of activity based costing. **[4]**

**Total marks [33]**

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