

GCE

Accounting

Unit **F014**: Management Accounting

Advanced GCE

Mark Scheme for June 2016

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All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

OCR will not enter into any discussion or correspondence in connection with this mark scheme.

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Question	Answer/Indicative content	Mark	Guidance																																																																																															
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(c)*	<p><u>FIFO</u> Resulting value of closing stock more likely to reflect current market values.</p> <p>Good representation of sound storekeeping practice, if oldest stock is issued first.</p> <p>Acceptable for SSAP 9/IAS 2 and HMRC for tax purposes.</p> <p>Issue prices may not equate to current values.</p> <p>Initially discloses highest profit, although in the long run will equate with other methods.</p> <p><u>LIFO</u> Usually unrealistic if based on assumption that the most recent purchases are sold before older stock.</p> <p>Stock valuation is at older prices and may not relate to current costs.</p> <p>Not acceptable for the purposes of SSAP 9/IAS 2 or for HMRC for tax purposes.</p> <p>Initially discloses lowest profit, although in the long run will equate to other methods.</p> <p><u>AVCO</u> Evens out fluctuating prices which may present with other methods.</p> <p>Acceptable for SSAP 9/IAS 2 and HMRC for tax purposes.</p> <p>Disclosed profit in between FIFO/LIFO methods, although equates to same in the long run.</p> <p><u>A maximum of 4 marks available for each method, broken down for each as follows:</u> (2 x 2 marks, of which 1 for point plus 1 for development)</p> <p style="text-align: right;">QWC (2)</p>	14	

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(d)	<p>Current single rate will only be satisfactory when all jobs spend the same time in each department, which is unlikely therefore inappropriate . This method may result in a department being charged for overheads, even though a job may not have passed through it .</p> <p>Direct labour hour rate preferred if labour is the dominant factor. Labour is the dominant factor therefore appropriate. Most overheads are related to time and this method is time based. A different rate can be calculated for each type of labour/department.</p> <p>Machine hour rate preferred if machining is the dominant factor. Machine hours are not the dominant factor, therefore not appropriate. Most overheads are related to time and this method is time based. A different rate can be calculated for each type of machine/department.</p> <p>Each method (3 x 1 mark, with 1 mark for appropriateness)</p>	9																																								

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(e)	<p>Over absorption, too much overhead charged to production, overpriced and uncompetitive, fall in demand and subsequent loss of revenue/reduction in profit.</p> <p>Under absorption, insufficient overhead charged to production, lower price to customer, costs not covered and subsequent reduction in profits.</p> <p>(2 x 3 marks) (1 for point plus up to 2 for development)</p>	6	

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C/stock	<u>70,000(1)</u>	<u>72,750(1)</u>		<u>19,800(1)</u>																																																																																																																					
	<u>490,000</u>		<u>579,250</u>		<u>844,950</u>																																																																																																																				
Gross Profit	<u>98,000(1)</u>		<u>92,750(1)</u>		<u>15,050(1)</u>																																																																																																																				
	(b)	<p>Make or buy Dropping a product Acceptance of special order Minimum selling price Limiting factor Break-even</p> <p>(3 x 1 mark)</p>				3																																																																																																																			

Question	Answer/Indicative content	Mark	Guidance																														
(c)	<p><u>Reconciliation statement for the budgeted (standard) cost for the total production in May 2016 and the actual cost of production in May 2016.</u></p> <table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Budgeted (standard) cost</td> <td style="width: 30%;"></td> <td style="width: 40%; text-align: right;">1,081,548(1 of)</td> </tr> <tr> <td></td> <td style="text-align: center;">A</td> <td style="text-align: center;">F</td> </tr> <tr> <td>MPV</td> <td></td> <td style="text-align: right;">11,500</td> </tr> <tr> <td>MUV</td> <td style="text-align: right;">17,152</td> <td></td> </tr> <tr> <td>LRV</td> <td style="text-align: right;">5,920</td> <td></td> </tr> <tr> <td>LEV</td> <td></td> <td style="text-align: right;">18,960</td> </tr> <tr> <td>TVO</td> <td></td> <td style="text-align: right;">660</td> </tr> <tr> <td>TFO</td> <td></td> <td style="text-align: right;"><u>3,180</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>23,072(1)</u></td> <td style="text-align: right;"><u>34,300(1)</u></td> </tr> <tr> <td>Actual cost</td> <td></td> <td style="text-align: right;"><u>11,228</u> <u>1,070,320(1)</u></td> </tr> </table>	Budgeted (standard) cost		1,081,548(1 of)		A	F	MPV		11,500	MUV	17,152		LRV	5,920		LEV		18,960	TVO		660	TFO		<u>3,180</u>		<u>23,072(1)</u>	<u>34,300(1)</u>	Actual cost		<u>11,228</u> <u>1,070,320(1)</u>	4	
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(d)	<p>A favourable price variance may be because cheaper lower quality materials have been purchased and these may result in production problems and reduce profit.</p> <p>Cheaper lower quality materials may lower the quality of finished products and reduce customer demand and reduce profit.</p> <p>If same quality materials have been bought at a lower price then this will reduce the cost of sales and increase profit.</p> <p>Cheaper lower quality material may mean additional quantity is needed and give an adverse material usage variance. Additional work required may also lead to adverse labour efficiency.</p> <p>(2 x 3 marks) (1 for point plus up to 2 for development)</p>	6																															

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