THIS IS A LEGACY SPECIFICATION

OCR
RECOGNISING ACHIEVEMENT

ADVANCED SUBSIDIARY GCE
ACCOUNTING
Management Accounting

F003

Candidates answer on the Answer Booklet

OCR Supplied Materials:
- 8 page Answer Booklet

Other Materials Required:
- Calculators may be required

Friday 5 June 2009
Morning

Duration: 1 hour 30 minutes

MODIFIED LANGUAGE

INSTRUCTIONS TO CANDIDATES

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer **all** the questions.
- You must show the calculations leading to your answers.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks 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 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 **8** pages. Any blank pages are indicated.

A calculator may be used for this paper

1 Richard Staverton is a retailer of bicycles. The following information is available for the period 1 November 2008 to 30 April 2009.

Month	*Purchases of bicycles*	*Sales of bicycles in units*
November	32 @ £125 each	20
December	36 @ £127 each	40
January	48 @ £128 each	54
February	62 @ £128 each	56
March	44 @ £130 each	48
April	66 @ £129 each	64

At 1 November 2008, Richard had an opening stock of 16 bicycles costing £124 each. The sales price of all bicycles during the period 1 November 2008 to 31 January 2009 was based on a mark up of 60% on the November 2008 purchase price. The selling price was increased by 4% for all sales during the period 1 February 2009 to 30 April 2009. During the six month period 1 November 2008 to 30 April 2009, total expenses were £12 712.

REQUIRED

(a) Calculate the closing stock valuation as at 30 April 2009, using the following methods of stock valuation (periodic basis):

(i) FIFO; **[3]**

(ii) LIFO. **[5]**

(b) Calculate the net profit for the six months ended 30 April 2009, under the FIFO method of stock valuation. **[7]**

(c) Discuss the advantages and disadvantages of using the FIFO method of stock valuation. **[8]**

(d) Richard Staverton is considering using the economic order quantity system for ordering stock.

Assess the usefulness of this system of stock management for his business. **[6]**

Total marks [29]

2 Churchdown Ltd manufactures three products A, B and C all of which are made from one basic raw material.

Budgeted costs and selling prices for the three months ending 30 September 2009 are as follows.

Product	A	B	C
Sales each month (units)	9 000	12 000	7 000
	£	£	£
Selling price per unit	72	74	58
Variable costs per unit:			
Direct material	18	25	16
Direct labour	19	14	13
Variable overheads	14	13	12

The total fixed costs are £250 000 each month.

Due to a material shortage, Churchdown Ltd will only receive 80% of its material requirement for the month of September 2009. No other shortages are expected.

REQUIRED

(a)* A statement to show the maximum profit for the three months ending 30 September 2009. **[20]**

(b) Churchdown Ltd has received an enquiry for a special order of 3 000 units of product C at a special price of £50 per unit. If the order is accepted, additional fixed costs of £15 000 would be incurred. Assuming that there is no material shortage, calculate the profit on this special order, if it is accepted. **[3]**

(c) Discuss **three** factors which Churchdown Ltd should consider when deciding whether to accept the special order for product C. **[9]**

Total marks [32]

3 Bournside Ltd is considering investing in a new product. Production would start on 1 January 2010. Two new developments, product X and product Y, are being investigated. The company has neither the space, nor the funds, to undertake both developments, and only one product will be undertaken.

The following details are available.

(i) Capital equipment cost 1 January 2010:

Product X	£110 000
Product Y	£130 000

The equipment used to make both products is estimated to last four years. The equipment used to make Product X is estimated to have a nil residual value and the equipment used to make Product Y has an estimated residual value of £5 000 at the end of four years.

(ii) Estimated selling price per unit:

	Product X	Product Y
Year	£	£
2010	14.00	14.80
2011	14.50	15.50
2012	15.20	16.00
2013	15.50	16.30

(iii) Estimated variable cost per unit:

	Product X	Product Y
Year	£	£
2010	7.10	7.40
2011	7.30	7.60
2012	7.80	8.00
2013	8.00	8.10

(iv) Estimated fixed costs, excluding depreciation:

	Product X	Product Y
Year	£	£
2010	29 900	36 000
2011	32 400	39 900
2012	35 200	43 000
2013	37 000	47 100

(v) Estimated demand in units:

	Product X	Product Y
2010	11 000	10 000
2011	12 000	11 000
2012	13 000	15 000
2013	14 000	18 000

(vi) Bournside Ltd's cost of capital is 12%.

Extract from present value tables of £1@12%:

Year 1	0.893
Year 2	0.797
Year 3	0.712
Year 4	0.636

REQUIRED

(a) Calculate the estimated annual cash flows for each product. **[10]**

(b) Calculate for each product:

(i) payback (to two decimal places); **[4]**

(ii) net present value. **[11]**

(c)* Recommend and justify which product Bournside Ltd should develop. **[14]**

Total marks [39]

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