



- 1 Bont Construction has been awarded a two year contract for the building of a new factory. The contract started on 1 January 2009 and the following details are available as at 31 December 2009.

	£
Materials purchased	1 800 000
Materials returned to suppliers	50 000
Materials on site, not yet used	220 000
Direct wages	1 160 000
Head office expenses	95 000
Plant delivered to site	600 000
Plant hire	70 000
Paid to sub-contractors	320 000
Architect fees	33 000
Cost of work not yet certified	247 000

Additional information:

- (i) At 31 December 2009, direct wages accrued amounted to £53 000. In addition, sub-contractors were owed £26 000.
- (ii) The company received payment of £3 825 000 from its customer. This represents work certified by the architect less a 15% retention.
- (iii) The plant was delivered to site on 1 January 2009 and is estimated to last the life of the contract with no residual value. Included in the plant was one item which cost £120 000, and on 30 April 2009, this item of plant was transferred to another contract. The value at which the transfer took place reflected the exact depreciation charge for the four months which had passed. The company uses the straight line method of depreciation, with the charge being applied for each part of the year.
- (iv) 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

- 1 (a)\* The Contract Account, for Bont Construction, for the year ended 31 December 2009. The balances brought down at 1 January 2010 should be shown in the Contract Account. [26]
- (b) Explain why Bont Construction's customer has negotiated the 15% retention. [4]
- (c) The new factory which Bont Construction is building is located in a socially deprived area. Discuss **two** benefits to the local economy of this decision. [4]

**Total marks [34]**

- 2 Lewis Lloyd commenced business on 1 January 2007. He immediately entered into a long term pricing arrangement with his sole supplier whereby all purchases would be fixed in price for 2007. The purchase price for the year was £10 per unit. On 1 January 2008 this price was increased by 5% and the new purchase price remained fixed for all purchases in 2008 and 2009.

The selling price was fixed for all sales during 2007 and this price was based on a sales margin of 20%. Lewis Lloyd maintained the 2007 selling price for all sales made during 2008. This selling price was increased by 4% for all sales in 2009.

Purchase quantities:

2007:	400 units per month
2008:	480 units per month
2009:	500 units per month

Sales quantities:

2007:	4 500 units per annum
2008:	5 900 units per annum
2009:	5 960 units per annum

#### REQUIRED

- 2 (a) Calculate the closing stock valuation, for Lewis Lloyd, as at 31 December 2007, 2008 and 2009, using the following methods of stock valuation (periodic basis).
- (i) FIFO [3]
- (ii) LIFO [4]
- (b) Calculate the gross profit, for Lewis Lloyd, for **each** of the years 2007, 2008 and 2009 under the **FIFO** method of stock valuation. [9]
- (c) Lewis Lloyd would like to value his closing stock in the final accounts at his sales price. Explain **two** reasons why this would **not** be allowed. [4]

**Total marks [20]**

- 3 CMW Ltd is a labour intensive business. It currently uses one factory overhead recovery rate which is a percentage of total direct labour costs. One rate is applied against all jobs taken on by the business. The rate is calculated from the following budgeted data.

Department	Factory overheads £	Direct labour costs £	Direct labour hours	Direct machine hours
1	150 000	500 000	120 000	7 000
2	450 000	1 000 000	225 000	10 000
3	360 000	900 000	200 000	–

The cost sheet for job 310308 shows the following information.

Department	Direct labour costs £	Direct labour hours	Direct machine hours	Direct material costs £
1	2 400	400	80	180
2	1 100	700	90	150
3	1 000	650	–	170

General administration expenses of 20% are added to the total factory cost. The selling price to the customer is based on a 25% net profit margin.

### REQUIRED

- 3 (a) (i) Calculate the current factory overhead rate for CMW Ltd. [2]
- (ii) Apply the factory overhead rate calculated in part (a)(i) to calculate the selling price for job 310308. [5]
- (b) Using the budgeted data, calculate overhead recovery rates for **each** of the CMW Ltd departments (1, 2 and 3) using the following methods:
- (i) percentage of direct labour cost; [3]
- (ii) direct labour hour rate. [3]
- (c) Apply **each** of the methods calculated in part (b) to calculate new selling prices for CMW Ltd job 310308. [8]
- (d) Discuss the problems associated with using pre-determined overhead absorption rates. [6]

**Total marks [27]**

- 4 During 2006 Grovesend plc spent £50 000 on market research for a new product. Further research costing £20 000 was carried out during 2008. Following this it was decided to delay the introduction of a new product. At the end of 2009 it was decided that a new product would be introduced, commencing 1 April 2010.

The company has £200 000 available for investment and two product developments are being considered, only one of which will be undertaken. Details of each product are given below.

Product		X	Y
		£	£
Fixed asset cost		175 000	200 000
Net profit:	Year 1	21 000	28 000
	Year 2	22 000	28 000
	Year 3	25 000	27 000
	Year 4	16 000	13 000
	Year 5	12 000	6 000

The fixed asset cost is payable on 1 April 2010. All other costs and revenues take place at the end of each year, with the first year ending 31 March 2011. All subsequent years also end on 31 March.

The fixed assets used for both products are estimated to have a life of five years and are to be depreciated by the straight line method. The fixed asset for Product X is estimated to have a residual value of £10 000. A nil residual value is estimated for the fixed asset for Product Y.

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

- 4 (a) Calculate for **each** Grovesend plc product (where appropriate calculations must be to one decimal place):
- (i) payback; [4]
  - (ii) net present value; [14]
  - (iii) accounting rate of return (defined by the company as average net profit to initial capital cost). [4]
- (b)\* Evaluate **each** of the methods used in part (a). [14]
- (c) Explain how Grovesend plc's market research costs in 2006 and 2008 should be treated in the capital expenditure appraisal. [3]

**Total marks [39]**

**BLANK PAGE**

**BLANK PAGE**



**Copyright Information**

OCR is committed to seeking permission to reproduce all third-party content that it uses in its assessment materials. OCR has attempted to identify and contact all copyright holders whose work is used in this paper. To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced in the OCR Copyright Acknowledgements Booklet. This is produced for each series of examinations, is given to all schools that receive assessment material and is freely available to download from our public website ([www.ocr.org.uk](http://www.ocr.org.uk)) after the live examination series.

If OCR has unwittingly failed to correctly acknowledge or clear any third-party content in this assessment material, OCR will be happy to correct its mistake at the earliest possible opportunity.

For queries or further information please contact the Copyright Team, First Floor, 9 Hills Road, Cambridge CB2 1GE.

OCR is part of the Cambridge Assessment Group; Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.