**OCR**
RECOGNISING ACHIEVEMENT

GCE

# Accounting

Advanced GCE

Unit **F014:** Management Accounting

# Mark Scheme for January 2011

Oxford Cambridge and RSA Examinations

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Any enquiries about publications should be addressed to:

OCR Publications
PO Box 5050
Annesley
NOTTINGHAM
NG15 0DL

Telephone:     0870 770 6622
Facsimile:     01223 552610
E-mail:        publications@ocr.org.uk

| Question Number | Expected Answer | Mark | Rationale |
|---|---|---|---|
| 1 (a) | <table><tr><td></td><td>A</td><td>B</td><td>C</td></tr><tr><td>Selling price</td><td>53</td><td>48</td><td>40</td></tr><tr><td>Variable costs</td><td>35</td><td>28</td><td>26</td></tr><tr><td>Contribution per unit</td><td>18(1)</td><td>20(1)</td><td>14(1)</td></tr></table><br>Contribution      18    20    14<br>Limiting factor   1.2    1    0.8<br><br>                 15    20   17.5<br>Priority **(2)**     3rd   1st   2nd<br><br>Machinist hours available     89,000<br>B 30,000 x 1           (30,000) **(1)**<br>                     59,000<br>C 40,000 x 0.8       (32,000) **(1)**<br>                     27,000<br>A 22,500 x 1.2       (27,000) **(2)**<br><br>Contribution B 20 x 30,000  600,000 **(1)**<br>Contribution C 14 x 40,000  560,000 **(1)**<br>Contribution A 18 x 22,500  405,000 **(1)**<br>                  1,565,000<br>Fixed costs         800,000 **(1)**<br>Profit            765,000 **(1)** | **[14]** | **Must show contribution for mark.**<br><br>**Marks for correct priority.**<br><br>**Allow marks against quantities.**<br><br>**Marks for these values regardless of priority.** |

| Question Number | Expected Answer | | | | Mark | Rationale |
|---|---|---|---|---|---|---|
| **(b)** | | A | B | C | | |
| | Hours | 1.2 | 1 | 0.8 | | |
| | x | 8.50 | 8.50 | 8.50 | | |
| | New cost | 10.20 | 8.50 | 6.80 | | |
| | Was | 9.60 | 8.00 | 6.40 | | |
| | Increase | 0.60 | 0.50 | 0.40 | | |
| | | | | | | |
| | Contribution A | 17.40 **(2)** | x 24,000 | 417,600 **(1)** | | **Must show contribution per unit for (2).** |
| | Contribution B | 19.50 **(2)** | x 30,000 | 585,000 **(1)** | | |
| | Contribution C | 13.60 **(2)** | x 40,000 | 544,000 **(1)** | | |
| | Total contribution | | | 1,546,600 | | |
| | Fixed costs | | | 800,000 **(1)** | | |
| | Profit | | | 746,600 **(1)** | **[11]** | |

| Question Number | Expected Answer | Mark | Rationale |
|---|---|---|---|
| **(c) \*** | <u>Option 1</u><br>This generates more profit **(1)**, however customer demand is not met **(1)**.<br><br>If customers move to other suppliers **(1)**, then risk of business being lost **(1)**, and reputation may suffer **(1)**.<br><br>If unable to produce to budget **(1)**, then less work for assembly department **(1)**, who may be made redundant **(1)**.<br><br>Could some assembly department be retrained as machinists **(1)**, although need to ensure assembly department requirement can be met **(1)**.<br><br><u>Option 2</u><br>This generates less profit **(1)**, however the business is able to meet customer demands **(1)**.<br><br>Competitors may react **(1)** and increase their wage rates **(1)**.<br><br>Assembly workers may not be happy **(1)**, and may seek a similar wage increase **(1)**.<br><br>All demands are estimates **(1)** and may not materialise **(1)**.<br>Reasoned conclusion **(1).**<br><br>**6 x 2 marks (max 8 marks for each option)**<br>**(1 for point plus 1 for development)**              **(12)**<br>                                              **QWC (2)** | **[14]** | **Allow movement in variable costs/contribution.** |
| | **Total marks** | **[39]** | |

| Question Number | Expected Answer | Mark | Rationale |
|---|---|---|---|
| 2 (a) | **Contract Account**<br><br>Machinery b/d 600,000**(1)**    Direct labour b/d 58,000**(1)**<br>Materials b/d 255,000**(1)**    Sub contractors b/d 35,000**(1)**<br>Plant hire b/d 47,000**(1)**    Profit provision b/d 90,000**(1)**<br>Direct labour 480,000**(1)**    Cost to date c/d 3,379,000**(1)**<br>Materials 895,000**(1)**<br>Plant hire 255,000**(1)**<br>Sub contractors 820,000**(1)**<br>Architects fees 90,000**(1)**<br>Head office 120,000**(1)**<br>           3,562,000            3,562,000<br>Cost to date b/d 3,379,000   Work certified 3,330,000**(1)**<br>           Profit and Loss 49,000**(1)**<br>           3,379,000            3,379,000 | **[15]** | **Allow totals.**<br>**Marks for correct value with reasonable narrative.** |
| (b) | Whole loss **(1)** should be written off to Profit and Loss Account **(1)**, in the period **(1)**. Application of Prudence concept **(1)**.<br><br>**(3 x 1 mark)** | **[3]** | |
| (c) | The 10% retention provides an incentive **(1)** for satisfactory completion **(1)** of contract. It puts the customer in a stronger position **(1)** if faulty work **(1)** is subsequently found **(1)**.<br><br>**(3 x 1 mark)** | **[3]** | |
| | **Total marks** | **[21]** | |

| Question Number | Expected Answer | Mark | Rationale |
|---|---|---|---|
| 3　(a)　(i) | <u>Standard Cost</u><br><br>Wood 700 x 4 x 5　　　　　　　　14,000<br>Paint 200 x 6.50 x 5　　　　　　　 6,500<br>Labour 300 x 8 x 5　　　　　　　12,000<br>Variable overheads 300 x 2 x 5　　3,000<br>Fixed overheads 300 x 5 x 5　　　<u>7,500</u><br>Total standard cost　　　　　　　<u>43,000</u>**(2)**<br><br>Per unit <u>43,000</u> = 86**(1)**<br>　　　　　　500 | **[3]** | **Must allow total standard cost for (2).** |
| (ii) | <u>Actual Cost</u><br><br>Wood 3,600 x 3.95　　14,220<br>Paint 950 x 6.60　　　 6,270<br>Labour 1,550 x 8.10　12,555<br>Variable overheads　　 2,955<br>Fixed overheads　　　 <u>7,500</u><br>Total actual cost　　 <u>43,500</u>**(2)**<br><br>Per unit <u>43,500</u> = 87**(1)**<br>　　　　　　500 | **[3]** | **Must show total standard cost for (2).** |

| Question Number | Expected Answer | Mark | Rationale |
|---|---|---|---|
| **(b) (i)** | MPV<br>(wood) $(4 – 3.95)3,600 = 180(F)$**(2)**<br>(paint) $(6.50 – 6.60)950 = 95(A)$**(2)** | **[4]** | • **2 for correct value with correct A/F 1 for correct value with no A/F or incorrect A/F**<br>• **All other responses 0.** |
| **(ii)** | MUV<br>(wood) $[(700 \times 5) – 3,600]4 = 400(A)$**(2)**<br>(paint) $[(200 \times 5) – 950]6.50 = 325(F)$**(2)** | **[4]** | |
| **(iii)** | LRV $(8 – 8.10)1,550 = 155(A)$**(2)** | **[2]** | |
| **(iv)** | LEV $[(300 \times 5) – 1,550]8 = 400(A)$**(2)** | **[2]** | |
| **(v)** | TVO $(3,000 – 2,955) = 45(F)$**(1)** | **[1]** | • **1 for correct value with F** |
| **(vi)** | TFO $(7,500 – 7,500) = 0$**(1)** | **[1]** | • **1 for 0** |

| Question Number | Expected Answer | Mark | Rationale |
|---|---|---|---|
| **(c)** | Wood: Cheaper material **(1)**, inferior quality **(1)** and using more **(1)**. <br><br> Paint: More expensive material **(1)**, better quality **(1)** and using less **(1)**. <br><br> **(2 x 2 marks)** <br> **(1 for point plus 1 for development)** | **[4]** | **Must relate to each material, rather than general.** |
| **(d)** | Allows management by exception **(1)**. By studying variances management attention is directed **(1)** towards those areas **(1)**, which are not proceeding to plan **(1)**. <br><br> Variance analysis enables comparison **(1)** of actual and predetermined standards **(1)**. Management can be held responsible **(1)** for those variances under its control **(1)**. <br><br> Aid to pricing **(1)**, product and price policies can be formulated **(1)**, before production takes place **(1)**. Prices can be based on standard costs **(1)**. <br><br> **(2 x 3 marks)** <br> **(1 for point plus up to 2 for development)** | **[6]** | **Best two benefits.** |
| | **Total marks** | **[30]** | |

| Question Number | Expected Answer | Mark | Rationale |
|---|---|---|---|
| 4 (a)* | **Marginal Costing** | | |

**Marginal Costing**

| | 2008 | | 2009 | | 2010 | |
|---|---|---|---|---|---|---|
| Sales | | 209,000**(1)** | | 237,500**(1)** | | 261,000**(1)** |
| O/stock | - | | 10,000 | | 22,000 | |
| Var costs | 200,000 | | 220,000 | | 270,000 | |
| | 200,000 | | 230,000 | | 292,000 | |
| C/stock | 10,000**(1)** | | 22,000**(1)** | | 54,000**(1)** | |
| | | 190,000 | | 208,000 | | 238,000 |
| Contribution | | 19,000 | | 29,500 | | 23,000 |
| Fixed costs | | 15,000**(1)** | | 16,000**(1)** | | 21,000**(1)** |
| Gross Profit | | 4,000**(1)** | | 13,500**(1)** | | 2,000**(1)** |

**Absorption Costing**

| | 2008 | | 2009 | | 2010 | |
|---|---|---|---|---|---|---|
| Sales | | 209,000 | | 237,500 | | 261,000 |
| O/stock | - | | 10,750 | | 23,600 | |
| Var costs | 200,000 | | 220,000 | | 270,000 | |
| Fixed costs | 15,000**(1)** | | 16,000**(1)** | | 21,000**(1)** | |
| | 215,000 | | 246,750 | | 314,600 | |
| C/stock | 10,750**(1)** | | 23,600**(1)** | | 58,200**(1)** | |
| | | 204,250 | | 223,150 | | 256,400 |
| Gross Profit | | 4,750**(1)** | | 14,350**(1)** | | 4,600**(1)** |

| | **QWC (3)** | **[24]** | **QWC: layout, column, sub-totals, rule.** |
|---|---|---|---|

| Question Number | Expected Answer | Mark | Rationale |
|---|---|---|---|
| (b) | Consistent production each year **(1)**, regardless of sales **(1)**.<br><br>Sales quantity declines **(1)**, over period, with increase in closing stock **(1)**, and stock holding costs **(1)**.<br><br>Selling price increase each year **(1)** and decrease in demand **(1)**.<br><br>Consistent production **(1)**, likely to mean security of employment **(1)**.<br><br>Decline in profit **(1)** from 2009 to 2010 **(1)**.<br><br>**(3 x 2 marks)**<br>**(1 for point plus 1 for development)** | [6] | |
| | **Total marks** | **[30]** | |

**OCR (Oxford Cambridge and RSA Examinations)**
**1 Hills Road**
**Cambridge**
**CB1 2EU**

**OCR Customer Contact Centre**

**14 – 19 Qualifications (General)**
Telephone: 01223 553998
Facsimile: 01223 552627
Email: general.qualifications@ocr.org.uk

**www.ocr.org.uk**

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