



Monday 18 June 2012 – Morning

A2 GCE ACCOUNTING

F014/01/RB Management Accounting

RESOURCE BOOKLET

To be given to candidates at the start of the examination

Duration: 2 hours



INSTRUCTIONS TO CANDIDATES

- The information required to answer questions 1–4 is contained within this Resource Booklet.

INFORMATION FOR CANDIDATES

- Your Quality of Written Communication will be taken into account when marking your answers to the two questions/sub-questions labelled with an asterisk (*).
- 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.

INSTRUCTION TO EXAMS OFFICER/INVIGILATOR

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- 1 Clifton plc manufactures three products. It has a standard costing system in operation and the data for materials and labour for each product is shown below.

Materials

<i>Product</i>	<i>Standard kilos</i>	<i>Actual kilos</i>	<i>Standard price (£) per kilo</i>	<i>Actual price (£) per kilo</i>
1	180	210	8.50	8.40
2	200	220	8.55	8.50
3	130	150	8.70	8.60

Labour

<i>Product</i>	<i>Standard hours</i>	<i>Actual hours</i>	<i>Standard rate (£) per hour</i>	<i>Actual rate (£) per hour</i>
1	220	200	9.20	9.50
2	70	60	8.70	8.80
3	90	80	8.60	8.70

REQUIRED

- (a) The following variances for each product:

(i) material price	[3]
(ii) material usage	[3]
(iii) labour rate	[3]
(iv) labour efficiency	[3]

- (b) 'Occasionally a favourable variance for one standard is directly related to an adverse variance for another standard'. Discuss how this statement may apply to material and labour variances. [8]

- (c) Discuss **two** limitations of a standard costing system. [6]

Total marks [26]

3

2 Cambray Ltd produced the following budgeted data for its current financial year.

Production overhead	£840 000
Direct materials	£560 000
Direct labour	£350 000
Output in units	300 units
Labour hours	30 000 hours
Machine hours	40 000 hours

For each job undertaken general administration expenses of 20% are added to total production costs to arrive at a total cost to the company. The selling price to customers is based on a 20% net profit margin.

Job 3103 has recently been completed and shows the following details:

Direct materials	£2 400
Direct labour	£1 800
Labour hours used	125
Machine hours used	160

REQUIRED

(a) Overhead absorption rates by each of the following methods:

- percentage of direct material cost
- percentage of direct labour cost
- machine hour rate

[3]

(b) The different selling prices for job 3103 using **each** of the overhead absorption rates calculated in part (a). [7]

(c)* Evaluate the usefulness of each of the three methods used in part (a). [14]

Total marks [24]

- 3 Ken Bailey is planning to start his own business on 1 August 2012. He plans to put capital of £50 000 into the business bank account on this date.

Budgeted purchases and sales for the first four months of trading are as follows:

	<i>August</i>	<i>September</i>	<i>October</i>	<i>November</i>
Purchases (£)	20 000	18 000	18 000	24 000
Sales (£)	30 000	32 000	31 000	35 000

The following information is also available:

- (i) Purchases for August 2012 will be paid for in full during August 2012. All purchases from September 2012 will be paid for in the month received and will receive a 2% discount for prompt payment.
- (ii) 60% of sales will be for cash, for which a 1% discount for prompt payment will be applied. The remaining sales are on two months' credit with no discount being given. There is a 50% profit margin on all sales.
- (iii) Salaries of £8 000 each month are paid one month in arrears.
- (iv) Ken Bailey plans to take cash drawings of £3 000 each month out of the business.
- (v) Equipment costing £39 000 is to be purchased on 1 August 2012. Payment is to be made in three equal monthly instalments commencing in October 2012. The equipment is to be depreciated at 25% per annum using the straight line method, the rate applying for each month of ownership.
- (vi) Other expenses of £3 600 each month are to be paid monthly commencing August 2012.

REQUIRED

- (a) The Cash Budget for each of the four months August, September, October and November 2012. [14]
- (b)* The Budgeted Trading and Profit and Loss Account for the four month period ending 30 November 2012 **and** the Budgeted Balance Sheet as at 30 November 2012. [19]
- (c) Evaluate Ken Bailey's cash management during his first four months of trading. [9]

Total marks [42]

- 4 Leckhampton plc is considering two capital expenditure projects, only one of which will be undertaken.

Details of the two projects are as follows:

	<i>Project X</i>	<i>Project Y</i>
Capital cost of fixed asset	£455 000	£560 000
Estimated life	4 years	4 years
Residual value from sale of fixed asset at end of year 4	£ 35 000	£ 40 000

Depreciation is by the straight line method.

Project X produces toxic waste which would be transported for disposal to a specialist company, 50 miles away. All waste for project Y is non-toxic and disposed of locally. Project X would require 10 more production staff compared to project Y.

Estimated receipts and costs (including depreciation) are as follows:

Receipts

	<i>Project X</i>	<i>Project Y</i>
	£	£
Year 1	310 000	330 000
Year 2	370 000	440 000
Year 3	430 000	480 000
Year 4	340 000	350 000

Costs (including depreciation)

	<i>Project X</i>	<i>Project Y</i>
	£	£
Year 1	245 000	280 000
Year 2	295 000	370 000
Year 3	325 000	380 000
Year 4	285 000	290 000

The capital cost is payable at the start of the project life.

The company'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) For each project (where appropriate to two decimal places):
- (i) the net cash flow for each year [4]
 - (ii) payback. Assume even cash flows throughout each year [4]
 - (iii) net present value. Assume all cash flows take place at the end of each year [8]
- (b) Which project should Leckhampton plc choose? Justify your choice on financial grounds [6]
- (c) Discuss **two** non-financial factors which Leckhampton plc needs to consider before proceeding with either project. [6]

Total marks [28]

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