RECOGNISING ACHIEVEMENT

GCE

Accounting

Advanced GCE

Unit **F014:** Management Accounting

Mark Scheme for June 2012

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

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.

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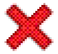
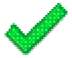
Annotations

Annotation	Meaning
	Unclear
	Benefit of doubt
	Cross
	Own figure rule
	Repeat
	Noted but no credit given
	Tick

Subject-specific Marking Instructions

Every working box – whether they contain working or not- must be stamped as "seen".

Quality of Written Communication

The rubric states:
** 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 assessed on the legibility and style of writing, the clarity and coherence of your arguments and the accuracy of your spelling, punctuation and grammar.*

Levels of Response for *Numerical* Questions

Level	Mark	Description
3	3	All account headings, terms and balances are included appropriately and in line with accounting conventions. All figures are legible with effective use made of columns and sub-totals. All accounts are ruled off as appropriate.
2	2	Almost all account headings, terms and balances are included appropriately and in line with accounting conventions. Figures are legible with effective use made of columns and sub-totals. Accounts are ruled off as appropriate.
1	1	Some account headings, terms and balances are included though not always adhered to accounting conventions. Most figures are legible. Some appropriate use is made of columns and sub-totals. Some accounts are ruled off as appropriate.
-	0	Responses which fail to achieve the standard required for Level 1.

Levels of Response for *Narrative* Questions

Level	Mark	Description
2	2	Ideas, some complex, are expressed clearly and quite fluently, using an appropriate style of writing. Arguments made are generally relevant and are constructed in a logical and coherent manner. There are few errors of spelling, punctuation and grammar, and those that are made are not intrusive and do not obscure meaning.
1	1	Relatively straightforward or simple ideas are expressed in a generally appropriate style of writing which sometimes lacks clarity or fluency. Arguments have some limited coherence and structure occasionally showing relevance to the main focus of the questions. There are errors of spelling, punctuation and grammar which are noticeable and sometimes intrusive but do not totally obscure meaning.
-	0	Responses which fail to achieve the standard required for Level 1.

Question			Answer	Marks	Guidance
1	(a)	(i)	<u>MPV</u> P1: (8.50 – 8.40)210 = 21F**(1)** P2: (8.55 – 8.50)220 = 11F**(1)** P3: (8.70 – 8.60)150 = 15F**(1)**	3	
		(ii)	<u>MUV</u> P1: (180 – 210)8.50 = 255A**(1)** P2: (200 – 220)8.55 = 171A**(1)** P3: (130 – 150)8.70 = 174A**(1)**	3	
		(iii)	<u>LRV</u> P1: (9.20 – 9.50)200 = 60A**(1)** P2: (8.70 – 8.80)60 = 6A**(1)** P3: (8.60 – 8.70)80 = 8A**(1)**	3	
		(iv)	<u>LEV</u> P1: (220 – 200)9.20 = 184F**(1)** P2: (70 – 60)8.70 = 87F**(1)** P3: (90 – 80)8.60 = 86F**(1)**	3	
	(b)		<u>Material</u> Better quality, more expensive, adverse price. Less usage, favourable usage. Inferior quality, cheaper, favourable price. Greater usage, adverse usage. <u>Labour</u> Higher skilled labour, more expensive, adverse rate. More efficient, favourable efficiency. Less skilled labour, cheaper, favourable rate. Less efficient, adverse efficiency. **(Each variance 1 x 4 marks)**	8	

Question			Answer	Marks	Guidance
	(c)		Expense – a system may be expensive to install and time consuming to keep up to date. Volatile conditions – in volatile conditions standards can get out of date quickly and will need constant updating. Type – need agreement on the most appropriate, ideal or attainable. Basis of setting. Modern management – might conflict with modern management, where employees are expected to strive for continuous improvement, rather than meet a standard. **(2 x 3 marks)** **(1 for point plus up to 2 for development)**	6	
			Total	**26**	

Question			Answer	Marks	Guidance
2	(a)		% DM $\frac{840,000}{560,000}$ = 150%**(1)** % DL $\frac{840,000}{350,000}$ = 240%**(1)** MHR $\frac{840,000}{40,000}$ = £21**(1)**	3	
	(b)		see table below	7	

	% DM	% DL	MHR
Direct materials	2,400	2,400	2,400
Direct labour	1,800	1,800	1,800
Prime cost	4,200**(1)**	4,200	4,200
Production overhead	3,600**(1)**	4,320**(1)**	3,360**(1)**
Production cost	7,800	8,520	7,560
Administration 20%	1,560	1,704	1,512
Total cost	9,360	10,224	9,072
Profit	2,340	2,556	2,268
Selling price	11,700**(1)**	12,780**(1)**	11,340**(1)**

Question			Answer	Marks	Guidance
	(c)*		<u>% DM</u> Usually no relationship between materials and overhead. Simple to calculate but not related to time. A job requiring expensive material will be charged more overhead than a job requiring cheaper material even though the overhead incurred could be the same. To be accurate need same material, time and equipment. <u>% DL</u> No distinction between slow and quick labour. Simple to calculate but not related to time. Compared to materials, labour rates are likely to be similar. To be reasonable need uniform rate and equipment. <u>MHR</u> Most overheads related to time and this method is time based. Preferred if machining is the dominant factor. If different machines used, then a different rate could be calculated for each machine. **(3 x 4 marks)** **(1 for point plus up to 3 for development) (12)** **QWC (2)**	12	
			QWC	2	Must show QWC has been considered even if 0
			Total	**24**	

Question			Answer	Marks	Guidance
3	(a)		(see calculations below)	14	

Sales Calculations

	Aug	Sept	Oct	Nov
Sales	30,000	32,000	31,000	35,000
60% -1%	17,820	19,008	18,414	20,790
40%			12,000	12,800
	17,820	19,008	30,414	33,590
Disc all	180	192	186	210

Purchases

	Aug	Sept	Oct	Nov
Purchases	20,000	18,000	18,000	24,000
	20,000			
100% – 2%		17,640	17,640	23,520
Disc rec		360	360	480

Sales	128,000
50% profit margin	64,000
Cost of sales	64,000

Purchases	80,000
Cost of sales	64,000
Closing stock	16,000

Question	Answer	Marks	Guidance
	Cash Budget for the four months ending 30 November 2012		

	Aug	Sept	Oct	Nov
Receipts				
Capital	50,000			
Cash Sales	17,820**(1)**	19,008 **(1)**	18,414**(1)**	20,790**(1)**
Credit Sales			12,000**(1)**	12,800**(1)**
	67,820	19,008	30,414	33,590
Payments				
Purchases	20,000**(1)**	17,640 **(1)**	17,640 **(1)**	23,520 **(1)**
Salaries		8,000	8,000	8,000 **(1)**
Drawings	3,000	3,000	3,000	3,000 **(1)**
Equipment			13,000	13,000 **(1)**
Expenses	3,600	3,600	3,600	3,600 **(1)**
	26,600	32,240	45,240	51,120
Net cash flow	41,220	(13,232)	(14,826)	(17,530)
Opening Balance		41,220	27,988	13,162
Closing Balance	41,220	27,988	13,162	(4,368)

Question			Answer	Marks	Guidance
	(b)*		<u>Budgeted Trading and Profit and Loss Account for the four months ending 30 November 2012</u> Sales 128,000 **(1)** Opening stock - Purchases 80,000 80,000 Closing stock 16,000 Cost of sales 64,000 Gross Profit 64,000 **(2)** Discount received 1,200 **(1)** 65,200 Discount allowed 768 **(1)** Salaries 32,000 **(1)** Depreciation 3,250 **(2)** Expenses 14,400 50, 418 Net Profit 14,782 <u>Budgeted Balance sheet as at 30 November 2012</u> <u>Fixed Assets</u> 35,750 **(2)** <u>Current Assets</u> Stock 16,000 **(1)** Debtors 26,400 **(1)** 42,400 <u>Current Liabilities</u> Salaries 8,000 **(1)** Equipment 13,000 **(1)** Bank 4,368 25,368 Working Capital 17,032 52,782	16	

Question			Answer	Marks	Guidance
			<u>Financed By</u> Capital 50,000 **(1)** Net profit 14,782 64,782 Drawings 12,000 **(1)** 52,782 **QWC**	3	Must show QWC has been considered even if 0
	(c)		Purchases are paid in the month received, whilst 40% sales are on two months credit. This may lead to cash flow problems. Consider allowing additional discount for earlier receipts from sales. Initially positive cash flow, influenced by capital. Increasing negative cash flow each month with deficit cash balance in November. Amount of drawings contributing to deficit cash balance. Capital expenditure plans reduce cash balance, could payment terms be extended or equipment leased. In short term seek bank overdraft facility/loan. These more likely to be given if business shows future projections reverting to a positive cash balance. **(3 x 3 marks)** **(1 for point plus up to 2 for development)**	9	
			Total	**42**	

<table>
<tr><th colspan="3">Question</th><th>Answer</th><th>Marks</th><th>Guidance</th></tr>
<tr><td>4</td><td>(a)</td><td>(i)</td><td>
<u>Depreciation</u>
<u>X</u>
$\frac{455,000 - 35,000}{4} = 105,000$

<u>Y</u>
$\frac{560,000 - 40,000}{4} = 130,000$

<u>Net cash flow</u>
<u>X</u>
<table>
<tr><td>Year</td><td>1</td><td>2</td><td>3</td><td>4</td></tr>
<tr><td>Receipts</td><td>310,000</td><td>370,000</td><td>430,000</td><td>340,000</td></tr>
<tr><td>Costs(excl depn)</td><td>140,000</td><td>190,000</td><td>220,000</td><td>180,000</td></tr>
<tr><td>NCF</td><td>170,000</td><td>180,000(1)</td><td>210,000(1)</td><td>160,000</td></tr>
</table>
<u>Y</u>
<table>
<tr><td>Year</td><td>1</td><td>2</td><td>3</td><td>4</td></tr>
<tr><td>Receipts</td><td>330,000</td><td>440,000</td><td>480,000</td><td>350,000</td></tr>
<tr><td>Costs (excl depn)</td><td>150,000</td><td>240,000</td><td>250,000</td><td>160,000</td></tr>
<tr><td>NCF</td><td>180,000</td><td>200,000(1)</td><td>230,000(1)</td><td>190,000</td></tr>
</table>
</td><td>4</td><td></td></tr>
<tr><td></td><td></td><td>(ii)</td><td>X 2.5 yrs(2)
Y 2.78 yrs(2)</td><td>4</td><td></td></tr>
</table>

Question			Answer	Marks	Guidance
		(iii)	X Year / NCF / DF / PV 1 / 170,000 / 0.893 / 151,810**(1)** 2 / 180,000 / 0.797 / 143,460 3 / 210,000 / 0.712 / 149,520 4 / 160,000 / 0.636 / 101,760 4 / 35,000 / 0.636 / 22,260**(1)** 568,810 Capital cost 455,000**(1)** Net present value 113,810**(1)** Y Year / NCF / DF / PV 1 / 180,000 / 0.893 / 160,740**(1)** 2 / 200,000 / 0.797 / 159,400 3 / 230,000 / 0.712 / 163,760 4 / 190,000 / 0.636 / 120,840 4 / 40,000 / 0.636 / 25,440**(1)** 630,180 Capital cost 560,000**(1)** Net present value 70,180**(1)**	8	

Question			Answer	Marks	Guidance
	(b)		X has shorter payback. Payback characteristics (no timing, period). X has lower capital cost. Both have positive net present value. X has highest net present value. Net present value characteristics (timing, all period) Availability of finance. Small difference in payback. Sales greater for Y. Increased wages for X. Increased transport costs for X. Both have residual value. All figures are estimated and may not materialise. Recommendation. **(6 x 1 mark)**	6	
	(c)		Local community, effects of noise and traffic congestion with X, impact on house prices. Greater employment opportunities with X, multiplier impact. Health and Safety issues with X for employers and local community. Environment, additional transport for X, effects of disposing toxic waste. Public relations, negative publicity if involved with toxic waste. **(2 x 3 marks)** **(1 for point plus up to 2 for development)**	6	
			Total	**28**	

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