GCE

Accounting

Unit **F014:** Management Accounting

Advanced GCE

Mark Scheme for June 2016

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.

OCR will not enter into any discussion or correspondence in connection with this mark scheme.

<table>
<tr><th colspan="3">Question</th><th>Answer/Indicative content</th><th>Mark</th><th>Guidance</th></tr>
<tr><td>1</td><td>(a)</td><td></td><td>
<u>FIFO</u>
<table>
<tr><th>Year</th><th>Receipts</th><th>Issues</th><th>Balance</th></tr>
<tr><td>2013</td><td>560 x 16
7,200 x 16</td><td>7,120 x 16</td><td>640 x 16 = 10,240(1)</td></tr>
<tr><td>2014</td><td>640 x 16
7,920 x 16.80</td><td>640 x 16
7,260 x 16.80</td><td>660 x 16.80 = 11,088(1)</td></tr>
<tr><td>2015</td><td>660 x 16.80
9,000 x 17.22</td><td>660 x 16.80
8,600 x 17.22</td><td>400 x 17.22 = 6,888(1)</td></tr>
</table>
<u>LIFO</u>
<table>
<tr><th>Year</th><th>Receipts</th><th>Issues</th><th>Balance</th></tr>
<tr><td>2013</td><td>560 x 16
7,200 x 16</td><td>7,120 x 16</td><td>640 x 16 = 10,240(1)</td></tr>
<tr><td>2014</td><td>640 x 16
7,920 x 16.80</td><td>7,900 x 16.80</td><td>640 x 16 = 10,240
20 x 16.80 = 336
= 10,576(2)</td></tr>
<tr><td>2015</td><td>640 x 16
20 x 16.80
9,000 x 17.22</td><td>9,000 x 17.22
20 x 16.80
240 x 16</td><td>400(1) x 16 = 6,400(1)</td></tr>
</table>
</td><td>8</td><td></td></tr>
<tr><td></td><td>(b)</td><td></td><td>
<u>Trading Accounts for the year ended</u>
<table>
<tr><th></th><th></th><th>2013</th><th></th><th>2014</th><th></th><th>2015</th></tr>
<tr><td>Sales</td><td></td><td>142,400(1)</td><td></td><td>165,900(1)</td><td></td><td>194,460(1)</td></tr>
<tr><td>O/stock</td><td>8,960</td><td></td><td>10,240</td><td></td><td>11,088</td><td></td></tr>
<tr><td>Purch</td><td>115,200(1)</td><td></td><td>133,056(1)</td><td></td><td>154,980(1)</td><td></td></tr>
<tr><td></td><td>124,160</td><td></td><td>143,296</td><td></td><td>166,068</td><td></td></tr>
<tr><td>C/stock</td><td>10,240</td><td></td><td>11,088</td><td></td><td>6,888</td><td></td></tr>
<tr><td>CoS</td><td></td><td>113,920</td><td></td><td>132,208</td><td></td><td>159,180</td></tr>
<tr><td>Gross Profit</td><td></td><td>28,480
(1of)</td><td></td><td>33,692
(1of)</td><td></td><td>35,280(1)</td></tr>
</table>
</td><td>9</td><td></td></tr>
</table>

Question			Answer/Indicative content	Mark	Guidance
	(c)*		FIFO Resulting value of closing stock more likely to reflect current market values. Good representation of sound storekeeping practice, if oldest stock is issued first. Acceptable for SSAP 9/IAS 2 and HMRC for tax purposes. Issue prices may not equate to current values. Initially discloses highest profit, although in the long run will equate with other methods. LIFO Usually unrealistic if based on assumption that the most recent purchases are sold before older stock. Stock valuation is at older prices and may not relate to current costs. Not acceptable for the purposes of SSAP 9/IAS 2 or for HMRC for tax purposes. Initially discloses lowest profit, although in the long run will equate to other methods. AVCO Evens out fluctuating prices which may present with other methods. Acceptable for SSAP 9/IAS 2 and HMRC for tax purposes. Disclosed profit in between FIFO/LIFO methods, although equates to same in the long run. **A maximum of 4 marks available for each method, broken down for each as follows:** **(2 x 2 marks, of which** **1 for point plus 1 for development)** **QWC (2)**	**14**	

Question			**Answer/Indicative content**	**Mark**	**Guidance**
2	**(a)(i)**		$\frac{960,000}{2,400,000}$ 40%**(2)**	**2**	
	(ii)		Selling price Job NG113 Direct labour 21,200 Direct materials 800 Prime cost 22,000**(1)** Factory overheads 8,480**(1)** Total factory costs 30,480 Gen expenses 20% 6,096**(1)** Total cost 36,576**(1)** Profit 24,384 Selling price 60,960**(1of)**	**5**	
	(b)		Direct labour hour rate dept Finishing $\frac{450,000}{250,000}$ 1.80 DLH**(1)** Assembly $\frac{360,000}{300,000}$ 1.20 DLH**(1)** Packing $\frac{150,000}{187,500}$ 0.80 DLH**(1)** Machine hour rate dept Finishing $\frac{450,000}{15,000}$ 30 MHR**(1)** Assembly $\frac{360,000}{9,000}$ 40 MHR**(1)** Packing $\frac{150,000}{7,500}$ 20 MHR**(1)**	**6**	

Question			**Answer/Indicative content**	**Mark**	**Guidance**
	(c)		Selling price Job NG113 Direct labour 21,200 Direct material 800 Prime cost 22,000**(1)** Factory overheads: Finishing (1,100 x 1.80) 1,980**(1)** Assembly (1,500 x 1.20) 1,800**(1)** Packing (400 x 0.80) 320**(1)** 4,100 Total factory costs 26,100 Gen expenses 20% 5,220**(1)** Total cost 31,320 Profit 20,880**(1of)** Selling price 52,200**(1of)**	**7**	
	(d)		Current single rate will only be satisfactory when all jobs spend the same time in each department, which is unlikely therefore inappropriate . This method may result in a department being charged for overheads, even though a job may not have passed through it . Direct labour hour rate preferred if labour is the dominant factor. Labour is the dominant factor therefore appropriate. Most overheads are related to time and this method is time based. A different rate can be calculated for each type of labour/department. Machine hour rate preferred if machining is the dominant factor. Machine hours are not the dominant factor, therefore not appropriate. Most overheads are related to time and this method is time based. A different rate can be calculated for each type of machine/department. **Each method** **(3 x 1 mark, with 1 mark for appropriateness)**	**9**	

Question			Answer/Indicative content	Mark	Guidance
	(e)		. Over absorption, too much overhead charged to production, overpriced and uncompetitive, fall in demand and subsequent loss of revenue/reduction in profit. Under absorption, insufficient overhead charged to production, lower price to customer, costs not covered and subsequent reduction in profits. **(2 x 3 marks)** **(1 for point plus up to 2 for development)**	**6**	

Question			**Answer/Indicative content**							**Mark**	**Guidance**
3			Marginal Costing								
	(a)*				2013		2014		2015		
			Sales		588,000**(1)**		672,000**(1)**		860,000**(1)**	**24**	
			O/stock	-		62,000		64,000			
			Var costs	496,000		512,000		720,000			
				496,000		574,000		784,000			
			C/stock	62,000**(1)**		64,000**(1)**		18,000**(1)**			
					434,000		510,000		766,000		
			Contribution		154,000		162,000		94,000		
			Fixed costs		64,000**(1)**		70,000**(1)**		72,000**(1)**		
			Gross Profit		90,000**(1)**		92,000**(1)**		22,000**(1)**		
			Absorption Costing								
					2013		2014		2015		
			Sales		588,000		672,000		860,000		
			O/stock	-		70,000		72,750			
			Var costs	496,000		512,000		720,000			
			Fixed costs	64,000**(1)**		70,000**(1)**		72,000**(1)**			
				560,000		652,000		864,750			
			C/stock	70,000**(1)**		72,750**(1)**		19,800**(1)**			
					490,000		579,250		844,950		
			Gross Profit		98,000**(1)**		92,750**(1)**		15,050**(1)**		
									QWC 3		
	(b)		Make or buy								
			Dropping a product								
			Acceptance of special order								
			Minimum selling price							**3**	
			Limiting factor								
			Break-even								
			(3 x 1 mark)								

Question			Answer/Indicative content	Mark	Guidance
4	(a)		Standard cost for the total production in May 2016 Materials 718,848**(1)** Labour 196,560**(1)** Variable overheads 114,660**(1)** Fixed overheads 51,480**(1)** 1,081,548 Actual cost for the total production in May 2016 Materials 724,500 Labour 183,520 Variable overheads 114,000 Fixed overheads 48,300 1,070,320**(1)**	**5**	
	(b)		MPV: (6.40 – 6.30)115,000 = 11,500F**(2)** MUV: (112,320 – 115,000)6.40 = 17,152A**(2)** LRV: (12 – 12.40)14,800 = 5,920A**(2)** LEV: (16,380 – 14,800)12 = 18,960F**(2)** TVO: 114,660 – 114,000 = 660F**(2)** TFO: 51,480 – 48,300 = 3,180F**(2)**	**12**	

<table>
<tr><th colspan="3">Question</th><th>Answer/Indicative content</th><th>Mark</th><th>Guidance</th></tr>
<tr><td></td><td>(c)</td><td></td><td>Reconciliation statement for the budgeted (standard) cost for the total production in May 2016 and the actual cost of production in May 2016.
<table>
<tr><td>Budgeted (standard) cost</td><td></td><td></td><td>1,081,548(1 of)</td></tr>
<tr><td></td><td>A</td><td>F</td><td></td></tr>
<tr><td>MPV</td><td></td><td>11,500</td><td></td></tr>
<tr><td>MUV</td><td>17,152</td><td></td><td></td></tr>
<tr><td>LRV</td><td>5,920</td><td></td><td></td></tr>
<tr><td>LEV</td><td></td><td>18,960</td><td></td></tr>
<tr><td>TVO</td><td></td><td>660</td><td></td></tr>
<tr><td>TFO</td><td></td><td>3,180</td><td></td></tr>
<tr><td></td><td>23,072(1)</td><td>34,300(1)</td><td></td></tr>
<tr><td></td><td></td><td></td><td>11,228</td></tr>
<tr><td>Actual cost</td><td></td><td></td><td>1,070,320(1)</td></tr>
</table>
</td><td>4</td><td></td></tr>
<tr><td></td><td>(d)</td><td></td><td>A favourable price variance may be because cheaper lower quality materials have been purchased and these may result in production problems and reduce profit.
Cheaper lower quality materials may lower the quality of finished products and reduce customer demand and reduce profit.
If same quality materials have been bought at a lower price then this will reduce the cost of sales and increase profit.
Cheaper lower quality material may mean additional quantity is needed and give an adverse material usage variance. Additional work required may also lead to adverse labour efficiency.
(2 x 3 marks)
(1 for point plus up to 2 for development)</td><td>6</td><td></td></tr>
</table>

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