

# OCR

Oxford Cambridge and RSA

**Thursday 15 June 2017 – Afternoon**

**A2 GCE ACCOUNTING**

**F014/01/RB** Management Accounting

**RESOURCE BOOKLET**

**To be given to candidate 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**

- The quality of your written communication will be taken into account in marking your answers to the two sub-questions marked 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 Maple Ltd manufactures a single product and uses the following standards for **each** unit produced:

400 kilos of material A at £3.40 per kilo  
900 kilos of material B at £2.50 per kilo  
60 hours of labour grade 1 at £14 per hour  
50 hours of labour grade 2 at £12 per hour  
Overheads £1100

The actual cost for a **batch** of 50 units was as follows:

Material A: 21 000 kilos costing £70 350  
Material B: 44 000 kilos costing £114 400  
Labour grade 1: 3100 hours costing £43 090  
Labour grade 2: 2480 hours costing £30 008  
Overheads: £55 800

### REQUIRED

(a) The following variances from standard for the **batch** of 50 units:

- material price variances
- material usage variances
- labour rate variances
- labour efficiency variances.

[16]

(b) A reconciliation statement for the budgeted (standard) cost and the actual cost for the batch of 50 units. [6]

(c) Discuss **two** possible reasons for **each** of the materials and labour variances. [8]

(d) Discuss **two** benefits of a standard costing system. [6]

- 2 Beech Ltd is preparing budgets for the three months ending 30 September 2017. The following information is available:

(i)

|                  | June<br>£ | July<br>£ | August<br>£ | September<br>£ | October<br>£ |
|------------------|-----------|-----------|-------------|----------------|--------------|
| Sales            | 420 000   | 400 000   | 430 000     | 434 000        | 440 000      |
| General expenses | 15 000    | 15 000    | 16 000      | 15 000         | 16 000       |
| Wages            | 42 000    | 39 000    | 42 000      | 42 000         | 42 000       |

- (ii) All sales provide a 25% gross profit on cost. 10% of sales are for cash and the remaining 90% are on a credit basis. 50% of credit sales are paid in the month of sale and attract a 2% cash discount. The balance is paid net in the month following sale.
- (iii) Purchases are made such that the stock at the end of each month exactly covers the sales for the following month. 60% of purchases are paid in the month received and the remainder is paid in the month after purchase. No discount received applies to purchases.
- (iv) General expenses are paid in the month incurred.
- (v) Two-thirds of wages are paid in the month incurred and the remaining one-third in the following month.
- (vi) Machinery costing £40 000 is to be purchased on 1 August 2017. A deposit of 20% will be made on 1 August 2017 and the balance in two equal instalments in September 2017 and October 2017. Machinery which originally cost £16 000 and with a written down value of £2 000, will be sold for £3 000 cash in August 2017.
- (vii) The bank balance at 1 July 2017 is estimated to be £20 900.

### REQUIRED

- (a)\* The Cash Budget for **each** of the **three** months ending 31 July 2017, 31 August 2017 and 30 September 2017. [27]
- (b) Discuss **two** behavioural aspects of budgeting to the managers of a business. [6]

- 3 Sycamore Ltd manufactures three products X, Y and Z. Budgeted sales and costs for its next financial year are as follows:

| Product                         | X      | Y      | Z      |
|---------------------------------|--------|--------|--------|
| Sales (units)                   | 18 000 | 17 000 | 20 000 |
| Selling price per unit (£)      | 90     | 78     | 80     |
| <b>Variable costs per unit:</b> |        |        |        |
| Direct labour (£12 per hour)    | 36     | 24     | 30     |
| Direct material (£)             | 22     | 25.50  | 18     |
| Variable overheads (£)          | 12     | 10.50  | 8      |

The total annual budgeted fixed costs for the business are £890 000.

Owing to a shortage of direct labour, the business has forecast that only 124 200 direct labour hours will be available for its next financial year. It uses one grade of labour only and this is common to all products. The business is now considering the following options.

Option 1

To utilise the forecast labour of 124 200 direct labour hours to achieve the maximum profit possible.

Option 2

To increase the hourly direct labour rate to £13 per hour. This would attract additional labour and Sycamore Ltd would be able to meet all budgeted sales demands. The increased direct labour rate would be payable to all labour for the full financial year. No other changes would be made.

**REQUIRED**

- (a) A statement to show the maximum profit Sycamore Ltd could make in its next financial year under Option 1. Show the contribution per unit for each product. [13]
- (b) A statement to show the maximum profit Sycamore Ltd could make in its next financial year under Option 2. Show the contribution per unit for each product. [7]
- (c)\* Evaluate **both** options for Sycamore Ltd. [11]

- 4 Poplar Construction plc is the contractor for the building of a new school. The contract commenced on 1 May 2015 and was estimated to last two years. Increased costs resulted in no profit being recorded in the Contract Account for the year ended 30 April 2016. At that date the following balances were remaining in the Contract Account and were carried forward to the second year:

|                                 | £       |
|---------------------------------|---------|
| Materials                       | 400 000 |
| Machinery                       | 620 000 |
| Direct labour accrued           | 149 000 |
| Sub-contractors charges accrued | 72 000  |
| Plant hire prepaid              | 12 000  |

In addition the following costs were incurred during the second year:

|                         | £         |
|-------------------------|-----------|
| Materials               | 2 700 000 |
| Direct labour           | 1 680 000 |
| Sub-contractors charges | 840 000   |
| Plant hire              | 164 000   |
| Architect's fees        | 135 000   |
| Head office expenses    | 170 000   |

The contract was completed on 30 April 2017 and there were no accruals or prepayments outstanding. The machinery had a nil residual value.

The contract allows for Poplar Construction plc to receive payment for work certified by the architect, less a 15% retention. In accordance with the contract, Poplar Construction plc received £5 185 000 from the customer on 30 April 2017, with the retained balance to be paid at a later date. At 30 April 2017, the value of work not yet certified was £280 000.

## REQUIRED

- (a) The Contract Account for the year ended 30 April 2017. [13]
- (b) Discuss why the customer has negotiated a 15% retention on the payment made for the work certified. [4]
- (c) Explain how a loss on a long term contract should be dealt with in the accounts of a construction company, stating the concept involved. [3]

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