

**ADVANCED GCE**  
**ACCOUNTING**  
Management Accounting

**F003**

Candidates answer on the Answer Booklet

**OCR Supplied Materials:**

- 8 page Answer Booklet

**Other Materials Required:**

- Calculators may be used

**Wednesday 27 January 2010**  
**Morning**

**Duration:** 1 hour 30 minutes



**INSTRUCTIONS TO CANDIDATES**

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer **all** the questions.
- You must show the calculations leading to your answers.
- Do **not** write in the bar codes.

**INFORMATION FOR CANDIDATES**

- The number of marks is given in brackets [ ] at the end of each question or part question.
- The total number of marks for this paper is **100**.
- The quality of your written communication will be taken into account when marking your answers to questions labelled with an asterisk (\*).
- 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 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.



**A calculator may  
be used for this  
paper**

- 1 Rebjo Ltd is investigating ways of improving the profitability of one of its products. The draft forecast for its next financial year is as follows.

Sales in units	8 000
Variable costs per unit:	£
Direct materials	30
Direct wages	34
Overheads	20
Total fixed costs	£114 000
Selling price	£160 per unit

The members of the sales team have suggested three alternative options to increase profits. The details are given below.

Option 1

Increase the selling price by £4 and spend an additional £70 000 on advertising. Sales would increase to 8 480 units. All other costs would be unchanged.

Option 2

Improve product presentation by re-designing the packaging material at a cost of £6 per unit and also increasing the selling price by the same amount. Sales would increase to 8 600 units. All other costs would be unchanged.

Option 3

Material costs to be reduced by £3 per unit, this being achieved by changing from a local to an overseas supplier. All other costs, selling price and sales quantity would be unchanged.

**REQUIRED**

- (a) Using the **draft** forecast calculate, for Rebjo Ltd:
- (i) **the** break-even point in units and sales value; [3]
  - (ii) **the** margin of safety in units and sales value; [2]
  - (iii) **the** profit, showing the contribution per unit in your calculations. [4]
- (b) Taking independently options 1, 2 and 3, calculate the revised profit resulting from each option. Show the contribution per unit in each of the options. [12]
- (c) Calculate the sales in units under **option 1** to maintain the profit level of the **draft** forecast. [5]
- (d)\* Evaluate **three** effects of changing from a local to an overseas supplier. [11]

**Total marks [37]**

- 2 Vight Ltd manufactures a single product. It uses the following standards for each batch produced.

*Materials*

Material 1                      600 kilos at £4.40 per kilo

Material 2                      250 kilos at £8.60 per kilo

*Labour*

Machining                      490 hours at £9.00 per hour

Assembly                      260 hours at £8.00 per hour

The actual costs for batch B313 were:

*Materials*

Material 1                      640 kilos costing £2 752

Material 2                      240 kilos costing £2 112

*Labour*

Machining                      470 hours costing £4 324

Assembly                      280 hours costing £2 212

**REQUIRED**

- (a) Calculate each of the following variances from standard for batch B313:

(i) material price variances; [4]

(ii) material usage variances; [4]

(iii) labour rate variances; [4]

(iv) labour efficiency variances. [4]

- (b) Prepare a reconciliation statement for budgeted (standard) cost and the actual cost of batch B313. [6]

- (c) Discuss possible reasons for each of the following variances:

- material variances
  - labour variances
- [8]

**Total marks [30]**

- 3** Amcol Construction Ltd has been awarded the contract for the building of a replacement high technology factory for Emland Ltd. The contract is estimated to last three years. Work commenced on 1 January 2009 and the following details are available for the year ended 31 December 2009.

	£
Plant delivered to site	1 140 000
Materials purchased	2 790 000
Material returns to suppliers	128 000
Direct labour	1 620 000
Plant hire	155 000
Architects' fees	72 300
General expenses	138 200
Cash received	5 100 000
As at 31 December 2009:	
Direct labour accrued	74 600
Materials on site not yet used	132 300
Prepayment for plant hire	12 000
Cost of work not certified	314 900

Additional information:

- (i) From the materials purchased, one consignment costing £2 900 was unsuitable and was sold to another contractor for £2 900.
- (ii) The plant was delivered to site on 1 January 2009 and is estimated to last the full three years of the contract and have a residual value of £60 000. The straight line method of depreciation is used.
- (iii) The company policy is to charge head office expenses to the contract each year at a rate of 6% of the value of work certified by architects during the year.
- (iv) The cash received represents work certified by the architects as at 31 December 2009 less 15% retention.
- (v) The attributable profit formula used by Amcol Construction Ltd is:

$$\text{apparent (notional) profit} \times \frac{2}{3} \times \frac{\text{cash received}}{\text{work certified}}$$

**REQUIRED**

- (a)\* The Contract Account for the year ended 31 December 2009. The balances brought down at 1 January 2010 should be shown in the Contract Account. [21]
- (b) Explain with reference to **two** accounting concepts, why the profit taken by Amcol Construction Ltd is reduced by using the formula stated in (v) opposite. [6]
- (c) It is intended to make the new factory fully automated. This will cause a number of redundancies among existing employees. Discuss **two** support measures Emland Ltd could offer to employees considering early retirement. [6]

**Total marks [33]**

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