



**Monday 9 June 2014 – Afternoon**

**A2 GCE ACCOUNTING**

**F014/01/RB** Management Accounting

**RESOURCE BOOKLET**

**To be given to candidates at the start of the examination**

**Duration: 2 hours**

**MODIFIED LANGUAGE**



#### **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 questions/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.
- There will be adequate space to show your workings.
- This document consists of **8** pages. Any blank pages are indicated.

#### **INSTRUCTION TO EXAMS OFFICER/INVIGILATOR**

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**1** Melcas Ltd manufactures a single product.

The standard cost per unit for the month of April 2014 was:

|   | £  |
|---|----|
| Direct materials (£4 per metre)         | 24 |
| Direct labour (£14 per hour)            | 49 |
| Variable overheads (£7 per labour hour) | 21 |
| Fixed overheads (£5 per labour hour)    | 10 |

Budgeted production for April 2014 was 16 000 units.

Budgeted sales for April 2014 were 15 000 units at £124 each.

The actual results for April 2014 were:

|                                  | £         |
|----------------------------------|-----------|
| Sales (14 700 units)             | 1 881 600 |
| Direct materials (92 000 metres) | 377 200   |
| Direct labour (55 000 hours)     | 786 500   |
| Variable overheads               | 335 000   |
| Fixed overheads                  | 160 000   |

Actual production for April 2014 was 15 600 units.

**REQUIRED**

**(a)** Calculate each of the following variances:

- material price
- material usage
- labour rate
- labour efficiency
- sales price
- sales volume
- total variable overhead
- total fixed overhead.

**[12]**

**(b)** A reconciliation statement for budgeted and actual sales.

**[3]**

**(c)** Evaluate **two** advantages and **two** limitations of a standard costing system.

**[12]**

- 2 The following is a summary of the Balance Sheet of Samiff plc as at 31 May 2014.

|   | £              | £              |
|---|----------------|----------------|
| <i>Fixed Assets at cost</i>                       |                | 920 000        |
| <i>less depreciation</i>                          |                | <u>170 000</u> |
|   |                | 750 000        |
| <br><i>Current Assets</i>                         |                |                |
| Stock   | 137 500        |                |
| Debtors   | 156 800        |                |
| Bank  | <u>105 000</u> |                |
|   | 399 300        |                |
| <br><i>Creditors: amounts due within one year</i> |                |                |
| Creditors   | 103 750        |                |
| Salaries  | 48 000         |                |
| Loan  | <u>60 000</u>  |                |
|   | 211 750        |                |
| <br><i>Net current assets</i>                     |                | <u>187 550</u> |
|   |                | <u>937 550</u> |
| <br><i>Capital and Reserves</i>                   |                |                |
| Ordinary shares                                   |                | 600 000        |
| Profit and loss                                   |                | <u>337 550</u> |
|   |                | <u>937 550</u> |

The company is preparing budgets for the three months ending 31 August 2014 and the following information is available.

- (i) Budgeted sales:

|                | £       |
|----------------|---------|
| June 2014      | 220 000 |
| July 2014      | 240 000 |
| August 2014    | 248 000 |
| September 2014 | 232 000 |

Sales in May 2014 were £224 000.

Sales provide 60% gross profit on cost. 30% of sales are paid in the month in which sales are made and attract a 2% cash discount. All other sales are paid in full during the following month.

- (ii) Purchases are always arranged to make sure that stock at the end of each month exactly covers the budgeted sales for the following month. 50% is paid in the month of purchase and the balance is paid in two equal instalments in the following two consecutive months. No discount received applies on purchases.
- (iii) The payment policies for sales and purchases have not changed for the past six months.
- (iv) General expenses (excluding depreciation) are £18 000 each month and are paid in the month incurred.

- (v) Depreciation on all fixed assets is at the rate of 15% per annum on cost, with the rate being applied for each part of the year.

A motor vehicle originally bought on 1 August 2010 at a cost of £16 000 is to be sold at auction on 31 July 2014. It is estimated that a sale price of £5 000 will be achieved and this money will be received during August 2014.

A new motor vehicle is to be bought on 1 August 2014 for £20 000 and it is to be paid in full during August 2014.

There are no other planned movements in fixed assets and all fixed assets have been purchased in the last five years.

- (vi) Salaries of £48 000 each month are paid one month in arrears. Included in this amount are the salaries of two employees each earning £1 200 a month. These two employees will retire on 30 June 2014. In addition to their salaries for May 2014, both will also receive their June 2014 salaries on their retirement date. The company does not plan to replace these employees.
- (vii) The loan is to be repaid in full in June 2014. Loan interest of £300 for June 2014 is also to be paid in that month.

## REQUIRED

- (a)\* The Cash Budget for **each** of the three months June, July and August 2014, together with a Budgeted Trading and Profit and Loss Account for the three-month period ending 31 August 2014. [32]
- (b) Discuss **two** advantages and **two** limitations of a budgetary control system. [12]

3 Bywaters Ltd has produced the following budgeted data for its current financial year.

|                     | £                | £                     |
|---------------------|------------------|-----------------------|
| Sales               |                  | 2 900 000             |
| Direct materials    | 400 000          |                       |
| Direct labour       | 500 000          |                       |
| Production overhead | <u>1 200 000</u> |                       |
| Production cost     |                  | <u>2 100 000</u>      |
| Gross Profit        |                  | <u><u>800 000</u></u> |
| Labour hours        | 48 000           |                       |
| Machine hours       | 60 000           |                       |
| Output in units     | 400              |                       |

Job 227 has recently been completed and the job sheet shows the following details.

|                    |       |
|--------------------|-------|
| Direct materials   | £1100 |
| Direct labour      | £3000 |
| Labour hours used  | 110   |
| Machine hours used | 140   |

## REQUIRED

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

- percentage of direct materials
- percentage of direct labour
- per unit
- labour hour rate
- machine hour rate.

[5]

(b) Using the appropriate overhead absorption rates calculated in part (a), calculate the production cost of job 227 using **each** of the following methods:

- percentage of direct materials
- labour hour rate
- machine hour rate.

[7]

(c)\* Traditional methods of overhead absorption have been replaced by activity based costing in some businesses.

Evaluate **three** limitations of introducing activity based costing in a business.

[11]

- 4 Duke Ltd manufactures three products A, B and C. All three products are made from the same material.

Budgeted costs and selling prices for the three months ending 30 September 2014 are as follows.

| <i>Product</i>           | <i>A</i> | <i>B</i> | <i>C</i> |
|--------------------------|----------|----------|----------|
| Sales (units per month)  | 5000     | 7000     | 9000     |
|                          | £        | £        | £        |
| Selling price per unit   | 54       | 44       | 40       |
| Variable costs per unit: |          |          |          |
| Direct materials         | 25       | 25       | 20       |
| Direct labour            | 10       | 7        | 8        |
| Variable overheads       | 8        | 7        | 6        |

The total fixed costs are £60 000 each month.

The company has been advised by its supplier that, due to a material shortage, it will only be able to supply 85% of the material requirement for September 2014. No other supplier can supply the material. No other shortages are anticipated.

## REQUIRED

- (a) A statement to show the maximum profit for the three months ending 30 September 2014. [15]
- (b) Duke Ltd has received an enquiry for a special order of 500 units of product B at a price of £41 per unit. There would not be any additional fixed costs if this order was accepted.
- Assuming that there is no material shortage, calculate the profit or loss on this special order, if it is accepted. [2]
- (c) Discuss **three** factors Duke Ltd should consider when deciding whether to accept the special order for product B. [9]

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