

Monday 10 June 2013 – 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



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.
- This document consists of **8** pages. Any blank pages are indicated.

INSTRUCTION TO EXAMS OFFICER/INVIGILATOR

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1 Picton Ltd manufactures a single product. It uses the following standards for each batch produced.

Material

Carbon Black	150 kilos at £9.40 per kilo
Nitrile	210 kilos at £12.50 per kilo

Labour

Blending	410 hours at £8 per hour
Forming	360 hours at £7 per hour

The actual costs for batch B47 were:

Material

Carbon Black	160 kilos costing £1512
Nitrile	190 kilos costing £2356

Labour

Blending	390 hours costing £3159
Forming	372 hours costing £2604

REQUIRED

- (a) The budgeted (standard) cost **and** the actual cost of production for batch B47. [3]
- (b) The following variances from standard for batch B47:
- material price variances
 - material usage variances
 - labour rate variances
 - labour efficiency variances. [16]
- (c) A reconciliation statement for the budgeted (standard) cost and the actual cost for batch B47. [4]
- (d) Discuss **two** types of standard which a company may consider using in a standard costing system. [6]

Total marks [29]

2 Brocastle Ltd is preparing its budgets for the three months ending 30 September 2013. The following details are available.

(i) Sales (units) for the period July 2013 to October 2013:

July	2600
August	2700
September	2500
October	2640

The selling price for July 2013 and August 2013 will be £40 per unit. This will be followed by a 10% increase from 1 September 2013 for the remainder of the year. All sales are paid for in the month of sale and a 1% discount for prompt payment is given.

- (ii) A contract has been agreed for all purchases for 2013. During the year all purchases will cost £15 per unit. Purchases are made such that the stock at the end of each month exactly covers the sales for the following month. One half of purchases are paid for in the month received and a discount of 2% is received for prompt payment. The remainder is paid in full in the following month.
- (iii) Expenses (excluding depreciation) of £50 000 per month are paid in the month incurred.
- (iv) Equipment which originally cost £23 000 is to be sold on 1 September 2013 for £1000 above its net book value of £1800. The disposal proceeds will be received in two equal instalments in September 2013 and October 2013.
- (v) New equipment costing £90 000 is to be purchased on 1 August 2013, with 30% payable in September 2013 and the balance one month later.
- (vi) The bank balance at 1 July 2013 is estimated to be £18 400.

REQUIRED

(a)*

- The Cash Budget for each of the three months July, August and September 2013
- The Budgeted Trading Account for the three month period ending 30 September 2013
- The Budgeted Balance Sheet extracts as at 30 September 2013 to show:

Current Assets
Current Liabilities

[28]

(b) Discuss **three** advantages of a budgetary control system to a business such as Brocastle Ltd. [9]

Total marks [37]

- 3 Castleton Ltd manufactures three products for which it has prepared the following profit statement.

	Product 1	Product 2	Product 3
	£	£	£
Sales	220 000	150 000	230 000
Total costs	<u>230 000</u>	<u>110 000</u>	<u>170 000</u>
Profit/(Loss)	<u>(10 000)</u>	<u>40 000</u>	<u>60 000</u>
Selling price (unit)	80	30	40

The total costs are 40% fixed and 60% variable. The total fixed costs of the business must be paid regardless of how many products are produced.

One of the directors has suggested that Product 1 should be discontinued in order to improve the profitability of the business.

REQUIRED

- (a) Explain, giving supporting calculations, whether or not you agree with the director's suggestion. You must show total contribution per product in your answer. **[10]**
- (b) (i) Castleton Ltd has received an enquiry from a potential new customer offering to buy a quantity of 500 units of Product 2 at the price of £20 per unit. Calculate whether this special order will make a profit or a loss. **[4]**
- (ii) Discuss **three** factors which should be taken into account when considering whether or not to accept the special order. **[6]**

Total marks [20]

- 4 Ashfield Manufacturing is a labour intensive company with only a relatively small amount of materials purchased. Currently, one factory overhead recovery rate is used which is a percentage of total direct labour costs. This rate is calculated from the following budgeted data.

Department	Factory overheads £	Direct labour costs £	Direct labour hours
1	210 000	1 100 000	140 000
2	220 000	1 000 000	137 500
3	150 000	800 000	125 000

The cost sheet for job 2408 shows the following information.

Department	Direct labour costs £	Direct labour hours	Direct machine hours	Direct material costs £
1	4300	540	90	320
2	11 680	1600	60	270
3	4020	600	–	180

General administration costs of 20% are added to the total factory costs. The selling price to the customer is based on a 20% profit margin.

REQUIRED

- (a) The current factory overhead rate **and** apply this to calculate the selling price for job 2408. [6]
- (b) The overhead recovery rate for **each** department, using the following methods:
- percentage of direct labour cost (where appropriate, calculations should be to one decimal place) [3]
 - direct labour hour rate. [3]
- (c) Using the direct labour hour rate for each department, calculate a new selling price for job 2408. [7]
- (d) Contrast the current method of applying a single rate to absorb overheads as opposed to individual departmental overhead absorption rates. [4]
- (e)* Evaluate the methods stated in part (b) for the recovery of factory overheads. Justify which is the most appropriate method. [11]

Total marks [34]

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