

ADVANCED GCE
ACCOUNTING
Management Accounting

F014/RB

RESOURCE BOOKLET

Monday 31 January 2011
Morning

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 when marking your answers to the two questions/sub-questions labelled 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

- Do not send this resource booklet for marking; it should be retained in the centre or destroyed.

- 1 Jaygum Ltd manufactures three products A, B and C. It has forecast the following costs for its next financial year:

Product	A	B	C
Variable costs per unit:	£	£	£
Direct wages:			
Machining	9.60	8.00	6.40
Assembly	6.00	6.00	5.00
Direct materials	16.40	10.00	9.60
Variable overheads	3.00	4.00	5.00

The total annual fixed costs are forecast to be £800 000.

Forecast annual sales data:

	A	B	C
Selling price per unit (£)	53	48	40
Quantity (units)	24 000	30 000	40 000

Machinists are paid £8 per hour and are in short supply. It is estimated that only 89 000 machinist hours will be available for the next financial year. Consequently, the company is now considering the following options:

Option 1

To utilise the existing machinists to produce the most profitable product mix for the year.

Option 2

Award the machinists a pay rise of 6.25%. This would enable the company to attract sufficient additional machinists to enable it to meet the forecast demand for all products. The increased rate would be payable to all machinists for the full financial year. No other changes are planned.

REQUIRED

- (a) A statement to show the maximum profit under Option 1. Show the contribution per unit for each product. [14]
- (b) A statement to show the maximum profit under Option 2. Show the contribution per unit for each product. [11]
- (c)* Evaluate the **two** options being considered by Jaygum Ltd. [14]

Total marks [39]

- 2 Kyaky Construction plc is the contractor for the building of a new factory. The contract commenced on 1 October 2008 and was estimated to last two years. At the end of the first year the following balances remained in the contract account and were carried forward to the second year:

	£
Machinery	600 000
Direct labour accrued	58 000
Materials	255 000
Plant hire prepaid	47 000
Sub contractor charges accrued	35 000
Profit provision	90 000

In addition to the above, the following costs were incurred during the second year:

	£
Direct labour	480 000
Materials	895 000
Plant hire	255 000
Sub contractor charges	820 000
Architects' fees	90 000
Head office expenses	120 000

The contract was completed on 30 September 2010 and there were no accruals or prepayments. The machinery had a nil residual value. All work completed was certified by the architects on 30 September 2010 and there was no work left uncertified. The contract allows for Kyaky Construction plc to receive payment for work certified less a 10% retention. In accordance with the contract, Kyaky Construction plc received £2 997 000 from the customer on 30 September 2010, with the retained balance to be paid at a later date.

REQUIRED

- (a) The Contract Account for the year ended 30 September 2010. [15]
- (b) In the event of a loss being made on this contract, explain how this would be dealt with in the final accounts of Kyaky Construction plc. [3]
- (c) Explain why the customer has negotiated a 10% retention. [3]

Total marks [21]

- 3** Aneena Ltd manufactures a single product which has the following standard data per batch of 100 units manufactured:

Wood	700 metres at £4 per metre
Paint	200 litres at £6.50 per litre
Labour	300 hours at £8 per hour
Variable overheads	£2 per labour hour
Fixed overheads	£5 per labour hour

During the month of December 2010, **five** complete batches were produced and the actual data was as follows:

Wood	3 600 metres at £3.95 per metre
Paint	950 litres at £6.60 per litre
Labour	1 550 hours at £8.10 per hour
Variable overheads	£2 955
Fixed overheads	£7 500

REQUIRED

- (a) (i) The standard cost for the total production in December 2010 **and** the standard cost per unit. [3]
- (ii) The actual cost for the total production in December 2010 and the actual cost per unit. [3]
- (b) Calculate each of the following variances:
- (i) material price variances; [4]
- (ii) material usage variances; [4]
- (iii) labour rate variance; [2]
- (iv) labour efficiency variance; [2]
- (v) total variable overhead variances; [1]
- (vi) total fixed overhead variances. [1]
- (c) Explain how the material variances may have arisen. [4]
- (d) Discuss **two** benefits to a business such as Aneena Ltd of a standard costing system. [6]

Total marks [30]

- 4 Jordin Ltd started in business on 1 January 2008 and the following information is available for its first three years of trading:

	2008	2009	2010
	£	£	£
Total fixed costs	15 000	16 000	21 000
Direct materials per unit	7	8	9
Direct labour per unit	10	10	12
Variable overheads per unit	3	4	6
Sales price per unit	22	25	29

The production and sales quantities during the three years were:

	2008	2009	2010
	units	units	units
Production	10 000	10 000	10 000
Sales	9 500	9 500	9 000

REQUIRED

- (a)* A statement showing the gross profit for **each** of the three years under the FIFO basis of valuing issues, if the company used:
- the marginal costing approach to valuing stock;
 - the absorption costing approach to valuing stock. [24]
- (b) Evaluate the policy adopted for production over the three year period. [6]

Total marks [30]

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