General Certificate of Education
Advanced Level Examination
June 2011

Accounting ACCN4

Unit 4 Further Aspects of Management Accounting

Tuesday 21 June 2011 9.00 am to 11.00 am

For this paper you must have:
- an AQA 12-page answer book
- a calculator.

Time allowed
- 2 hours

Instructions
- Use black ink or black ball-point pen.
- Write the information required on the front of your answer book. The **Examining Body** for this paper is AQA. The **Paper Reference** is ACCN4.
- Answer **all** questions.
- All workings must be shown and clearly labelled; otherwise marks for method may be lost.
- Make and state any necessary assumptions.
- Do all rough work in your answer book. Cross through any work you do not want to be marked.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 90.
  Four of these marks will be awarded for:
  – using good English
  – organising information clearly
  – using specialist vocabulary where appropriate.

Answer **all** questions.

Task 1 **Total for this task: 11 marks**

Anastasia Ltd manufactures a single product. Finished goods are transferred from the factory at cost plus 25%.

The following information is available at 31 October 2010.

	£
Inventory (stock) of finished goods at cost plus 25%	45 000
Inventory (stock) of raw materials	18 400
Inventory (stock) of work in progress	24 800

0 1 Prepare a balance sheet extract to show the inventory (stock) held by Anastasia Ltd at 31 October 2010. *(4 marks)*
(for quality of presentation: plus 1 mark)

0 2 Explain, with reference to relevant accounting principles, how inventories (stock) should be valued on the balance sheet. *(6 marks)*

Task 2 **Total for this task: 12 marks**

Franklin Ltd manufactures a single product.

The following information is available for a budgeted production of 25 000 units for the year ending 31 July 2012.

	£
Administration costs	44 600
Direct labour	200 000
Direct materials	120 000
Factory insurance	20 600
Factory rent and rates	127 300
Office salaries	140 500
Other factory overheads	64 500

The production manager expects to use 50 000 labour hours during the year.

It takes two labour hours to produce one unit.

The financial director bases the selling price on the full cost plus 20%.

0 3 Calculate the overhead absorption rate per labour hour. *(3 marks)*

0 4 Calculate the selling price per unit. *(5 marks)*

0 5 Explain **two** limitations of using absorption costing as a method of calculating the selling price. *(4 marks)*

Turn over for the next task

Task 3 **Total for this task: 34 marks**

Yusuke Yamaguchi owns an electronics factory which produces components for computer memory boards.

The budgeted variable costs per component are:

- direct materials (40 grams at £0.35 per gram)
- direct labour (2 hours 15 minutes at £8.00 per hour).

For the year ended 31 March 2011, Yusuke expected to sell 20 000 components at £60 each. He expected all components produced to be sold.

Annual fixed overheads were expected to be £300 000.

0 6 Prepare a statement to show both the expected contribution and the expected profit for the year ended 31 March 2011. *(8 marks)*

Yusuke believes that there has been a reduction in profits. He compares actual results for the year ended 31 March 2011 with the expected results.

The actual costs for the production of 18 000 components were:

	£
direct materials (700 000 grams)	252 000
direct labour (36 000 hours)	306 000

Each component actually sold for £62. Annual fixed overheads for the year were as expected.

0 7 Calculate the total variances for:

- direct materials
- direct labour. *(6 marks)*

0 8 Calculate the sales price and sales volume sub-variances. *(6 marks)*

0 9 Prepare a statement reconciling actual profit with budgeted profit for the year ended 31 March 2011. *(6 marks)*

1 0 Assess the effectiveness of using variance analysis to evaluate the performance of Yusuke's business. Make reference to the variances calculated. *(8 marks)*

Task 4 **Total for this task: 33 marks**

Ebes Ltd produces a single product, the flet. Each unit sells for £16.

The costs per unit are:

	£
direct materials	8.60
direct labour	3.40

On 1 May 2011, there were 270 units in stock.

Predicted sales are:

	Units
May	2700
June	2800
July	2600
August	2700

Each month's closing inventory (stock) is to be maintained at 10% of the following month's sales.

1 1 Prepare a production budget for each of the three months ending 31 July 2011.
(8 marks)

Unfortunately, the only cutting machine on the production line broke down on 14 May 2011 and all production stopped. Only 1600 units had been completed for that month. The expectation was that it would take several weeks to repair the machine. The production manager was worried that production targets would not be met in preparation for the busy summer period. He therefore purchased the shortfall in units for May from Ogo Ltd at a cost of £11 each. Each of these units had already been cut but required further production costs of £3.

1 2 Explain the financial implications of the decision to purchase the units from Ogo Ltd.
(5 marks)

Task 4 continues on the next page

At the end of May 2011, it became apparent that the machine could not be repaired.
The production manager only had the choice of the following two options.

Option 1

Lease a machine for 4 years at a cost of £7000 per month from 1 July 2011. This machine can produce 28 000 units per year and all maintenance costs will be included within the cost of the lease.

Option 2

Purchase a replacement machine at a cost of £350 000 on 1 July 2011. This machine can produce 30 000 units per year and is expected to last 4 years. The cost of capital is 10%.

The discount factors are as follows:

Year 1	0.909
Year 2	0.826
Year 3	0.751
Year 4	0.683

The selling price of £16 per unit and the direct costs of £12 per unit will remain unchanged.
Fixed overheads are currently £25 000 per year. These are expected to rise by 10% in Year 3.

It is assumed that all production is sold in the year.

1 3 Calculate the net present value for Option 2. *(9 marks)*
(for quality of presentation: plus 1 mark)

1 4 Advise the production manager which option he should choose. Consider both the financial and non-financial implications of each option. *(8 marks)*
(for quality of written communication: plus 2 marks)

END OF QUESTIONS

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