

Accounting

Advanced GCE **F003**

Management Accounting

Mark Scheme for June 2010

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1(a)*

	<u>June</u>	<u>July</u>	<u>August</u>
Sales	<u>62,000</u>	<u>66,000</u>	<u>70,000</u>
50% - 2.5%	30,225	32,175	34,125
50%	<u>30,000</u>	<u>31,000</u>	<u>33,000</u>
	<u>60,225</u>	<u>63,175</u>	<u>67,125</u>
Disc all	775	825	875

Sales Jul	66,000 x .8	Purchases 52,800 Jun
Sales Aug	70,000 x .8	Purchases 56,000 Jul
Sales Sep	70,000 x .8	Purchases 56,000 Aug

	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>
Purchases	<u>52,800</u>	<u>56,000</u>	<u>56,000</u>
50% - 2%	25,872	27,440	27,440
50%	<u>24,800</u>	<u>26,400</u>	<u>28,000</u>
	<u>50,672</u>	<u>53,840</u>	<u>55,440</u>
Disc rec	528	560	560

Depreciation $80,000 + 24,000 = 104,000 \times 15\% \times 3/12 = 3,900$

Jopear Ltd

Cash Budget for the three months ending 31 August 2010

	<u>June</u>	<u>July</u>	<u>August</u>
<u>Receipts</u>			
Sales	60,225 (2)	63,175 (2)	67,125 (2)
<u>Payments</u>			
Purchases	50,672 (2)	53,840 (2)	55,440 (2)
Expenses	6,100	6,100	6,100 (1)
Fixed asset		<u>7,200 (1)</u>	
	<u>56,772</u>	<u>67,140</u>	<u>61,540</u>
Net cash flow	3,453	(3,965)	5,585
Opening balance	<u>20,300</u>	<u>23,753</u>	<u>19,788</u>
Closing balance	<u>23,753 (1)</u>	<u>19,788</u>	<u>25,373 (1)</u>

Budgeted Trading and Profit and Loss Account for the three months ended 31 August 2010

Sales		198,000 (1)
Opening stock	49,600	
Purchases	<u>164,800 (1)</u>	
	214,400	
Closing stock	<u>56,000 (1)</u>	
Cost of sales		<u>158,400</u>
Gross Profit		39,600
Discount received		<u>1,648 (1)</u>
		41,248
Expenses	18,300 (1)	
Discount allowed	2,475 (1)	
Depreciation	<u>3,900 (2)</u>	
		<u>24,675</u>
Net Profit		<u>16,573</u>

QWC (2)
[26]

(b) Advantages:

The necessary examination of costs usually results in improved efficiency. Weaknesses become apparent and action can be taken.

Managers will become more aware of financial matters and the importance of cost control. Output can be measured in financial terms rather than just units.

Cash budgets will show a future cash surplus/deficit. A surplus will enable investment plans to be made, whilst a warning of a deficit will enable remedial action to be taken.

Preparation of departmental budgets facilitates responsibility accounting. The department manager is responsible for keeping to budget, which should present an achievable target.

Limitations:

Budgets may be too rigid and result in inflexibility. New opportunities may be missed if strict adherence to an original budget is required.

If production varies considerably from budget, then the budget loses its significance as a means of control. This can be overcome by flexible budgeting.

If budgets are imposed by senior management without consultation, then this might lead to resentment amongst staff. This can lead to a lack of motivation.

A budget set too low may lead to complacency with no incentive to improve. Whilst a budget set too high may lead to low morale.

Candidates are expected to evaluate both advantages and limitations. Up to 4 marks for analysis and up to 8 marks for evaluation. Candidates may score max 8 marks for either advantages or limitations evaluated well. [12]

Total marks [38]

2(a)

	<u>Ex</u>	<u>Wye</u>	<u>Zed</u>
Selling price	75	82	83
Variable costs	<u>55</u>	<u>58</u>	<u>59</u>
Contribution	<u>20</u> (1)	<u>24</u> (1)	<u>24</u> (1)
<u>Contribution</u>	<u>20</u>	<u>24</u>	<u>24</u>
Limiting factor	16	10	26
	1.25	2.4	0.92
Ranking	2	1	3 (2)
Material available	474,000		
Wye 10 x 9,000	<u>(90,000)</u> (1)		
	384,000		
Ex 16 x 11,000	<u>(176,000)</u> (1)		
	208,000		
Zed 26 x 8,000	<u>(208,000)</u> (1)		
<u>Maximum Profit</u>			
Wye 24 x 9,000	216,000 (2)		
Ex 20 x 11,000	220,000 (2)		
Zed 24 x 8,000	<u>192,000</u> (2)		
	628,000		
Fixed costs	<u>250,000</u> (1)		
Profit	<u>378,000</u> (1)		

[16]

(b)

Selling price	70
Variable costs	<u>59</u>
Contribution	11 (1)
Quantity	<u>x 6,000</u>
	66,000 (1)
Fixed costs	<u>20,000</u> (1)
Profit	<u>46,000</u> (1)

[4]

(c)* Existing customers – customers paying full price will be annoyed to discover others paying less. This could result in the loss of business.

Competitors – the reaction of competitors needs consideration. They may respond by cutting their own prices and perhaps starting a price war.

Alternatives – could the spare capacity be better used. Other customers may be prepared to pay more than the special order price.

Reliance – care should be taken not to over rely on special orders. In the long term, fixed costs must be covered and special orders are not a long term solution.

Candidates are expected to discuss three factors. Up to marks for analysis and up to 6 marks for evaluation.

(9)

QWC (2)

[11]

Total marks [31]

3(a) (i)

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Sales	360,000 (1)	416,000 (1)	544,000 (1)
O/stock	-	52,800	44,200
Var costs	<u>264,000 (1)</u>	<u>265,200 (1)</u>	<u>315,000 (1)</u>
	264,000	318,000	359,200
C/stock	<u>52,800 (1)</u>	<u>44,200 (1)</u>	<u>39,375 (1)</u>
	<u>211,200</u>	<u>273,800</u>	<u>319,825</u>
	148,800	142,200	224,175
Fixed costs	<u>70,000 (1)</u>	<u>74,400 (1)</u>	<u>78,000 (1)</u>
Gross Profit	<u>78,800 (1)</u>	<u>67,800 (1)</u>	<u>146,175 (1)</u>

[15]**(ii)**

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Sales	360,000	416,000	544,000
O/stock	-	66,800	56,600
Var costs	264,000	265,200	315,000
Fixed costs	<u>70,000 (1)</u>	<u>74,400 (1)</u>	<u>78,000 (1)</u>
	334,000	406,400	449,600
C/stock	<u>66,800 (1)</u>	<u>56,600 (1)</u>	<u>49,125 (1)</u>
	<u>267,200</u>	<u>349,800</u>	<u>400,475</u>
Gross Profit	<u>92,800 (1)</u>	<u>66,200 (1)</u>	<u>143,525 (1)</u>

[9]**(b) SSAP 9 – absorption costing. (1)**

Application of the accruals concept with revenues and costs for the period matched.

Stock valuation should include a fair share of overhead (fixed costs and variable costs). This is the case with absorption costing.

This is not the case with marginal costing which treats fixed overheads as a period cost only, with the closing stock only carrying variable overheads forward.

Up to 3 marks for analysis. Up to 3 marks for evaluation of each method. Max marks 7. **[7]**

Total marks [31]

Assessment Objectives grid (includes QWC)

Question	AO1	AO2	AO3	AO4	Total
1(a)*	7	7	12		26
1(b)			4	8	12
2(a)	7	6	3		16
2(b)		4			4
2(c)*			3	8	11
3(a)	10	7	7		24
3(b)			4	3	7
Total	24	24	33	19	100

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