Surname		Other Names	
Centre Number		Candidate Number	
Candidate Signature			

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General Certificate of Education
January 2003
Advanced Subsidiary Examination

ACCOUNTING ACC4

Unit 4 Introduction to Accounting for Management and Decision Making

Wednesday 15 January 2003 Afternoon Session

No additional materials are required.
You may use a calculator.

Time allowed: 1 hour

Instructions
- Use blue or black ink or ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions in the spaces provided.
- 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 this book. Cross through any work you do not want marked.

Information
- The maximum mark for this paper is 80. This includes up to 4 marks for the Quality of Written Communication.
- Mark allocations are shown in brackets.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary, where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

For Examiner's Use			
Number	Mark	Number	Mark
1			
2			
3			
4			
5			
Total (Column 1) →			
Total (Column 2) →			
Quality of Written Communication			
TOTAL			
Examiner's Initials			

Answer **all** questions in the spaces provided.

1 **Total for this question:** ***15 marks***

Dawn Doughty makes rugs, which she sells for £110 each. She has the following costs:

Direct wages are £6 per hour (11 hours per rug).
Materials are £4 per metre (8½ metres per rug).

Fixed costs for the year are:

	£
buildings and contents insurance	800
heating and lighting	300
administration expenses	900
workshop rent	3000

REQUIRED

(a) Calculate the marginal cost of producing **one** rug.

....

....

....

(2 marks)

(b) State the formula for break-even *in pounds (£)*.

....

....

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(2 marks)

(c) Calculate the break-even point *in pounds (£)*.

....

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....

(4 marks)

(d) Dawn believes that she should mark up the marginal cost by 20%. Calculate the selling price with this mark-up.

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(3 marks)

(e) Do you agree with Dawn's suggestion to increase the mark-up to 20%? Give reasons for your answer.

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(4 marks)

15

LEAVE MARGIN BLANK

2 **Total for this question:** ***9 marks***

Ken Kline is the manager of a retail outlet with three warehouses for storing goods. He would like to introduce a system of budgetary control.

REQUIRED

Write a short report to Ken Kline:

(a) naming **two** budgets which would be useful to him;

(b) explaining **two** benefits if he introduced these budgets.

REPORT

To: ....

From: ....

Date: ....

Subject: ....

(Report Headings: *1 mark)*

Budget 1

....

(1 mark)

Budget 2

....

(1 mark)

Benefit 1

....

....

....

....

....

....

(3 marks)

Benefit 2

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....

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....

....

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(3 marks)

9

LEAVE MARGIN BLANK

3 **Total for this question:** ***14 marks***

Season Suppliers Ltd sell Christmas gifts. The following information is available for the last two years.

	As at 31 October 2001	**As at 31 October 2002**
	£	**£**
Trade debtors	43 000	32 550
Trade creditors	28 500	38 500
	For the year ended 31 October 2001	**For the year ended 31 October 2002**
Credit sales	680 000	660 000
Credit purchases	520 000	540 000

REQUIRED

(a) State the formula for the debtor collection period.

....

....

....

(1 mark)

(b) State the formula for the creditor payment period.

....

....

....

(1 mark)

(c) Calculate the debtor collection periods in days for the years ended 31 October 2001 **and** 31 October 2002. Show your workings.

Year ended 31 October 2001	**Year ended 31 October 2002**
....	....
....	....
....	....
....	....
....	....
....	....

(4 marks)

(d) Calculate the creditor payment periods in days for the years ended 31 October 2001 **and** 31 October 2002. Show your workings.

Year ended 31 October 2001	**Year ended 31 October 2002**
....	....
....	....
....	....
....	....
....	....
....	....

(4 marks)

(e) Briefly evaluate Season Suppliers Ltd's management of credit control. Base your answers on your calculations from (c) and (d).

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(4 marks)

14

TURN OVER FOR THE NEXT QUESTION

4 **Total for this question:** ***26 marks***

Jack Smart is the Manager of a factory which produces cardboard boxes from recycled paper. The current production process needs to be replaced. Jack has the following two options:

Option 1. Invest in new recycling machinery at a cost of £450 000. In order to finance this purchase a loan of £600 000 will need to be taken out. This will be repayable at the end of five years. Interest is paid annually at 10%. Also 15% of the staff will no longer be needed and will have to be made redundant or take early retirement in the first year at a cost of £160 000. Most of the remaining staff will need to be retrained to use the new machinery, which is expected to cost £60 000 and is payable over 2 years.

Option 2. To make cardboard boxes from paper which has not been recycled. This will involve investing in new machinery at a cost of £250 000. This will be financed by a loan of £300 000 repayable at the end of five years. Interest is paid annually at 10%. No staff will need to be made redundant. The retraining costs are expected to be £80 000 and are payable in the first year. Jack is unsure how customers will react to boxes which are not made from recycled paper. However, he believes that this is the better option as it will have less of an effect on cash resources and therefore profitability.

Both machines will be depreciated using the straight-line method over 10 years.

REQUIRED

(a) Explain the difference between profit and cash.

....

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....

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(4 marks)

(b) Calculate the effect of **each** option on profit and cash for the next financial year.

OPTION 1

PROFIT	**CASH**
....	....
....	....
....	....
....	....
....	....
....	....
....	....
....	....

(8 marks)

LEAVE MARGIN BLANK

OPTION 2

PROFIT	**CASH**
....	....
....	....
....	....
....	....
....	....
....	....
....	....
....	....

(7 marks)

(c) State which option you would recommend. Justify your choice.

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(7 marks)

26

5 **Total for this question:** ***12 marks***

Davidson Reproductions Ltd produces tables. The production manager has collected the following information in order to produce a production budget for the next four months.

1. Demand is expected to be 1200 tables in Month 1. This should reduce by 10% in Month 2, but thereafter increase by 5% each month, based on the demand for the previous month.

2. The stock at the end of each month is to be maintained at a level of 20% of the following month's sales but due to a storage constraint should not exceed 240 tables.

3. The stock at the start of Month 1 is 100 tables.

REQUIRED

Produce a production budget for the next four months. Round up to the nearest whole table.

	Month 1 (tables)	Month 2 (tables)	Month 3 (tables)	Month 4 (tables)
Sales	....	....	....	....
Opening stock	....	....	....	....
Closing stock	....	....	....	....
Production	....	....	....	....

(12 marks)

12

END OF QUESTIONS