

Surname											Other Names										
Centre Number							Candidate Number														
Candidate Signature																					

For Examiner's Use

General Certificate of Education
June 2008
Advanced Subsidiary Examination



ACCOUNTING

ACC4

Unit 4 Introduction to Accounting for Management and Decision-making

Monday 2 June 2008 1.30 pm to 2.30 pm

You will need no other materials.
You may use a calculator.

Time allowed: 1 hour

Instructions

- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Answers written in margins or on blank pages will not be marked.
- 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 to be marked.
- Page 5 is perforated. Tear it out **at the start of the examination** and use it to answer Question 2.

Information

- The maximum mark for this paper is 80.
Four of these marks will be awarded for using good English, organising information clearly and using specialist vocabulary where appropriate.
- The marks for questions are shown in brackets.

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



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

Total for this question: 20 marks

1

Alex and Associates had the following assets and liabilities at 31 March 2008.

	£
Cash at bank	8 800 Dr
Loan (repayable 2011)	20 000 Cr
Motor vehicles	16 200 Dr
Stock	16 100 Dr
Trade creditors	12 200 Cr
Trade debtors	11 700 Dr
VAT (due to HM Revenue and Customs)	12 100 Cr

REQUIRED

- 1** (a) Define the term 'working capital'.

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(2 marks)

- 1** (b) Calculate the working capital ratio at 31 March 2008. State the formula used.

Formula

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(1 mark)

Calculation

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(3 marks)



Unfortunately, Alex discovers that the amount recorded for cash at bank is a credit balance, being an overdraft.

REQUIRED

- 1 (c) Recalculate the working capital ratio and explain the significance of the result to Alex and Associates.

Calculation

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(3 marks)

Significance of result

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(2 marks)

Question 1 continues on the next page



- 1 (d) Explain **three** possible consequences to the employees of Alex and Associates if action is not taken to improve the working capital.

Consequence 1

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Consequence 2

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Consequence 3

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(9 marks)



Remove this page and use it when answering Question 2.

2

Svetlana Omarov owns a business manufacturing drinking mugs.

The business operates over 13 four-week periods with five working days in each week.

Previously, Svetlana had fixed production at 18 000 mugs per period, regardless of the level of sales. This year Svetlana has decided to introduce a system of budgetary control.

The sales for the first four periods of this year are expected to be as follows:

	Period 1	Period 2	Period 3	Period 4
Mugs (units)	14 500	15 200	16 100	17 400

Sales are expected to occur evenly throughout each period.

Each mug costs 60p to make and is sold for £1.45.

Stock at the start of period 1 is 2900 mugs. Stock is **now** to be maintained at a level sufficient to cover 4 days of the next period's expected sales.

Turn over ►



There are no questions printed on this page



Total for this question: 31 marks

Tear page 5 out of this question paper. Given on page 5 is information taken from the books of Svetlana Omarov.

REQUIRED

- 2 (a) Prepare the production budget **in units** for each of the periods 1–3.

Production budget in units for Svetlana Omarov for Periods 1–3

	Period 1	Period 2	Period 3

*(8 marks)**Workings*

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Turn over ►

- 2 (b) Calculate the total contribution for periods 1–3 based on expected sales.

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(3 marks)

- 2 (c) Prepare comparative budgeted trading accounts for Svetlana Omarov for periods 1–3, using (i) a fixed production level of 18 000 mugs per period and (ii) the production budget for this year. Assume that stock is valued at cost.

Budgeted Trading Accounts for Svetlana Omarov for Periods 1–3

Description	(i) using a fixed production level of 18 000 mugs per period		(ii) using the production budget for this year	
	£	£	£	£
Sales				
				
Opening stock				
				
Cost of production				
				
Closing stock				
				
Less cost of sales				
				
Gross profit				
				

(14 marks)



Workings

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- 2 (d) Explain **two** benefits for Svetlana's business of introducing a system of budgetary control.

Benefit 1.....

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Benefit 2.....

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(6 marks)



Total for this question: 25 marks**3**

Eduardo runs a business which produces bottles of perfume.

Each bottle of perfume sells for £40.

For the year ending 31 December 2008, Eduardo expects the following costs per bottle of perfume:

	£
Direct materials	19
Direct labour (90 minutes paid at £6 per hour)	9
Variable manufacturing costs	5

The annual fixed costs are expected to be £390 000 per year.

Eduardo plans to achieve a weekly profit of £3000. The business operates 52 weeks a year.

REQUIRED

- 3 (a)** Calculate the number of bottles of perfume which Eduardo has to produce and sell per week in order to achieve the planned weekly profit. State the formula used.

Formula

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 (1 mark)

Calculation

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 (5 marks)



- 3 (b) Calculate the profit margin which Eduardo plans to achieve each week.

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(4 marks)

Following a strike of the workers at the factory, Eduardo has agreed to increase wages to £7 per hour. He has also unexpectedly had to replace one of the machines. A new machine has been leased at a monthly cost of £4550. All other costs and revenues have remained the same.

REQUIRED

- 3 (c) Calculate the number of bottles of perfume which Eduardo now has to produce and sell in order to achieve the weekly profit of £3000 per week.

Calculation

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(7 marks)

Workings

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Question 3 continues on the next page

Turn over ►



Eduardo wishes to increase profits from their present level. He does not believe that the market will accept an increase in the selling price and so proposes to reduce the cost per bottle by using cheaper materials which are rumoured to cause skin damage.

REQUIRED

- 3 (d) Advise Eduardo of **one** possible effect of using the cheaper materials.

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(4 marks)

- 3 (e) Advise Eduardo of **one** possible alternative action which he could take to increase his profits from the present level.

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(4 marks)

END OF QUESTIONS

