General Certificate of Education
June 2006
Advanced Level Examination

ACCOUNTING **ACC7**
Unit 7 Further Aspects of Accounting for Management and Decision-making

Friday 23 June 2006 1.30 pm to 2.45 pm

For this paper you must have:
• an answer book for Accounting
You may use a calculator.

Time allowed: 1 hour 15 minutes

Instructions
- Use blue or black ink or 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 ACC7.
- 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 the answer book. Cross through any work you do not want marked.

Information
- The maximum mark for this paper is 105.
  5 of these marks are for the Quality of Written Communication.
- The marks for questions are shown in brackets.
- Question 4 is the synoptic question which assesses your understanding of the relationship between the different aspects of Accounting.
- You are reminded of the need for good English and clear presentation in your answers. Some questions involve only numerical work; all other questions should be answered in continuous prose. Quality of Written Communication will be assessed in all prose answers.

Answer **all** questions.

All the questions in this paper refer to Jayne Bonde plc, a manufacturer. Each question is complete in itself. In answering each question, you will **not** need to use information given in other questions.

Total for this question: 20 marks

1 Jayne Bonde plc manufactures one product, the GB007.

The budgeted variable production costs per unit were:

	£
Direct materials (5.5 metres at £8 per metre)	44
Direct labour (4 hours and 20 minutes at £6 per hour)	26
	70

Budgeted production for the month of May was 10 000 units.

The actual costs for May were:

	£
Materials (60 000 metres)	585 000
Labour (60 000 hours)	360 000

The actual costs for May were based on an actual production level of 12 000 units.

REQUIRED

(a) Calculate:

(i) the material price and usage variances; *(4 marks)*

(ii) the labour rate and efficiency variances. *(3 marks)*

(b) Prepare a statement reconciling the budgeted variable production costs with the actual variable production costs. *(7 marks)*

(c) Explain the interrelationships between the labour and material variances. *(6 marks)*

Total for this question: 25 marks

2

The budgeted profit for Jayne Bonde plc is expected to be £60 000 per month, using the marginal costing method of cost accounting.

Em, the financial accountant, would like to change to the absorption method of cost accounting in June. She believes that this method will enable the company to record a higher level of profit.

The fixed production costs are £90 000 per month, which will be absorbed on the basis of the normal production of 12 000 units.

The fixed non-production costs are £50 000 per month.

The budgeted variable production costs remain unchanged at £70 per unit.

The selling price is expected to be £90 per unit.

REQUIRED

(a) (i) Calculate the absorption rate per unit. *(3 marks)*

(ii) Calculate the budgeted total production cost per unit, using the absorption rate calculated in (a)(i). *(3 marks)*

For the month of June, opening stock is 500 units, production is expected to be 12 000 units, but only 10 000 units are expected to be sold.

REQUIRED

(b) Calculate the budgeted profit for the month of June. Use the absorption costing method. *(13 marks)*

(c) Assess how the change in profit, resulting from the adoption of the absorption method, could affect the shareholders. *(6 marks)*

Total for this question: 10 marks

3

Em, the financial accountant, is proposing to replace all existing machinery at a cost of £2 400 000. The new machinery will produce 14 000 units per month, and total costs are expected to be £1 130 000 per month.

The selling price remains at £90 per unit.

All cash flows are expected to occur evenly throughout the month. It is presumed that all production will be sold each month.

Ignore depreciation.

REQUIRED

(a) Calculate the payback period of the new machinery. *(6 marks)*

(b) Explain **two** limitations of using payback as a method of capital investment appraisal. *(4 marks)*

Total for this question: 45 marks

4

Em, the financial accountant, decides **not** to introduce the absorption cost method and **not** to purchase the new machinery.

Qwe, the production manager, was only able to achieve the increased level of production of 12 000 units in June by increasing the number of hours worked by the workforce. The workforce is asking for a pay rise of 20% per hour. If this is not given, the workers have stated that they will refuse to work the extra hours, and production will remain at 10 000 units in July.

The selling price is still £90 per unit. The budgeted variable production costs per unit before any pay rise are:

	£
Direct materials (5.5 metres at £8 per metre)	44
Direct labour (4 hours and 20 minutes at £6 per hour)	26
	70

REQUIRED

(a) Calculate the new budgeted contribution per unit, with the increased labour rate per hour. *(5 marks)*

(b) Calculate the new total monthly direct labour costs if production is 12 000 units. *(3 marks)*

(c) Describe **two** actions that could be undertaken which would fund the proposed increase in direct labour costs. *(4 marks)*

Qwe, the production manager, believes that contribution should not be reduced. He proposes that new machinery is leased at a monthly cost of £5000. This machinery will increase production to 12 000 units per month. Each worker will be able to operate two machines at the same time. Qwe is hopeful that, over time, he will actually be able to reduce the size of the workforce with the introduction of the new machinery.

REQUIRED

(d) Write a report to the directors of Jayne Bonde plc, discussing whether the company should lease the new machinery. *(Report format: 2 marks)* *(14 marks)*

Question 4 continues on the next page

On 1 July, it is expected that the company will have a bank balance of £2000. Em, the financial accountant, believes that the financing for the cost of the lease of £5000 per month can be achieved through careful budgeting. She therefore agrees to the lease. It is expected that 95% of the 12 000 units produced per month will be sold. All transactions are on a cash basis.

Assume that the machine is leased at a cost of £5000 per month, selling price remains at £90 per unit, the variable production cost per unit includes the pay rise and fixed costs will be £140 000 per month, which **excludes** the cost of the lease.

REQUIRED

(e) Prepare a cash budget for **each** of the months of July and August. *(11 marks)*

(f) Explain **two** advantages of budgeting. *(6 marks)*

END OF QUESTIONS

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