GCE

Accounting

Unit **F014:** Management Accounting

Advanced GCE

Mark Scheme for June 2015

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

OCR will not enter into any discussion or correspondence in connection with this mark scheme.

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These are the annotations, (including abbreviations), including those used in scoris, which are used when marking

1	?	281	?	Unclear
2	BOD	31	BOD	Benefit of doubt
3	✗	21	Cross	Cross
4	OFR	721	OFR	Own figure rule
5	REP	271	REP	Repeat
6	SEEN	811	SEEN	Noted but no credit given
7	✓	11	Tick	Tick
8	L1		L1	Level 1
9	L2		L2	Level 2
10	L3		L3	Level 3
11	L4		L4	Level 4

Quality of Written Communication

Level	Mark	Description
3	3	All account headings, terms and balances are included appropriately and in line with accounting conventions. All figures are legible with effective use made of columns and sub-totals. All accounts are ruled off as appropriate.
2	2	Almost all account headings, terms and balances are included, appropriately and in line with accounting conventions. Figures are legible with effective use made of columns and sub-totals. Accounts are ruled off as appropriate.
1	1	Some account headings, terms and balances are included though not always adhered to accounting conventions. Most figures are legible. Some appropriate use is made of columns and sub-totals. Some accounts are ruled off as appropriate.
-	0	Responses which fail to achieve the standard required for Level 1.

Levels of Response for *Narrative* Questions

Level	Mark	Description
2	2	Ideas, some complex, are expressed clearly and quite fluently, using an appropriate style of writing. Arguments made are generally relevant and are constructed in a logical and coherent manner. There are few errors of spelling, punctuation and grammar, and those that are made are not intrusive and do not obscure meaning.
1	1	Relatively straightforward or simple ideas are expressed in a generally appropriate style of writing which sometimes lacks clarity or fluency. Arguments have some limited coherence and structure, occasionally showing relevance to the main focus of the question. There are errors of spelling, punctuation and grammar which are noticeable and sometimes intrusive but do not totally obscure meaning.
-	0	Responses which fail to achieve the standard required for Level 1.

MARK SCHEME

Question			Answer/Indicative content	Mark	Guidance
1	**(a)**		Break-even = $\frac{292{,}500\textbf{(1)}}{(20 - 12.20)}$ = 37,500**(1)** Margin of safety = 70,000 – 37,500 = 32,500**(1)**	3	
	(b)		Option 1 Selling price 21.00 Variable costs 12.20 Contribution per unit 8.80 **(2)** Quantity 73,000 642,400 Fixed costs 357,500 **(1)** Profit 284,900 **(1)** Option 2 Selling price 20.00 Variable costs 11.70 Contribution per unit 8.30 **(2)** Quantity 70,000 581,000 Fixed costs 292,500 Profit 288,500 **(1)**	7	
	(c)		8.80Q**(1)** – 357,500**(1)** = 289,300**(1)** Quantity = 73,500**(1)**	4	

Question			Answer/Indicative content	Mark	Guidance
	(d)		Local suppliers may face redundancies, multiplier impact on other businesses in the community. Industrial relations, switching to an overseas supplier may lead to local unrest and protests, leading to adverse publicity. Reliability of new supplier, will deliveries be on time? How will urgent requirements be dealt with? Transport and communication issues. Price stability, has the overseas supplier offered a lower price to get the business? For how long will this price be fixed? Impact of fluctuating exchange rates. Technical/manufacturing issues, difficulties and time in resolving problems compared to ability to quickly visit local supplier. **(3 x 3 marks)** **(1 for point plus up to 2 for development)** **QWC**	9 2	

Question			Answer/Indicative content	Mark	Guidance
	(e)		<u>Advantages</u> Break-even is relatively simple to calculate and easy to explain to non-accountants. Can be presented visually in the form of a graph. Profit/loss can be seen at a glance. Allows 'what if' considerations and can be used to consider implications of changes. The margin of safety provides a business with an assessment of risk. It shows by how much sales can fall before a loss is made. <u>Limitations</u> Total sales are unlikely to be linear. It is likely that different prices will be charged to different customers. Total costs are unlikely to be linear. Variable costs are likely to fall as quantity increases. Fixed costs are likely to be in stepped movements when output exceeds a certain level. It is not always straight forward to split costs into fixed costs and variable costs. Some costs may include both fixed and variable costs. **(Each section 2 x 2 marks)** **(1 for point plus 1 for development)**	8	
			Total marks	33	

<table>
<tr><th colspan="3">Question</th><th>Answer/Indicative content</th><th>Mark</th><th>Guidance</th></tr>
<tr><td>2</td><td>(a)</td><td></td><td>
FIFO
<table>
<tr><th>Date</th><th>Receipts</th><th>Issues</th><th>Balance</th></tr>
<tr><td>31 Mar</td><td>150 x 8
100 x 8
170 x 8.50</td><td>150 x 8
40 x 8</td><td>60 x 8 = 480 (1)
170 x 8.50 = 1,445 (1)
= 1,925 (1)</td></tr>
<tr><td>30 Apr</td><td>60 x 8
170 x 8.50
110 x 8.80
160 x 8.80</td><td>60 x 8
170 x 8.50
50 x 8.80</td><td>220 x 8.80 = 1,936 (1)</td></tr>
<tr><td>31 May</td><td>220 x 8.80
100 x 9</td><td>220 x 8.80
40 x 9</td><td>60 x 9 = 540 (1)</td></tr>
</table>
LIFO
<table>
<tr><th>Date</th><th>Receipts</th><th>Issues</th><th>Balance</th></tr>
<tr><td>31 Mar</td><td>150 x 8
100 x 8
170 x 8.50</td><td>170 x 8.50
20 x 8</td><td>230 x 8 = 1,840 (2)</td></tr>
<tr><td>30 Apr</td><td>230 x 8
110 x 8.80
160 x 8.80</td><td>160 x 8.80
110 x 8.80
10 x 8</td><td>220 x 8 = 1,760 (1)</td></tr>
<tr><td>31 May</td><td>220 x 8
100 x 9</td><td>100 x 9
160 x 8</td><td>60 x 8 = 480 (1)</td></tr>
</table>
</td><td>9</td><td></td></tr>
<tr><td></td><td>(b)</td><td></td><td>
Trading Account for the three months ending 31 May 2015
<table>
<tr><td>Sales</td><td></td><td>11,760(2)</td></tr>
<tr><td>Opening stock</td><td>1,200(1)</td><td></td></tr>
<tr><td>Purchases</td><td>5,521(1)</td><td></td></tr>
<tr><td></td><td>6,721</td><td></td></tr>
<tr><td>Closing stock</td><td>540(1)</td><td></td></tr>
<tr><td>Cost of sales</td><td></td><td>6,181</td></tr>
<tr><td>Gross Profit</td><td></td><td>5,579(1)</td></tr>
</table>
</td><td>6</td><td></td></tr>
</table>

Question			Answer/Indicative content	Mark	Guidance
	(c)		Periodic – stock is calculated at the end of a period. Perpetual – stock is calculated after each transaction. **(2 x 1 mark)**	2	
	(d)		Advantages Stock valuation is based on the most recent purchase costs and will be nearer current prices. Basis of good store-keeping with the assumption that the oldest stock is issued first. Acceptable to HMRC for taxation purposes and conforms to SSAP 9. Disadvantages Issued prices are from earliest receipts and not likely to be in line with most recent prices. In periods of inflation, stock is valued at the highest (latest) prices, cost of sales is reduced and profit overstated. Could result in more tax being paid. **(Each section 2 x 2 marks)** **(1 for point plus 1 for development)**	8	

<table>
<tr><th colspan="3">Question</th><th>Answer/Indicative content</th><th>Mark</th><th>Guidance</th></tr>
<tr><td>3</td><td>(a)</td><td></td><td>

Marginal Costing

<table>
<tr><td></td><td></td><td>2012</td><td></td><td>2013</td><td></td><td>2014</td></tr>
<tr><td>Sales</td><td></td><td>216,000**(1)**</td><td></td><td>249,480**(1)**</td><td></td><td>296,208**(1)**</td></tr>
<tr><td>Opening stock</td><td>-</td><td></td><td>6,000</td><td></td><td>19,800</td><td></td></tr>
<tr><td>Variable costs</td><td>150,000**(1)**</td><td></td><td>165,000**(1)**</td><td></td><td>208,725**(1)**</td><td></td></tr>
<tr><td></td><td>150,000</td><td></td><td>171,000</td><td></td><td>228,525</td><td></td></tr>
<tr><td>Closing stock</td><td>6,000**(1)**</td><td></td><td>19,800**(1)**</td><td></td><td>25,047**(1)**</td><td></td></tr>
<tr><td></td><td></td><td>144,000</td><td></td><td>151,200</td><td></td><td>203,478</td></tr>
<tr><td>Contribution</td><td></td><td>72,000</td><td></td><td>98,280</td><td></td><td>92,730</td></tr>
<tr><td>Fixed costs</td><td></td><td>17,000</td><td></td><td>20,200</td><td></td><td>25,000</td></tr>
<tr><td>Gross Profit</td><td></td><td>55,000**(1)**</td><td></td><td>78,080**(1)**</td><td></td><td>67,730**(1)**</td></tr>
</table>

Absorption Costing

<table>
<tr><td></td><td></td><td>2012</td><td></td><td>2013</td><td></td><td>2014</td></tr>
<tr><td>Sales</td><td></td><td>216,000</td><td></td><td>249,480</td><td></td><td>296,208</td></tr>
<tr><td>Opening stock</td><td>-</td><td></td><td>6,680</td><td></td><td>22,224</td><td></td></tr>
<tr><td>Variable costs</td><td>150,000</td><td></td><td>165,000</td><td></td><td>208,725</td><td></td></tr>
<tr><td>Fixed costs</td><td>17,000</td><td></td><td>20,200</td><td></td><td>25,000</td><td></td></tr>
<tr><td></td><td>167,000**(1)**</td><td></td><td>191,880**(1)**</td><td></td><td>255,949**(1)**</td><td></td></tr>
<tr><td>Closing stock</td><td>6,680**(1)**</td><td></td><td>22,224**(1)**</td><td></td><td>28,047**(1)**</td><td></td></tr>
<tr><td></td><td></td><td>160,320</td><td></td><td>169,656</td><td></td><td>227,902</td></tr>
<tr><td>Gross Profit</td><td></td><td>55,680**(1)**</td><td></td><td>79,824**(1)**</td><td></td><td>68,306**(1)**</td></tr>
</table>

QWC (3)

</td><td>24</td><td></td></tr>
</table>

Question			Answer/Indicative content	Mark	Guidance
	(b)		Production has increased each year by 10%. Sales units have increased but not sufficiently to match production increases. This has led to an increase in closing stock over the period, which will impact on stockholding costs. Potential damage and unsaleable, out of date stock. Selling price increased by 10% in the second year and was maintained for the third year. Sales quantity increased in second year, but by only 5%. The maintenance of selling price in year three did lead to an increase in sales quantity of 18.7%. Variable costs remained at the same level for the first two years, but increased by £3 (15%) in third year. Fixed costs have increased by 47% over the period. This has contributed to a decline in profit in the third year. **(4 x 3 marks) max 9** **(1 for point plus up to 2 for development)**	9	

Question			**Answer/Indicative content**	**Mark**	**Guidance**
4	**(a)**		Contract Account	19	

Machinery		620,000**(1)**	Material returns	98,000**(1)**
Materials	2,120.000		Materials c/d	166,500**(1)**
Material transfer	170,000		Plant hire c/d	15,000
		2,290,000	Machinery transfer	60,000**(2)**
Direct labour	950,200		Machinery c/d	270,000**(2)**
Direct labour c/d	83,500		Cost to date c/d	3,762,000**(1)**
		1,033,700		
Plant hire		130,000		
Architects fees		64,300		
Gen expenses		110,500		
Head office		123,000**(1)**		
		4,371,500		4,371,500
Cost to date c/d		3,762,000	Work certified	4,100,000**(1)**
Notional profit c/d		537,000**(1)**	Work not cert c/d	199,000
		4,299,000		4,299,000
Profit and Loss		322,200**(1)**	Notional profit b/d	537,000
Profit prov c/d		214,800**(1)**		
		537,000		537,000
Materials b/d		166,500**(1)**	Direct labour b/d	83,500**(1)**
Plant hire b/d		15,000**(1)**	Profit provision b/d	214,800**(1)**
Machinery b/d		270,000**(1)**		
Work not cert b/d		199,000**(1)**		

Question			Answer/Indicative content	Mark	Guidance
	(b)		High proportion of direct costs. Most costs are self-contained on one site and can be directly charged to the contract. Difficulty of cost control. Scale/size give cost control problems. Undertaken to customer's specific requirements and frequently site-based. Usually long duration and provides for progress payments/profit at specific stages/retention. **(2 x 2 marks)** **(1 for point plus 1 for development)**	4	
	(c)		Redundancy compensation, based on length of service, which would encourage employees who have been with the company for a long period to opt for retirement. Enhance pensions; company could make up extra years required so that employees retiring early would be compensated. Phased workload leading up to retirement. This would help employees adapt more easily to finishing work. Education for retirement could be built into workload. Social programme; this would help keep employees in touch with the company and give an opportunity to be active. Consultation with unions and support/training for using new equipment. Counselling support, provision of occupational health advice on training issues and change of workload. **(3 x 3 marks) max 6** **(1 for point plus up to 2 for development)**	6	

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