

UNIVERSITY OF BOLTON
BOLTON BUSINESS SCHOOL
BA (HONS) ACCOUNTANCY PATHWAY BY
DISTANCE LEARNING
KUALA LUMPUR INTAKE 17
SEMESTER 2 EXAMINATIONS 2008/2009
MANAGEMENT ACCOUNTING CONTROL SYSTEMS
MODULE NO: ACC3004DL

Date: 7th June 2009

Time: 3 hours

INSTRUCTIONS TO CANDIDATES:

There are **SIX** questions on this paper.

Answer **FOUR** questions – **ANY TWO** from Section A, and **ANY TWO** from Section B.

All questions carry equal marks.

Silent calculators may be used.

No books or materials may be referred to in the examination.

Discount Factor Tables will be provided.

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Section A – answer ANY TWO questions

Q1 PARADISE plc

Paradise plc has recently raised RM350,000 from a rights issue, and the directors are considering three ways of using these funds. Three different projects (A,B and C) are being considered, each involving the immediate purchase of equipment costing RM350,000. One project only can be undertaken and the equipment for each project will have a useful life equal to that of the project, with no significant final scrap value. The company's cost of capital is 20% and it has a policy of straight-line depreciation for the write off of equipment.

The following cash flow projections have been estimated:

Year	Project	Net Cash Flow (RM,000)		
		A	B	C
0		(350)	(350)	(350)
1		100	40	200
2		110	100	150
3		104	210	240
4		112	260	40
5		138	160	----
6		160	----	----
7		180	----	----

Required:

For each project you are required to calculate the following:

- (i) Payback period (3 marks)
- (ii) Accounting rate of return (6 marks)
- (iii) Net present Value (6 marks)
- (iv) Internal rate of return (6 marks)

Briefly discuss the merits and limitations of each of these project appraisal techniques (4 marks)

TOTAL 25 MARKS

**Section A continued over
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Section A continued

Q2 PRECISION CLOCKS plc

The Precision Clocks plc has two divisions – Eastern Division, which manufactures a unique timing device and Western Division, which incorporates the timing device into a finished product which it sells. The timing device is never sold outside the company and it cannot be obtained from any other source. One device is used for each unit of final product.

Most of Eastern Division's costs are fixed and for any output up to 1,000 units its total costs are RM600. Thereafter, total costs increase at the rate of RM100 for each additional 1,000 units made. In the hope of optimising his division's results, Eastern Division's manager has set a transfer price of 50c/ unit.

Western Division's costs in assembling the timing device in the finished product and selling it are, in addition to the transfer price of the timing device, RM1,200 for any output up to 1,000 units and RM200 for every 1,000 units thereafter. Western Division finds that it can only increase its sales by spending more on promotion or reducing selling prices. Western Division's sales forecast is as follows:

Sales (units)	Net Sales Revenue per thousand units RM
1,000	1,900
2,000	1,700
3,000	1,500
4,000	1,250
5,000	960
6,000	770

All costs, output rates and sales are per working day.

**Question 2 continued over
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Question 2 continued

Required:

- (i) Prepare a schedule of Western Division's costs (including purchases from Eastern Division), sales revenue and net income at the indicated sales levels.
(5 marks)
- (ii) State what level of sales maximises Western Division's net income and calculate Eastern Division's net income and the net income of the whole company at that level.
(5 marks)
- (iii) Assume that the company's divisional structure and transfer pricing is abandoned and prepare a further schedule of costs, sales and net income for the company as a whole, at the indicated sales levels.
(5 marks)
- (iv) State what level of sales maximises the company's net income and explain why it differs from that calculated under the 'two divisions' approach above
(5 marks)
- (v) State what transfer pricing policy will maximise the company's net income under the divisional organisation.
(5 marks)

TOTAL 25 MARKS

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Section A continued

Q3 ASIAN FABRICATIONS plc

Asian Fabrications plc uses a standard costing system to control and report upon the production of its single product.

The standard cost information is summarised as follows:

	RM	RM
Selling price per unit		400
Less: 8 kgs materials@RM20 per kg	160	
12 hours labour@ RM7 per hour	84	
	-----	244

Contribution per unit		156

For April 2009 5,000 units were budgeted to be produced and sold but the actual production and sales were 5,700 units.

The following information was also available:

- (a) At the commencement of April the normal material became unobtainable and it was necessary to use an alternative. Unfortunately, 1kg per unit extra was required and it was thought that the material would be more difficult to work with. The price of the alternative was expected to be RM16.50 per kg. In the event, actual usage was 49,800 kgs at RM18 per kg.
- (b) Weather conditions, which were expected to be harsh, were unseasonally favourable with the result that a 50c per hour 'harsh weather bonus,' which had been allowed for in the original standard, did not have to be paid. Because of the difficulties expected with the alternative material, management agreed to pay the workers RM8 per hour for April only. During April 75,200 hours were paid for.

Asian Fabrications have been using traditional costing variances, but are contemplating extending its system to include planning and operational variances

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Question 3 continued

Required:

- (i) Prepare a statement reconciling budgeted contribution for the period with actual contribution, using traditional material and labour variances.
(8 marks)

- (ii) Prepare a similar reconciliation statement using planning and operational variances
(10 marks)

- (iii) Evaluate the meaning of the variances shown in statement (ii) above and provide a general critical evaluation of the benefits and limitations of using planning and operational variances
(7 marks)

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Section B – Answer ANY TWO questions

Q4 The ‘Modern Manufacturing’ business environment is characterised by more flexibility, a readiness to meet customers’ requirements, smaller batches, continuous improvements and an emphasis on quality. In such circumstances, traditional management accounting performance techniques are, at best, irrelevant and, at worst, misleading.

Required:

(i) Critically evaluate the above statement, citing specific examples to support or refute the views expressed.

(10 marks)

(ii) Identify the key features of the revised costing techniques that may be utilised by management accountants to adapt the services they provide to the new environment.

(15 marks)

TOTAL 25 MARKS

Q5 For the modern business manager to be able to make well-informed objective decisions, they must be confident that the Management Accounting Control Systems (MACS) are consistently delivering ‘Quality Information’.

Required:

Identify and critically review the various stages and key features of the procedures by which MACS may ensure that raw data is converted, firstly into ‘Information’ and, thence, into ‘Quality Information.’

TOTAL 25 MARKS

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Section B continued

Q6 Strategic Management Accounting is concerned with developing an awareness of 'external' influences on a business organisation's operations and activities, in addition to the traditional 'inward' perspective of the Management Accounting function. Michael Porter has proposed the 'Five Forces' model to assist this external analysis.

Required:

Identify and critically appraise the component elements of the 'Five Forces' model and the extent to which they may influence an organisation's strategic development.

TOTAL 25 MARKS

END OF QUESTIONS

TABLE OF PRESENT VALUE FACTORS

Present values of $1/(1+r)^n$

<i>period (n)</i>	<i>discount rates (r)</i>									
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149

<i>period (n)</i>	<i>discount rates (r)</i>									
	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694
3	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579
4	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482
5	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402
6	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335
7	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279
8	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233
9	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194
10	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162
11	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135
12	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112
13	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093
14	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078
15	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.074	0.065
16	0.188	0.163	0.141	0.123	0.107	0.093	0.081	0.071	0.062	0.054
17	0.167	0.146	0.125	0.108	0.093	0.080	0.069	0.060	0.052	0.045
18	0.153	0.130	0.111	0.095	0.081	0.069	0.059	0.051	0.044	0.038
19	0.138	0.116	0.098	0.083	0.070	0.060	0.051	0.043	0.037	0.031
20	0.124	0.104	0.087	0.073	0.061	0.051	0.043	0.037	0.031	0.026