

UNIVERSITY OF BOLTON

BUSINESS & CREATIVE TECHNOLOGIES

**ACCOUNTANCY PATHWAY BY DISTANCE
LEARNING**

SEMESTER 2 EXAMINATION 2009/2010

HONG KONG – CED (INTAKE 35 & 37)

**MANAGEMENT ACCOUNTING CONTROL
SYSTEMS**

MODULE NO: ACC3004

Date: Saturday 12th June 2010

Time: 3 Hours

INSTRUCTIONS TO CANDIDATES:

Answer FOUR questions.

Answer any TWO questions from
Section A and any TWO questions
from Section B.

All questions carry equal marks.

Candidates are advised that the examiners attach importance to legibility of
writing and clarity of expression

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Module No.ACC3004

SECTION A – Answer any TWO questions

Question A1

Dart plc manufactures a fruit flavoured health drink that it sells in cases of 24 bottles. The selling price is \$60 per case. The variable costs are \$20 per case. The fixed costs are \$120,000 per year.

In order to reduce absenteeism at work, the government are very interested in promoting the health drink. They are considering subsidising the price of the product by offering Dart plc a subsidy per case to try to promote increased sales.

Dart plc uses a cost plus system to set selling prices but a recent study has revealed that the demand for the product is elastic, and a linear relationship exists between price and demand as shown below:

Price per case	\$30.00	\$40.00
Demand in cases	20,000	10,000

Required:

(a) Calculate the optimal selling price and optimal output for the product.

(12 marks)

(b) Calculate the level of subsidy necessary to reach a monthly sales target figure of 20,000 cases for the health drink.

(7 marks)

(c) Critically evaluate the use of cost-plus pricing as a basis for setting selling prices.

(6 marks)

Total 25 Marks

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Question A2.

Sunshine Ltd is a commercial laundry service. The company uses a traditional method of overhead absorption. It has two cost centres, Laundry operations and Transport. The management is unhappy with the profitability of some of its operations. The CEO wants to discontinue the unprofitable business, but the COO feels that this will let competition increase market share. The COO is convinced that an activity based costing system (ABC), of dealing with overheads, will provide management with the information they need to make the correct decisions. The management accountant has been asked to investigate.

The estimated data for next year using the existing absorption method is as follows:

Total number of cost units to be processed	60,000 (One cost unit = 100 items)
Total transport km for collection/delivery	100,000km
Total overhead	\$600,000
Overhead absorption rate:	80% Laundry operations 20% Transportation

Additional data resulting from the ABC investigation:

Main Activities	Cost Driver	Cost pool (% of total overheads)
Collection & Delivery of laundry	100,000km	20
Loading & unloading	12,000 transport runs	10
Laundry	500,000 kg dry weight	30
Drying	600,000 kg wet weight	20
Pressing	60,000 cost units	20

Data for two sample contracts	Glade Hospital	The King's Hotel
Number of cost units processed	10,000	5,000
Number of transport runs	1,000	400
Transport km	6,000	8,000
Average dry weight per cost unit	4kg	3kg
Average wet weight	5.3kg	3.3kg

Required:

- Using the traditional absorption costing information, calculate the overhead absorption rate (OAR) for each of the two cost centres. **(2 marks)**
- Calculate the OAR for each activity using the additional ABC information **(5 marks)**
- Compare the overhead absorbed by both Glade Hospital and the King's Hotel using both the traditional system and the ABC approach. **(8 marks)**
- Critically evaluate how the ABC approach to overhead absorption will assist management in decision-making. **(10 marks)**

Total 25 Marks

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Question A3.

Harvard, a printing company, uses traditional absorption costing to report its monthly profits.

It is seeking to increase its business by winning work from new customers. It now has the opportunity to prepare a quotation for a large organisation that currently requires a new catalogue of its services.

A technical report on the resource requirements for the catalogues has been completed at a cost of \$1,000 and its details are summarised below:

Production period

It is expected that the total time required to print and despatch the catalogue will be one week.

Material A

10,000 sheets of special printing paper will be required. This is a paper that is not in regular use by Harvard. There are 3,400 sheets in inventory. These originally cost \$1.40 per sheet but the current market price is \$1.50 per sheet. The resale price of the sheets held in inventory is \$1.20 per sheet. If not used in the contract the paper could be used elsewhere substituting another material that costs \$1.30 per sheet.

Material B

This is a special ink that Harvard will need to purchase at a cost of \$8 per litre. 200 litres will be required for this catalogue but the supplier has a minimum order size of 250 litres. H does not foresee any other use for this ink, but will hold the surplus in inventory. H's inventory policy is to review slow moving items regularly. The cost of any inventory item that has not been used for more than 6 months is accounted for as an expense of the period in which that review occurs.

Direct labour

Sufficient people are already employed by Harvard to print the catalogue, but some of the printing will require overtime working due to the availability of a particular machine that is used on other work. The employees are normally paid \$8 per hour, the order will require 150 hours of work and 50 of these hours will be in excess of the employees' normal working week. A rate of \$10 per hour is paid for these overtime hours. Employees are paid using an hourly rate with a guaranteed minimum wage for their normal working week.

Supervision

An existing supervisor will take responsibility for the catalogue in addition to her existing duties. She is not currently fully employed and receives a salary of \$500 per week.

**Question 3 continued over ...
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Question 3 cont'd...

Machinery

Two different types of machine will be required:

Machine A will print the catalogues. This is expected to take 20 hours of machine time. The running cost of machine A is \$5 per hour. There is currently 30 hours of unused time on machine A per week that is in demand from other printers for \$12 per hour.

Machine B will be used to cut and bind the catalogues. This machine is being used to full capacity in the normal working week and this is why there is a need to work overtime. The catalogue will require 25 machine hours and these have a running cost of \$4 per hour.

Despatch

There will be a delivery cost of \$400 to transport the catalogues to the customer.

Fixed overhead costs

Harvard uses a traditional absorption costing system to attribute fixed overhead costs to its work. The absorption rate that it uses is \$20 per direct labour hour.

Required:

(a) In order to assist the management of Harvard in preparing its quotation, prepare a schedule showing the relevant costs for the production of the catalogues. State clearly your reason for including or excluding each value that has been provided in the above scenario.

(15 marks)

(b) Explain how the use of relevant costs as the basis of setting a selling price may be appropriate for short-term pricing decisions but may be inappropriate for long-term pricing decisions. Your answer should also discuss the conflict between reporting profitability within a traditional absorption costing system and the use of relevant cost based pricing.

(10 marks)

Total 25 Marks

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SECTION B – Answer any TWO questions

Question B4.

Discuss what is meant by the term “Target Costing”, and evaluate its use in management accounting and control systems **(25 marks)**

QUESTION B5.

- (a) Critically evaluate the use of the “Balanced Score Card” and give examples of its use in the business environment. **(13 marks)**
- (b) Using a business of your choice as an example, identify one corporate goal for each of the 4 perspectives and give examples of one performance indicator for each performance goal. Give reasons justifying your selection of each performance indicator. **(12 marks)**

QUESTION B6.

Critically evaluate the decision of companies to decentralise their management decision-making from the centre to operating divisions. **(25 marks)**

END OF QUESTIONS