

UNIVERSITY OF BOLTON RAS AL KHAIMAH

BUSINESS AND CREATIVE TECHNOLOGIES

ACCOUNTANCY PATHWAY

SEMESTER 2 EXAMINATIONS 2010/2011

MANAGEMENT ACCOUNTING FUNDAMENTALS

MODULE NO: ACC1006RAK

Date: 7th June 2011

Time: 1:00pm – 4:00pm

INSTRUCTIONS TO CANDIDATES:

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

Answer **BOTH** questions in section A, **ONE** question from section B and **ONE** question from section C

This is a closed book examination.

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Section A
Both questions are compulsory

1. Patel decided to commence business manufacturing a single product. As a matter of business policy he set the following conditions for his first two years of trading:

Year one: To break even

Year two: To achieve a profit of £120,000

His projected costs per unit in year are:

	£
Direct materials	10
Direct labour	9
Variable production overheads	3
Variable sales overheads	5

He expects that in the first year he will sell the product for £35 and that his fixed costs will be £78,000 in each year.

Initial market research has indicated that in year one his maximum sales volume will be 12,000 units. He is looking to devise a strategy which will lead to an increased demand for his product in year two and has identified a number of options:

- (i) to reduce selling price by £2
- (ii) to use an inferior material which would reduce direct material cost by £1
- (iii) to spend an extra £12,000 on advertising –

Required:

- (a) Calculate the number of units that Patel will have to sell in year one in order to break even.
(5 marks)
- (b) Calculate the margin of safety in year one and explain the meaning of this margin
(5 marks)

Question 1 is continued on the next page

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Question 1 continued

(c) Calculate the number of units that Patel will have to sell in year two in order to achieve his required profit based on the original costing and on each scenario (i) to (iii) identified above.

(12 marks)

(d) Comment on your answer to part © advising Patel on the most appropriate course of action

(8 marks)

(e) Identify and discuss the assumptions underlying break-even analysis and comment on the validity of each assumption.

(10 marks)

(Total 40 marks)

2. Oliver Limited manufactures Hand Drills. The budget for production costs for 25,000 Drills for December 2010 was as follows:

Direct materials		
12,000 kilos at £5 per kilo		£60,000

Direct labour		
1,200 hours at £7.50 per hour		£9,000

Actual results were as follows:

Number of Drills produced: 28,000

Direct material		
11,500 kilos at £5.50 per kilo		£63,250

Direct labour		
1,250 hours at £6 per hour		£7,500

Question 2 is continued on the next page

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Question 2 continued

Required:

(a) Calculate the following variances for December 2010:

- (i) total material variance
- (ii) direct material usage
- (iii) direct material price
- (iv) total labour variance
- (v) direct labour efficiency
- (vi) direct wage rate

(14 marks)

(b) Identify two different levels of activity that may be used when setting standards and identify the strengths and weaknesses of each

(6 marks)

(Total 20 marks)

End of Section A

Section B begins on the next page

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Section B
Answer ONE question from this section

3. Smith Limited manufactures and sells one product, a standard Printer.
 The following information is available:

Sales price (each)	£64
Labour (per printer)	£16
Variable production overheads (per unit)	£12
Material (per unit)	£24
Production quantities: November	1,400
December	700
Quantities sold: November	1,200
December	800
Fixed overheads: November	5,000
(Production) December	4,000

The absorption base for fixed overheads is Budgeted Units – this is 1,000 units per month.

Required:

- (a) prepare statements for November and December showing profit and closing stock valuations using the following methods:
- (i) marginal costing
 - (ii) absorption costing **(20 marks)**

- (b) Discuss absorption costing as a method of valuing factory Cost of Sales.

(5 marks)

(Total 25 marks)

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4. Nickersons Ltd has three production departments – 1, 2 and 3 – and a service department known as the Maintenance which works for the production departments in the ratio of 40%, 40% and 20% respectively.

The following costs and relevant data, which represent normal activity levels, have been budgeted for the period ended 31st December 2008.

	1 000's	2 000's	3 000's	Maintenance 000's	Totals 000's
Direct Wages	60	70	80	0	210
Direct Materials	40	30	20	0	90
Indirect Materials	20	25	10	60	115
Depreciation					170
Rates					50
Power					400
Personnel					50
Insurance					100

Relevant Data for the business to be used in overhead apportionments

Direct Labour Hrs	8,000	9,000	15,000	0	32,000
Machine Hours	15,000	20,000	3,000	2,000	40,000
Floor area (m)	1,000	2,000	1,000	3,000	7,000
Fixed Assets	£260,000	£240,000	£80,000	£120,000	£700,000
Employees	50	60	100	50	260

Required:

- a) Prepare an overhead apportionment sheet for Nickersons Ltd for the period ended 31st December 2011. **(20 Marks)**
- b) Calculate appropriate overhead absorption rates for departments 1, 2 and 3. **(5 Marks)**

Total 25 Marks

End of Section B

Section C begins on the next page

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Section C

Answer ONE question from this section

5. Since management at all levels must perform a certain amount of planning, decision making and control, it is vital that management are provided with the necessary information to perform these tasks.

Required:

Identify and discuss, using relevant examples where appropriate, the fundamental attributes of good management information.

(15 marks)

6. Discuss the underlying principles of a process costing system with specific reference to expected and unexpected losses, scrap value, equivalent units and joint/by-products

(15 marks)

END OF QUESTIONS