

UNIVERSITY OF BOLTON RAS AL KHAIMAH

BUSINESS AND CREATIVE TECHNOLOGIES

ACCOUNTANCY PATHWAY

SEMESTER 2 REFER EXAMINATIONS 2010/2011

MANAGEMENT ACCOUNTING APPLICATIONS

MODULE NO: ACC2501RAK

Date: Tuesday 7th June 2011

Time: 1:00pm – 4:00pm

INSTRUCTIONS TO CANDIDATES:

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

Answer **FOUR** questions - **TWO** from Section A and **TWO** from section B

All questions carry equal marks.

Silent calculators may be used

Present Value Discount tables will be provided.

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

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SECTION A - ANSWER TWO QUESTIONS

1. COBRA plc

Cobra plc manufactures three products (A, B and C) from the same basic components.

You are provided with the following information relating to projections for July 2011:

(i) Sales	A	B	C
Quantity	42,000	32,000	16,000
Price/ Unit	£40	£20	£60
(ii) Material Usage			
(£/ unit)			
Wood	10	4	16
Bought in components	8	4	10
Packing	6	2	4
(iii) Labour Cost £/ Unit	4	2	6
(iv) Overhead £/ Unit			
Variable	6	2	4
Fixed	2	2	2
(v) Stocks			
Finished Goods (units)			
1 July	16,000	10,000	12,000
31 July	22,000	8,000	8,000
Raw Materials	Wood	Bought in Components	Packing
	£	£	£
1 July	66,000	65,600	43,000
31 July	90,000	84,800	24,400

REQUIRED

Prepare budgets for sales & profit, production (units), materials usage, purchases and production cost for the month of July

(20 Marks)

Identify and appraise the key assumptions that inform the budget setting process and discuss how these may be incorrect.

(5 Marks)

TOTAL 25 MARKS

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2. FILTERITE plc

Filterite plc are faced with the problem of replacing a high quality material filtration machine which will be of critical importance for future commercial success and maintaining the company's reputation. Three possible alternatives have been identified:

- A Quadfilter, manufactured in the UK
- An Autofilter, produced by a Swedish company
- A Filterwell-2011, made in Korea

Each alternative would cost £360,000 to purchase and have an effective working life of 6 years, but the net incremental cash inflows of each are estimated to be as follows:

(All amounts £s)	Quadfilter	Autofilter	Filterwell-2011
YEAR 1	40,000	160,000	120,000
YEAR 2	80,000	120,000	120,000
YEAR 3	120,000	120,000	120,000
YEAR 4	120,000	40,000	120,000
YEAR 5	120,000	20,000	80,000
YEAR 6	136,000	20,000	40,000

REQUIRED

Assuming the company has a cost of capital of 15% and there is no anticipated residual value after 6 years, calculate the following for each project alternative:

- 1) Payback period
- 2) Net present Value
- 3) Accounting Rate of Return
- 4) Internal Rate of Return

Advise the company which alternative to adopt, with reasons.

TOTAL 25 MARKS

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3. MDC

MDC plc provides management development courses on a commercial basis. The company plan to run an intensive two-day workshop on 'Staff Recruitment & Selection' and is currently reviewing the price to be charged. Direct Costs per course are estimated as follows:-

	£
Direct Labour	100
Direct Material	16
Direct Expenses	4
	120

The fixed element of these costs – and Direct Labour in particular – has been calculated on the basis of:-

$$\frac{\text{Budgeted annual cost}}{\text{Budgeted number of students}}$$

Overheads which are specifically linked to a course are absorbed at the rate of 25% and company policy is to charge a profit mark-up of 2/3 of full cost on all courses to cover general overheads, plus a satisfactory profit.

MDC's Director of Courses is concerned that adopting the company's normal policy will result in a price charge which fails to maximise profit from provision of the workshop and has undertaken some market research to support this view. The research suggests the following possible combinations of price and demand:-

Demand (number of students)	120	160	210	230	270	290	310	320
Charge per student per course (£)	300	280	260	250	240	230	210	200

The variable cost per student per course will be £24 for all volumes up to and including 270. Above this level the variable cost per student per course will reduce to £20. Fixed costs specific to running this workshop will be £3,000 for all volumes up to and including 270, above which volume the amount will be £5,000

REQUIRED

- (i) Determine the price per student per course based on the normal pricing policy of 'full cost plus 2/3'. Comment on the unit cost which has been used to set this price and explain the difference between profit margin and profit mark-up. (7 marks)
- (ii) From the schedule of price/demand combinations revealed by the Director of Courses' market research, calculate the price per student which should be set to maximise contribution to overall profit from this workshop. (12 marks)
- (iii) What other factors do you think should affect the adoption (or not) of the price arrived at in (ii) above (6 marks)

**TOTAL 25 MARKS
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SECTION B - ANSWER TWO QUESTIONS

4. A business that has a number of wholly owned subsidiaries is faced with the challenge of determining an intra-company or 'Transfer' price for the exchange of goods and services between two or more of these subsidiaries.

REQUIRED

Identify and appraise the key considerations that inform the transfer price decision-making process. In addition, you should also discuss the rationale that should be adopted in the following situations:-

- (i) when there exists an external market for the product/ service under review
- (ii) when there is no such market.

25 MARKS

5. A business may expand through 'organic' development (reinvestment of profits to replicate an existing business model elsewhere) or more rapidly through merger or acquisition. Inevitably, there will be a need to structure the organisation into subordinate divisions.

REQUIRED

Identify and appraise the key characteristics of the process of divisionalisation within an organisation from both a beneficial and an adverse perspective (if appropriate, refer to specific examples to support your analysis)

25 MARKS

6. Financial performance appraisal within a business organisation tends to use reporting systems which compare actual results against previously determined budget targets.

Required

You are required to identify and appraise the potential problems that may be encountered with this approach to appraisal of business performance and how these be avoided.

25 MARKS

END OF QUESTIONS

TABLE OF PRESENT VALUE FACTORS

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

period (n)	discount rates (r)									
	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

period (n)	discount rates (r)									
	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