

UNIVERSITY OF BOLTON
BUSINESS AND CREATIVE TECHNOLOGIES
ACCOUNTANCY PATHWAY
SEMESTER 2 EXAMINATIONS 2010-11
MANAGEMENT ACCOUNTING CONTROL
SYSTEMS
MODULE NO: ACC3004

Date: Thursday 2nd June 2011

Time: 14:00 – 17:00

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.

This examination carries 70% of the marks
for this module.

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SECTION A

Question A1 (25 Marks)

The budgeted profit statement for one of the products of Hargreaves Ltd for the month of May 2010 is as follows :-

Sales revenue (10,000 *£5)	50,000
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Production Costs (10,000 units)

Direct Material A	5,000 kg * £0.30	1,500	
B	5,000 kg * £0.70	<u>3,500</u>	5,000

Direct Labour

Skilled	4,500 hrs *£3.00	13,500	
Unskilled	2,600 hrs*£2.50	<u>6,500</u>	20,000

Overhead Costs

Fixed		10,000	
Variable	10,000 units * £0.50	<u>5,000</u>	15,000

Plus Opening Stock	1,000 units * £4	4,000	
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Less Closing Stock	1,000 units * £4	4,000	
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Cost of Sales	40,000
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Budgeted profit	10,000
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During May 2010 production and sales were both above budget and the following actual statement was produced :-

Sales Revenue (7,000*£5) + (4,000* £4.75)	54,000
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Question A2 (25 Marks).

Triumph Ltd, a small engineering company, operates a job order costing system. It has been invited to tender for a comparatively large job that is outside the range of its normal activities and, as there is surplus capacity, the management are keen to quote as low a price as possible.

The estimating department has spent 200 hours on work in connection with the quotation and they have incurred travelling expense of £600 in connection with the visit to the prospective customer's factory overseas. The following cost estimate has been prepared on the basis of their study:

	<u>Cost Estimate</u>	£
<i>Direct Material and Components</i>		
2,000 units of X at £25 per unit		50,000
200 units of Y at £10 per unit		2,000
Other material & components to be bought in		<u>12,500</u>
		64,500
<i>Direct Labour</i>		
600 hours of skilled labour at £10.00 per hour		6,000
1,000 hours of unskilled labour at £7.00 per hour		7,000
<i>Overhead</i>		
Department P – 300 hours at £25 per hour		7,500
Department Q – 500 hours at £20 per hour		10,000
<i>Estimating Department</i>		
200 hours at £5 per hour		1,000
Travelling expenses		600
<i>Planning Department</i>		
200 hours at £5 per hour		<u>1,000</u>
		<u>97,600</u>

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Question A2 continued....

The following information is also supplied:

Material X This is a regular inventory item. The inventory holding is more than sufficient for this job. The material currently held has an average cost of £25 per unit but the current replacement cost is £20 per unit.

Material Y An inventory of 4,000 units of Y is currently held in the stores. This material is slow moving and the inventory is the residue of a batch bought seven years ago at a cost of £10 per unit. Y currently costs £24 per unit but the resale value is only £18 per unit. However, Y could be used as a substitute for another type of regularly used raw material, which costs £20 per unit.

Direct Labour The workforce is paid on a time basis. The company has adopted a “no redundancy” policy and this means that skilled workers are frequently moved to jobs that only require unskilled labour. The labour included in the cost estimate is for an ideal labour mix for this job. However, if the job is obtained, it is possible that the majority of the work will be done by skilled workers earning £7.00 per hour.

Overhead – Department P Department P is the only department currently working at full capacity. The department is treated as a profit centre and it uses a transfer price of £25 per hour for charging out its processing time to other departments. The charge is calculated as follows:

	£
Estimated Variable Cost per machine hour	10
Fixed Department Overhead	8
Departmental Profit	<u>7</u> <u>25</u>

Department P’s facilities are frequently hired out to other firms and a charge of £30 per hour is made. There is a constant demand from outside customers for the use of these facilities.

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Question A2 continued....

Overhead – Department Q Department Q uses a transfer price of £20 for charging out machine processing time to other departments. This charge is calculated as follows:

	£
Estimated Variable cost per machine hour	8
Fixed Departmental Overhead	9
Departmental Profit	<u>3</u>
	<u>20</u>

Estimating Department The estimating department charges out its time to specific jobs using a rate of £10 per hour. The average wage rate within the department is £5 per hour but the higher rate is necessary to cover overheads and the work carried out on unsuccessful quotations.

Planning Department This department also uses a charging out rate, which is intended to cover all departmental costs.

Required:

- (a) You are required to restate the cost estimate by using an opportunity cost approach. Make any assumptions that you think are necessary, and briefly justify each of the figures that you give. **(15 marks)**
- (b) Discuss the relevance of the opportunity cost approach to the situation described in the question and evaluate the problems which are likely to be encountered if it is used in practice. **(4 marks)**
- (c) Evaluate the use of opportunity cost in business decision-making where a choice exists amongst alternative courses of action. **(6 marks)**

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Question A3 (25 Marks).

A Beach Buggy manufacturing company sells the following range of 4 vehicles:
Romeo: the basic model; Demand is about 20,000 per year
Dragon: a basic model with additional modifications; Demand is about 15,000 per year
Omega: a racing model; Demand is about 10,000 per year
Zenith: a high performance model: Demand is about 5,000 per year

The company financial structure is as follows:

Company financed by equity	£50,000,000	ROI 20% per year after tax of 20%
Loans & other borrowings	£40,000,000	Interest 10% per year

Costs:

Fixed costs	£23,500,000 per year
Variable Materials	15% of sales
Variable Labour	£500 per vehicle + 5% of sales

Required:

- Based on the above information calculate the average selling price for a vehicle. **(5 marks)**
- Calculate the selling price for each model where the Dragon is priced at £100 above the Romeo. The Omega is priced at £200 above the Romero, and the Zenith at £500 above the Romero. **(8 marks)**
- Skilled labour is in short supply there are only 1,500,000 hours available for the next year. Advise on the most profitable sales mix where one Romero vehicle requires 30 hours of skilled labour, Dragon 42 hours, Omega 55 hours and Zenith 60 hours. **(6 marks)**
- Discuss the other factors, apart from cost, that influence selling prices. **(6 marks)**

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SECTION B. – Answer any TWO questions

QUESTION B1 (25 Marks).

TQM aims to change the management culture in an organisation to that of a 'quality culture', focusing on improving customer care, the relationship with suppliers and team-centred management. All business functions in the organisation are involved in continuous quality improvement.

- (a) Discuss the above statement and how the traditional approach to quality differs from the TQM approach. **(10 marks)**
- (b) Critically evaluate the effect that TQM will have on the role of MACS and the information needs of management. **(15 marks)**

QUESTION B2 (25 Marks).

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

QUESTION B6 (25 Marks).

Critically evaluate the use of “Activity Based Costing” as opposed to the traditional approach of overhead absorption. Illustrate your answer with appropriate examples of its use in industry **(25 marks)**

END OF QUESTIONS