**ST MARY’S UNIVERSITY**

TWICKENHAM, LONDON

BA/BA(ITT)/BSc Degree Examination students registered for

Level **SIX**

**Title:** Management Accounting

**Code:** MGT6011

**Semester:** Two

**Date:** July 2019 retrieval

**TIME ALLOWED:** TWO HOURS

**EXAMINATION**

**(This assessment is worth 50% of the overall module grade.)**

**Instructions to Candidates:**

**PART A: COMPULSORY (Answer ALL parts of the Question)** – **50 marks**

**PART B: Answer TWO questions ONLY** – **Each question is worth 25 marks**

**Candidates are permitted to bring one approved calculator into this examination.**

**PLEASE SUBMIT YOUR EXAMINATION PAPER WITH YOUR EXAMINATION SCRIPT. ENTER YOUR REGNUM IN THE SPACE BELOW:**

**REGNUM: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**PART A: COMPULSORY SECTION**

**(Answer ALL parts of the Question)**

The marketing director of Horizons limited is dissatisfied with the variances reported to him when actual costs are compared with the fixed budget costs for the marketing function. He asks you to prepare flexible budgets for year 7 based on the following information which is stated for an estimated sales level of £10million (unless otherwise stated):

|  |  |
| --- | --- |
| *Fixed costs:*Salaries – Sales representativesSales officeSalary-related costsRentDepreciation of furnitureDepreciation of carsInsuranceAdvertising*Variable costs:*Sales representatives’ commissionSalary-related costs – 12 ½% of commissionSales representatives’ ordinary expensesBad debtsStationery and postageAgency fees | *£’000s*200603210056720250648251005080 |

*Semi-variables costs:*

Telephone rentals £2,000, metered calls £14,000; Sales representatives’ car expenses excluding depreciation: fixed £7,000, variable £48,000

Sales promotions: the budget figures are to be based on the costs given below which relate to the years 2 to 5 with the estimates for year 6. (Ignore Inflation)

|  |  |  |
| --- | --- | --- |
| Year | Costs | Sales |
|  | (£’000) | (£million) |
| \_2 | 384 | 4.2 |
| \_3 | 402 | 5.1 |
| \_4 | 368 | 3.4 |
| \_5 | 450 | 7.5 |
| \_6 | Estimate 478 | Estimate 8.9 |

**REQUIRED:**

1. prepare a flexible budget for sales levels of £9m, £10m, £11.5m and £13.7m. **(21 marks)**
2. calculate the total marketing cost allowance, assuming sales of £10.75m. **(4 marks)**
3. Critically evaluate the role of budgetary systems, processes and control in organisations. **(25 marks)**

**(TOTAL 50 MARKS)**

**PART B: ANSWER TWO QUESTIONS ONLY**

**Each question is worth 25 marks**

**QUESTION 1:**

Shogun Plc manufactures electronic machine components. It is facing increasing competition at home and aboard. You have been asked to focus your attention on their bestseller, the Ninja component.

In your meetings with the different departmental heads, you have obtained the following information:

PRODUCTION

The factory has a production capacity of 1,000,000 units.

Various renovation works are in progress at the factory and consequently, production level is only 40% of capacity. *(Assume all output is sold)*

FINANCIAL

Current costs based on 40% production capacity are:

|  |  |  |
| --- | --- | --- |
|  | Variable Costs | Total Costs |
|  | £ | £ |
| Direct costs | 2,400,00 | - |
| Indirect costs – factory | 80,000 | 400,000 |
| Selling costs  | 160,000 | 340,000 |
| Distribution costs | 120,000 | 200,000 |
| Administrative costs  | - | 1,440,000 |

The company pays a 5.0% commission on sales to its sale team.

MARKETING

Current selling price is £20 per unit.

It is estimated that demand will rise by 12.5% if selling price is reduced by 5.0%.

It is estimated that demand will rise by 20.0% if selling price is reduced by 10.0%.

**REQUIRED**:

The company has asked you to prepare a report on the pricing of this model, relating to the current price and the proposed price reductions of 5% and 10%.

1. Set out suitable calculations and make a reasoned recommendation on the price that should be used to maximise profit. **(20 marks)**
2. Explain briefly other factors to be considered before deciding on the price to set.

**(5 marks)**

**QUESTION 2:**

ABC Ltd. is a medium sized company that produces one product and uses a standard costing system. During April 2017 actual output of product units matched the budgeted target and all wage increases had been allowed for in the standard costs.

Standard costs set:

LABOUR Rate A - £7.00 per hour

Rate B - £10.50 per hour

MATERIALS Grade 1 - £10.00 per kg

Grade 2 - £85.00 per kg

The following data was available from the management accounts for April 2017:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | Budget | Actual | Total Actual |
|  |  |  |  | £ |
| Labour | Rate A | 140 Hours | 120 Hours | 1080 |
|  | Rate B | 700 Hours | 740 Hours | 8880 |
|  |  |  |  |  |
|  |  |  |  |  |
| Materials | Grade 1 | 12.0 Kgs  | 13.0 Kgs | 117 |
|  | Grade 2 |  2.0 Kgs  |  2.2 Kgs | 176 |
| Variable overheads  | Efficiency losses £100 | £ 4300 |  | 4700 |
| Fixed overheads  | Volume gains £240 | £ 9800 |  | 10700 |

**REQUIRED:**

1. Provide an explanation of ‘variance analysis’ and why it is useful. **(5 marks)**
2. Construct a statement showing all the relevant variances from the data for April 2017. Identify possible reasons for the variances together with suggestions as to where responsibility for specific variances might lie within the organisation. Clearly identify those figures which need to be acted upon. **(20 marks)**

 **(Total 25 Marks)**

**QUESTION 3:**

P & B Ltd are considering investing in a new production machine. The following data has been provided from the documents relating to this project:

Cost of machine on 1st January Year 6: £500,000.

Life: Four years to 31st December Year 9.

Estimated scrap value: Nil.

Depreciation method: Straight line.

|  |  |  |
| --- | --- | --- |
| Year | Accounting profit after tax£’000 | Net cash flows£’000 |
| 6 | 100 | 50 *(excluding the initial cost)* |
| 7 | 250 | 200 |
| 8 | 250 | 225 |
| 9 | 200 | 225 |
| 10 | - | 100 |

The company’s required rate of return is 15%.

**REQUIRED:**

1. Calculate the return the machine would make using the following investment appraisal methods:
2. Payback **(3 marks)**
3. Accounting rate of return **(3 marks)**
4. Net present value **(3 marks)**
5. Discounted payback **(3 marks)**
6. Using your calculations from part a), provide a recommendation to P & B Ltd as to whether or not an investment in this machine should be made. **(5 marks)**
7. Provide an evaluation for P & B Ltd of the usefulness of investment appraisal methods used in part a). **(8 marks)**

**(Total 25 Marks)**

|  |  |
| --- | --- |
| Future years | 15% |
| 1 | 0.870 |
| 2 | 0.756 |
| 3 | 0.658 |
| 4 | 0.572 |
| 5 | 0.497 |
| 6 | 0.432 |
| 7 | 0.376 |

(Present value table for £1 at compound interest)

**QUESTION 4:**

**ANSWER EITHER**

1. Analyse the role of strategic management accounting (SMA) used by organisations as a management accounting system.**(25 Marks)**

**OR**

1. Evaluate environmental management accounting and how it can be used by organisations to assist in the management and control of environmental costs.**(25 Marks)**

**(Total 25 Marks)**

**END OF EXAM**