

UNIVERSITY OF BOLTON
WESTERN INTERNATIONAL COLLEGE FZE
ACCOUNTANCY PATHWAY
SEMESTER 2 EXAMINATIONS 2018/19
MANAGEMENT ACCOUNTING FUNDAMENTALS
MODULE NO: ACC4016

Date: Thursday 23rd May 2019

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. Marsh Ltd has three production departments – S, T and V – and a service department known as the Maintenance which works for the production departments in the ratio of 60%, 25% and 15% respectively.

The following costs and relevant data, which represent normal activity levels, have been budgeted for the period ended 31st December 2015.

	S 000's	T 000's	V 000's	Maintenance 000's	Totals 000's
Direct Wages	80	90	50	0	220
Direct Materials	140	130	120	0	390
Indirect Materials	120	125	110	160	515
Depreciation					270
Rates					150
Power					500
Personnel					150
Insurance					200

Relevant Data for the business to be used in overhead apportionments

Direct Labour Hrs	68,000	49,000	15,000	0	132,000
Machine Hours	85,000	40,000	20,000	2,000	147,000
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 Marsh Ltd for the period ended 31st December 2018. **(20 Marks)**
- b) Calculate appropriate overhead absorption rates for departments S, T and V. **(5 Marks)**

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Question 1 continued.

- c) The following data is available for the actual results for department 1 for the period ending 31st December 2018:-

Actual Overheads £500,000

Actual Labour Hours 40,000

Actual Machine Hours 60,000

Calculate the under/over recovery of overheads for department S.

(5 Marks)

- d) Marsh's want to price up a one off job for a prestigious client. Information received from the production manager is as follows:-

Direct Material Incurred for the job £25,000

Direct Labour Incurred for the job £45,000

Overheads allocated

Department 1 20 machine hours

Department 2 25 machine hours

Department 3 40 Labour hours

The company's policy is that all jobs must make a profit margin on sales of 20%.

You are required to calculate the selling price for this one off job based on the information above.

(10 Marks)

(Total 40 Marks)

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2. Entwistle Ltd produces and sells one product only, the garden hose, the standard cost of one unit being as follows :-

Direct Material A - 3 kg @ £15 per kg

Direct Material B – 1.50 kg @ £15 per kg

Direct Wages - 1 hr @ £5 per hr

Budgeted production is 10,000 units

During June 2018 the actual results were as follows :-

Production in Units 10,200

Material A - 25,000 kg costing £420,000

Material B - 20,000 kg costing £240,000

Direct Wages - 15,000 hrs costing £60,000

Required:

- A. Calculate the following variances for June 2018 :-

Direct Materials Price Variances

Direct Materials Usage Variances

Direct Labour Rate Variance

Direct Labour Efficiency Variance

(16 marks)

Question 2 continued over the page

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Question 2 continued

- B. Identify the main reasons why variances provide useful management information. **(5 Marks)**
- C. Comment on the different types of standards a business may use when setting up a standard costing system for management control purposes. **(4 Marks)**

Total 25 Marks

Section B

Answer 1 question from this section

3. The following data has been extracted from the budgets and standard costs of Leicester Ltd, a company which manufactures and sells a single product.

	£ per unit
Selling Price	200.00
Direct Material costs	120.00
Direct Wages cost	20.00
Variable overhead cost	10.00

Fixed production overhead costs are budgeted at £550,000 per annum. Normal production levels are thought to be 440,000 units per annum.

Budgeted selling and distribution costs are as follows :-

Variable	£2.00 per unit sold
Fixed	£100,000 per annum

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Question 3 continued

Budgeted administration costs are £200,000 per annum.

The following patterns of sales and production are expected during the last six months of 2019.

	July – Sept	Oct - Dec
Sales (units)	70,000	90,000
Production (units)	80,000	100,000

There is no opening stock

Required:

Prepare profit statements for each of the two quarters using :-

- A. Marginal Costing
- B. Absorption Costing

(20 Marks)

4. Edwards Ltd has two processes

Material for 24,000 items was put into process A. There was no opening stocks and no process losses. Other relevant information is:-

Transfers to process B	18,000 items
Direct material cost	£72,000
Direct labour cost	£64,000
Overheads	£17,060

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Question 4 continued

The unfinished items were complete as to materials and 60% complete as to conversion costs:

Information for process B is as follows:-

Transfers from process A 18,000 items (at a cost determined above)	
Items	
Completed	16,400 items
Labour Cost	£69,192
Overhead Cost	£30,600

The unfinished items were deemed to be 25% complete as regards conversion costs.

Required:

- A. Prepare the Process A Account
- B. Prepare the process B Account **(20 Marks)**

Section C

Answer 1 question from this section

5. The management team of a business has accused the accountant of using too much technical jargon. Discuss and explain the following terms in a way that a multi-disciplinary team of managers would understand. The terms to be explained are:-

Relevant Costs
Opportunity Costs
Sunk Costs
Responsibility Accounting
Prime Costs

(15 marks)

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6. The problems of the short term bias in accounting measures of financial performance are explained by many writers on management accounting. There is a range of actions that profit-responsible managers can take that would increase short-term profit, as measured, possibly at the expense of long-term profits.

Some commentators assume that managers should be discouraged from taking short term approaches.

Required:

Explain the circumstances in which a short-term approach by a profit centre manager is appropriate, and should be encouraged

Explain the difficulties of taking a longer term approach in a competitive market.

(15 marks)

END OF QUESTIONS