

UNIVERSITY OF BOLTON
INSTITUTE OF MANAGEMENT
BA (Hons) ACCOUNTANCY
SEMESTER 1 EXAMINATION 2021/22
STRATEGIC MANAGEMENT ACCOUNTING
MODULE NO: ACC6005

Date: Friday 14th January 2022

Time: 10:00 – 13:00

INSTRUCTIONS TO CANDIDATES:

There are SIX questions. Answer **FOUR** questions as follows:

Section A - Answer **ANY TWO** questions

Section B – Answer **ANY TWO** questions

All questions carry equal marks.

This is a closed book examination and only the use on silent non-programmable calculators is permitted.

You **MUST** hand in the question paper with your answer booklet.

This examination accounts for 70% of marks for the module.

Candidates are advised that the examiners attach importance to legibility of writing and clarity of expression

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SECTION A – Answer ANY TWO questions

Question 1

Wigan Co manufactures three products, X, Y and Z. For many years, the company has been using full absorption costing and absorbing overheads on the basis of direct labour hours. Selling prices are then determined using cost plus pricing.

Budgeted production and sales volumes for X, Y and Z for the next year are 20,000 units, 16,000 units and 22,000 units respectively.

The budgeted direct costs of the three products are shown below:

Product	X	Y	Z
	£ per unit	£ per unit	£ per unit
Direct Materials	25	28	22
Direct Labour (£12 per hour)	30	36	24

In the next year, Wigan Co also expects to incur indirect production costs of £1,377,400, which are analysed as follows:

Cost pools	£	Cost drivers
Machine set up costs	280,000	Number of batches
Material ordering costs	316,000	Number of purchase orders
Machine running costs	420,000	Number of machine hours
General facility costs	361,400	Number of machine hours

	1,377,400	

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Section A Question 1 continued....

The following additional data relate to each product:

Product	X	Y	Z
Batch size (units)	500	800	400
No. of purchase orders per batch	4	5	4
Machine hours per unit	1.5	1.25	1.4

The finance director has suggested using activity based costing (ABC) instead of full absorption costing, since this will alter the cost of the products and may therefore enable a different price to be charged.

Required:

- a. **Calculate the budgeted full production cost per unit of each product using Wigan Co's current method of absorption costing.** (All workings should be to two decimal places).
 (4 marks)
- b. **Calculate the budgeted full production cost per unit of each product using activity based costing.** (All workings should be to two decimal places).
 (14 marks)
- c. **Discuss the impact on the EACH product which a change to activity based costing would be expected to bring about.**
 (7 marks)

(Total 25 marks)

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Section A continued....

Question 2

Bedding Co manufactures bed sheets and pillowcases which it supplies to a major hotel chain. It uses a just-in-time system and holds no inventories.

The standard cost for the cotton which is used to make the bed sheets and pillowcases is £5 per m². Each bed sheet uses 2 m² of cotton and each pillowcase uses 0.5 m². Production levels for bed sheets and pillowcases for November were as follows:

	Budgeted levels (Units)	Production level (Units)
Bed sheets	120,000	120,000
Pillowcases	190,000	180,000

The actual cost of the cotton in November was £5.80 per m². 248,000 m² of cotton was used to make the bed sheets and 95,000 m² was used to make the pillowcases.

The world commodity prices for cotton increased by 20% in the month of November. At the beginning of the month, the hotel chain made an unexpected request for an immediate design change to the pillowcases. The new design required 10% more cotton than previously. It also resulted in production delays and therefore a shortfall in production of 10,000 pillowcases in total that month.

The production manager at Bedco is responsible for all buying and any production issues which occur, although he is not responsible for the setting of standard costs.

Required:

- a) Calculate the following variances for the month of November, for both bed sheets and pillow cases, and in total:
 - i. Material price planning variance; (5 marks)
 - ii. Material price operational variance; (5 marks)
 - iii. Material usage planning variance; (5 marks)
 - iv. Material usage operational variance. (5 marks)
- b) Assess the performance of the production manager for the month of November. (5 marks)

(Total 25 marks)

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Section A continued....

Question 3

Tecom is a company specialising in the provision of telephone systems for commercial clients. There are two parts to the business:

- installing telephone systems in businesses, either first time installations or replacement installations;
- supporting the telephone systems with annually renewable maintenance contracts.

Tecom has been approached by a potential customer, Ring Co, who wants to install a telephone system in new offices it is opening. Whilst the job is not a particularly large one, Tecom is hopeful of future business in the form of replacement systems and support contracts for Ring Co. Tecom is therefore keen to quote a competitive price for the job. The following information should be considered:

1. One of the company's salesmen has already been to visit Ring Co, to give them a demonstration of the new system, together with a complimentary lunch, the costs of which totalled £400.
2. The installation is expected to take one week to complete and would require three engineers, each of whom is paid a monthly salary of £4,000. The engineers have just had their annually renewable contract renewed with Tecom. One of the three engineers has spare capacity to complete the work, but the other two would have to be moved from contract X in order to complete this one. Contract X generates a contribution of £5 per engineer hour. There are no other engineers available to continue with Contract X if these two engineers are taken off the job. It would mean that Tecom would miss its contractual completion deadline on Contract X by one week. As a result, Tecom would have to pay a one-off penalty of £500. Since there is no other work scheduled for their engineers in one week's time, it will not be a problem for them to complete Contract X at this point.
3. Tecom's technical advisor would also need to dedicate eight hours of his time to the job. He is working at full capacity, so he would have to work overtime in order to do this. He is paid an hourly rate of £40 and is paid for all overtime at a premium of 50% above his usual hourly rate.
4. Two visits would need to be made by the site inspector to approve the completed work. He is an independent contractor who is not employed by Tecom, and charges Ring Co directly for the work. His cost is £200 for each visit made.

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Section A Question 3 continued....

5. Tecom's system trainer would need to spend one day at Ring Co delivering training. He is paid a monthly salary of £1,500 but also receives commission of £125 for each day spent delivering training at a client's site.
6. 120 telephone handsets would need to be supplied to Ring Co. The current cost of these is £18.20 each, although Tecom already has 80 handsets in inventory. These were bought at a price of £16.80 each. The handsets are the most popular model on the market and frequently requested by Tecom's customers.
7. Ring Co would also need a computerised control system called 'Swipe 2'. The current market price of Swipe 2 is £10,800, although Tecom has an older version of the system, 'Swipe 1', in inventory, which could be modified at a cost of £4,600. Tecom paid £5,400 for Swipe 1 when it ordered it in error two months ago and has no other use for it. The current market price of Swipe 1 is £5,450, although if Tecom tried to sell the one they have, it would be deemed to be 'used' and therefore only worth £3,000.
8. 1,000 metres of cable would be required to wire up the system. The cable is used frequently by Tecom and it has 200 metres in inventory, which cost £1.20 per metre. The current market price for the cable is £1.30 per metre.
9. You should assume that there are four weeks in each month and that the standard working week is 40 hours long.

Required:

- a) **Prepare a cost statement, using relevant costing principles, showing the minimum cost that Tecom should charge for the contract. Explain why each of the costs above has been included or excluded from your cost statement.**

(17 marks)

- b) **Discuss the relevant costing principles used in part (a) and explain the implications of the minimum price that has been calculated in relation to the final price agreed with Ring Co.**

(8 marks)

(Total 25 marks)

END OF SECTION A

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SECTION B – Answer ANY TWO questions

Question 4

- a) Differentiate between strategic and operational planning. (5 marks)
- b) Identify the information needs of strategic management. (12 marks)
- c) Evaluate the importance of linking strategic to operational planning. (8 marks)
- (Total marks 25)

Question 5

- a) Using appropriate models such as SWOT , PESTEL and Porters Five Forces critically evaluate how a business might want to review Its current strategic position from both an internal and external perspective. (15 marks)
- b) Critically evaluate the importance of Risk Management and Identify a minimum of four techniques that a business can adopt to minimise risk. (10 marks)
- (Total marks 25)

Question 6

- a) Discuss the main reasons for the adoption of a Transfer Pricing System. (12 marks)
- b) Critically evaluate the use of the following:
- i. Market based transfer prices, and
 - ii. Cost based transfer prices.
- (13 marks)
- (Total marks 25)

END OF SECTION B

END OF PAPER