

UNIVERSITY OF BOLTON

GREATER MANCHESTER BUSINESS SCHOOL

BA(HONS) ACCOUNTANCY

SEMESTER 2 RESIT EXAMINATIONS 2022/2023

STRATEGIC MANAGEMENT ACCOUNTING

MODULE NO: ACC6005

Date: Wednesday 19 July 2023

Time: 10am – 1pm

INSTRUCTIONS TO CANDIDATES:

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

Answer **FOUR** questions as follows:

TWO questions in Section A
TWO questions in Section B

This is a closed book examination.

You must hand in this exam paper with your answer booklet.

Use of calculators is allowed.

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SECTION A – ANSWER 2 QUESTIONS ONLY FROM THIS SECTION

Question 1:

The Gadget Co produces three products, A, B and C, all made from the same material. Until now, it has used traditional absorption costing to allocate overheads to its products. The company is now considering an activity-based costing system in the hope that it will improve profitability. Information for the three products for the last year is as follows:

	A	B	C
Production and sales volumes (units)	15,000	12,000	18,000
Selling price per unit	£7.50	£12	£13
Raw material usage (kg) per unit	2	3	4
Direct labour hours per unit	0.1	0.15	0.2
Machine hours per unit	0.5	0.7	0.9
Number of production runs per annum	16	12	8
Number of purchase orders per annum	24	28	42
Number of deliveries to retailers per annum	48	30	62

The price for raw materials remained constant throughout the year at £1.20 per kg. Similarly, the direct labour cost for the whole workforce was £14.80 per hour. The annual overhead costs were as follows:

	£
Machine set up costs	26,550
Machine running costs	66,400
Procurement costs	48,000
Delivery costs	54,320

Required:

- a) Calculate the full cost per unit for products A, B and C under traditional absorption costing, using direct labour hours as the basis for apportionment.

(5 marks)

- b) Calculate the full cost per unit of each product using activity-based costing.

(9 marks)

Question 1 continued over...

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Question 1 continued...

- c) (c) Using your calculation from (a) and (b) above, explain how activity-based costing may help The Gadget Co improve the profitability of each product.

(6 marks)

- d) Critically evaluate the use of Absorption Costing and ABC when giving advice to managers in a business about product costing and the allocation of overheads.

(5 Marks)

(Total: 25 marks)

Question 2

Glove Co makes high quality, hand-made gloves which it sells for an average of £180 per pair. The standard cost of labour for each pair is £42 and the standard labour time for each pair is three hours. In the last quarter, Glove Co had budgeted production of 12,000 pairs, although actual production was 12,600 pairs in order to meet demand. 37,000 hours were used to complete the work and there was no idle time. The total labour cost for the quarter was £531,930.

At the beginning of the last quarter, the design of the gloves was changed slightly. The new design required workers to sew the company's logo on to the back of every glove made and the estimated time to do this was 15 minutes for each pair. However, no-one told the accountant responsible for updating standard costs that the standard time per pair of gloves needed to be changed. Similarly, although all workers were given a 2% pay rise at the beginning of the last quarter, the accountant was not told about this either. Consequently, the standard was not updated to reflect these changes.

When overtime is required, workers are paid 25% more than their usual hourly rate.

**Question 2 continued over...
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Question 2 continued...

Required:

- (a) Calculate the total labour rate and total labour efficiency variances for the last quarter. (2 marks)
- (b) Analyse the above total variances into component parts for planning and operational variances in as much detail as the information allows. (6 marks)
- (c) Assess the performance of the production manager for the last quarter. (7 marks)
- (d) Critically evaluate the use of standard costing in the modern-day manufacturing business (10 marks)
- (Total: 25 marks)

Question 3

Electric Ltd has two divisions, UK division and French division.

UK division produces three products, A, B and C. The products are sold to overseas specialist producers as well as to French division at the same prices. French division uses products A, B and C in the manufacture of products X, Y and Z respectively.

Recently French division has been forced to work below capacity because of difficulties in obtaining sufficient supplies of products A, B and C. Consequently, UK division has been instructed by the board of directors to sell all its products to French division.

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Question 3 Continued...

The price and cost data are as follows:

UK division

<i>Product</i>	A	B	C
	£	£	£
Transfer price	20	20	30
Variable manufacturing cost per unit	7	12	10
Fixed costs	50,000	100,000	75,000

The UK division has a maximum monthly capacity of 50,000 units. The processing constraints are such that capacity production can only be maintained by producing 10,000 units of each product. The remaining capacity can be used to produce 20,000 units of any combination of the three products.

French division

<i>Product</i>	X	Y	Z
Final selling price			
Variable cost per unit:	£56	£60	£60
Internal purchases	20	20	30
Processing in Secondary division	10	10	16
Fixed costs	100,000	100,000	200,000

The French division has sufficient capacity to produce up to 20,000 units more than it is now producing, but, because of the lack of products A, B and C, is limiting production. Further the French division is able to sell all the products that it can produce at the final selling prices.

Required:

- (a) **From the viewpoint of the UK division, determine the production mix that would maximise its divisional profits and calculate the total company profit, given that all UK's production is transferred internally.** (5 marks)

**Question 3 continued over...
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Question 3 Continued...

- (b) From the viewpoint of the French division, determine the products and quantities purchased from the UK division that would maximise its divisional profits and indicate the effect on total company profits.
(5 marks)
- (c) Determine the product mix that would maximise the total company profits assuming all transfers were internal.
(5 marks)
- (d) If there were no transaction costs involved for either division in buying or selling A, B, or C outside the company, what if anything, is lost by the policy of internal transfers only?
(5 marks)
- (e) Evaluate the effectiveness or otherwise of the transfer pricing system currently used at Electric Ltd.
(5 marks)

(Total: 25 Marks)

End of Section A
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SECTION B – ANSWER 2 QUESTIONS ONLY FROM THIS SECTION

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: 25 Marks)

Question 5

(a) Discuss the use of the “Balanced Score Card” and evaluate its strengths and weaknesses.

(13 marks)

(b) For each of the balanced scorecard perspectives identify a critical success factor (CSF) and give examples of one key performance indicator (KPI) for each. Clearly state how you would calculate the KPI and justify its selection.

(12 marks)

(Total: 25 Marks)

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Question 6

(a) Using appropriate models such as SWOT, PESTEL and Porter's Five Forces, critically evaluate how a business might want to review its current strategic position from both an internal and external perspective.

(12 Marks)

(b) Critique Johnston, Scholes and Whittingham's model of reviewing a new proposed strategy for internal decision makers within a business

(13 Marks)

(Total: 25 Marks)

End of Exam