

**UNIVERSITY OF BOLTON**  
**INSTITUTE OF MANAGEMENT**  
**ACCOUNTANCY PROGRAMME**  
**SEMESTER 1 EXAMINATION 2018/19**  
**STRATEGIC MANAGEMENT ACCOUNTING**  
**MODULE NO: ACC 6005**

Date: Friday 18<sup>th</sup> January 2019

Time: 10.00 – 1.00

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**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.

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**

### **Question A1**

Booths 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 100 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 based on their study:

### **Cost Estimate**

<b>Direct Material and Components</b>	<b>£</b>
2,200 units of X at £25 per unit	55,000
240 units of Y at £10 per unit	2,400
Other material & components to be bought in	<u>13,000</u>
	<b>70,400</b>
<b>Direct Labour</b>	
720 hours of skilled labour at £7.00 per hour	5,040
1,400 hours of unskilled labour at £4.50 per hour	6,300
<b>Overhead</b>	
Department P – 200 hours at £24 per hour	4,800
Department Q – 410 hours at £20 per hour	8,200
<b>Estimating Department</b>	
100 hours at £6 per hour	600
Travelling expenses	600
<b>Planning Department</b>	
300 hours at £6 per hour	<u>1,800</u>
	<b><u>97,740</u></b>

**Question 1A continued over the page**

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**Question A1 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 £28 per unit but the current replacement cost is £22 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 £12 per unit. Y currently costs £25 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 skilled workers earning £7.50 per hour will do the majority of the work.

**Overhead** – 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.

**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>

**Question 1A continued over the page**

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**Question A1 Continued**

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) Evaluate the relevance of the opportunity cost approach to the situation described in the question and consider 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)

**Total 25 Marks**

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**Question A2.**

You are a management accountant employed by Maxwell Limited and you report to Philip Crompton the Managing Director.

As part of your role you are responsible for preparing the company's budgets.

Maxwell Ltd has one customer Selective Industries for whom it makes a product "Britax". Selective Industries insists that there is a minimum closing stock of "Britax" to minimise risk. There is never any work in progress.

Both companies divide the year into four – week periods each of five days of eight hours.

The requirements of "Britax" by Selective for the five periods ending 25 May 2017 are detailed as follows:

Forecast Demand for "Britax"

4 Weeks End.	2 Feb.	2 March	30 March	27 April	25 May
Period	1	2	3	4	5
Number Req'd	5,700	5,700	6,840	6,460	6,080

Closing Stocks are equal to 3 days of the next periods demand for "Britax"

The Production Director has supplied the following information:

- Opening Stock for period 1 is 1,330 "Britax".
- Each "Britax" requires 6 litres of material.
- Roxy plc supplies the material under a contract at £ 8.00 per litre.
- Roxy plc only has capacity to make a maximum of 34,000 litres in a 4-week period. Maxwell normally purchases in the same 4-week period it is used.
- If Maxwell requires more than 34,000, Roxy plc would supply additional material in the preceding period, providing it had the capacity.
- There are alternative sources at £ 12.00 per litre.

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**Question 2A Continued**

- Before using the alternative source, Maxwell should try to buy material from Roxy plc in the preceding period if possible.
- 78 production employees are paid a guaranteed basic wage of £ 160 per 40-hour week.
- Each “Britax” should take 2 labour hours to make but due to technical difficulties the workforce is only able to operate at 95 % efficiency in periods 1 to 4.
- Any overtime incurred is payable at a rate of £6.00 per hour.

**Required:**

Philip Crompton has asked you to prepare the following budgets for the periods 1 to 4.

- (a) The production budget in “Britax” using the stock levels in the data. (5 marks)
- (b) The material purchases budget in litres. (5 marks)
- (c) The cost of the material purchases. (5 marks)
- (d) The labour budget in hours including any overtime hours. (5 marks)
- (e) The cost of the labour budget including the cost of any overtime (5 marks)

**(Total 25 marks)**

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**Question A3.**

Carton Ltd has two divisions, Primary division and Secondary division.

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

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

The price and cost data is as follows:

**Primary division**

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

The Primary 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.

**Question A3 Continued over the page**

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**Question A3 Continued**

**Secondary division**

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

The Secondary 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 Secondary division is able to sell all the products that it can produce at the final selling prices.

**Required:**

- (a) From the viewpoint of the Primary division, determine the production mix that would maximise its divisional profits and calculate the total company profit, given that all Primary's production is transferred internally. (5 marks)
- (b) From the viewpoint of the Secondary division, determine the products and quantities purchased from the Primary 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 Carton Ltd. (5 marks)

**(Total 25 Marks)**

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**SECTION B.**

**Question B4.**

- (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 25 Marks)**

**QUESTION B5.**

- (a) Critically evaluate the use of the “Balanced Score Card” and give examples of its use in the business environment. (13 marks)
- (b) Using a business of your choice as an example, identify one corporate goal for each of the 4 perspectives and give examples of one performance indicator for each performance goal. Give reasons justifying your selection of each performance indicator. (12 marks)

**(Total 25 Marks)**

**QUESTION B6.**

Total Quality Management 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 Total Quality Management approach. (15 marks)
- (b) Critically evaluate how Kotter’s approach to Change Management could support business in seeking continuous quality improvement. (10 marks)

**(Total 25 Marks)**

**END OF PAPER**