

UNIVERSITY OF BOLTON

OFF CAMPUS DIVISION

BOTSWANA - IDM

BA (HONS) ACCOUNTANCY

SEMESTER 2 EXAMINATION 2018/2019

**MANAGEMENT ACCOUNTING AND DECISION
MAKING**

MODULE NO: ACC5002

Date: 3 March 2019

Time: 3hrs

INSTRUCTIONS TO CANDIDATES: examination

questions

There are FIVE questions in this

Section A - Answer ALL THREE

Section B – Answer - ONE question

This is a closed book examination.

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

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Section A Section A - Answer ALL THREE questions

Question 1

Premier clothing makes three products. These are the coat, the trousers and the skirt. These are made using the same fabric and workforce. The company policy is to make a minimum of 1000 coats for any period. There are 190000 metres of the fabric and 9600 labour hours available.

Further information

	Coat	Trousers	Skirts
Demand (units)	4000	6000	6000
Selling Price (£)	25	20	15
Direct			
Material(meters)	14	12	10
Direct Labour (hrs)	1.2	0.8	0.4
Variable			
overheads(£)	3	3	3

Fixed costs for the period are £25000

Required

- a. Calculate the maximum profit that can be made by premier clothing.
 [25 MARKS]

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PAST EXAMINATION PAPER

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Question 2

Company A records the following estimates for its envisaged project in Botswana:-

- An immediate cost of £2 100 000
- Sales are to be £1 550 000 per annum for years 1-3 falling to £650 000 for the two years remaining in the life of the project.
- Cost of sales is 40% of sales
- Distribution costs are 10% of sales
- 20% of net profits are payable to joint venture partner the year after profits are earned
- Cost of capital is 5%

a. Define investment appraisal? [2 marks]

You are required to calculate:

- b. Payback period [3 marks]
- c. Accounting Rate of Return [4 marks]
- d. Net present value [8 marks]
- e. Internal rate of return [8 marks]

[25 MARKS]

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Question 3

Oros Ltd produces and sells one product. The standard cost card is as follows:-

	Quantity	Cost/ hr or kg	Total
Selling price/unit			300
Direct material P	10	12	120
Direct material Q	6	5	30
Direct labour	5	8	40
Fixed production overheads			60

The fixed overhead included in the standard cost is based on a budgeted monthly production of 750 units. Oros uses an absorption costing system.

The actual information was recorded as follows:-

700 units were sold at a price of three hundred and twenty pounds each, 7500kg of material P was bought for 91500 pounds, 3500kg of material Q was purchased for 20300 pounds, 3400 labour hours were worked and the total pay was 27880 pounds and the total fixed production overheads were 37000 pounds.

Required:-

- a. Define standard costing? [2 marks]

- b. Describe the implications of the following standards on human behaviour
 - Basic standards [1 mark]
 - Ideal standards [1 mark]
 - Attainable standards [1 mark]

**Question 3 continues over the page
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Question 3 continued...

c. CALCULATE the following variances

- | | |
|--|-----------|
| I. Sales price variance | [2 marks] |
| II. Sales volume variance | [2 marks] |
| III. Material price variance | [2 marks] |
| IV. Material usage variance | [2 marks] |
| V. Labour rate variance | [2 marks] |
| VI. Labour efficiency variance | [2 marks] |
| VII. Fixed overhead expenditure variance | [2 marks] |
| VIII. Fixed overhead volume variance | [2 marks] |

Reconcile the budgeted profit with actual profit for the period using the above variances. [4 marks]

[25 marks]

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Section B Answer ONE question

Question 4

O3 is a company manufacturing bottled water. Their books of accounts are not properly maintained as a person with a background of marketing is currently the accountant.

The company does not set targets for the period and focuses on fulfilling customer orders. Employees are disgruntled as they complain of not being paid a bonus even after working extra hard for the just ended period.

Managers of other departments have also been skeptical to invest in assets and other necessary expenditure such as maintenance of machinery as they do not know the limits of expenditure; they have asked on several occasions about their budgetary limits but have not been given any concrete response. They therefore feel they cannot be held accountable for the company's expenditure.

Required:-

- a) **What is budgeting** [2 marks]
b) **Describe five ways in which budgeting can help O3 to resolve its issues.** [10 marks]

The accountant who has a background of marketing has heads about budgeting and the different methods of budgeting including incremental budgeting and zero based budgeting.

- c) **Justify the method of budgeting the company should use.** [6 marks]
d) **The company's accountant is confused as to whether they should use the top down approach to budgeting or the bottom up approach. Discuss the pros and cons of each approach.** [4 marks]
e) **Differentiate a rolling budget from a static budget for the accountant.** [3 marks]

[TOTAL MARKS 25]

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Question 5

A product has the following standard cost card

	Quantity	Cost/kg or hour	Total
Selling price per unit			£50
Material	2kg	£5	£10
Labour	1.5hrs	£4	£6
Overheads	2hrs	£5	£10
Total standard cost			£26

The company budgeted to sell 15000 units and actually sold 17500 units

Required:-

- a. **Define contribution.** [2 marks]
- b. **Calculate the break-even point in units** [2 marks]
- c. **Calculate the break-even point in revenue.** [2 marks]
- d. **Calculate the Contribution to sales ratio** [2 marks]
- e. **Calculate the margin of safety in:-**
 - I. **Units** [2 marks]
 - II. **Revenue** [2 marks]
 - III. **Percentage** [2 marks]
- f. **Show much revenue should the company generate to make a profit of £27500?** [3 marks]
- g. **Explain 4 limitations of using breakeven point in decision making?** [8marks]

[25 marks]

End of Questions