
Management Accounting

2nd Year Examination

August 2011

Paper, Solutions & Examiner's Report



NOTES TO USERS ABOUT THESE SOLUTIONS

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This publication is intended to serve as an educational aid. For this reason, the published solutions will often be significantly longer than would be expected of a candidate in an examination. This will be particularly the case where discursive answers are involved.

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Accounting Technicians Ireland
2nd Year Examination: Autumn 2011
Paper : MANAGEMENT ACCOUNTING

Thursday 18th August - 2.30 p.m. to 5.30 p.m.

INSTRUCTIONS TO CANDIDATES

In this examination paper the €/£ symbol may be understood and used by candidates in Northern Ireland to indicate the UK pound sterling and by candidates in the Republic of Ireland to indicate the Euro.

Answer FIVE questions.

Answer all three questions in Section A. Answer any two of the three questions in Section B.

If more than the required number of questions is answered, then only the requisite number, in the order filed, will be corrected.

Candidates should allocate their time carefully.

All figures should be labelled, as appropriate, e.g. €/£'s, units etc.

Answers should be illustrated with examples, where appropriate.

Question 1 begins on Page 2 overleaf.

Note:

Examinees are permitted to use terminology of either International Accounting Standards (I.A.S's) or Financial Reporting Standards (F.R.S's) where appropriate (e.g. Receivables/Debtors) when preparing management accounting statements.

SECTION A
ANSWER ALL THREE QUESTIONS

QUESTION 1 (*Compulsory*)

Elichenim Ltd use a standard costing system and has provided the following production and sales information for the month of June 2011:

	Budget/Standard	Actual
<u>Unit Cost data</u>		
Materials	25 kg per unit	26kg per unit
Materials price	€/£1.00 per kg	€/£1.10 per kg
Labour hours	5 hrs per unit	4.5 hrs per unit
Labour rate	€/£13.50 per hr	€/£14.75 per hr
<u>Monthly performance information</u>		
Sales – units	10,000	9,000
Sales price	€/£100	€/£104
Materials cost	€/£250,000	€/£257,400
Labour cost	€/£675,000	€/£597,375
Variable overheads	€/£10,000	€/£9,250
Fixed overheads	€/£25,000	€/£23,240
Direct labour hours	50,000	40,500

Requirement:-

(a) Prepare a statement showing the budgeted and actual profit for the month of June.

2 Marks

(b) Calculate a budgeted variable overhead absorption rate per direct labour hour.

2 Marks

(c) Calculate each of the following variances:

- (i) Sales price variance.
- (ii) Sales volume variance.
- (iii) Materials price variance.
- (iv) Materials usage variance.
- (v) Labour rate variance.
- (vi) Labour efficiency variance.
- (vii) Variable overhead expenditure variance.
- (viii) Variable overhead efficiency variance.
- (ix) Fixed overhead expenditure variance.

12 Marks

(d) Prepare a variance reconciliation of budget and actual profits.

4 Marks
Total 20 Marks

QUESTION 2 (Compulsory)

LUD Ltd presently uses a traditional pre-determined overhead absorption rate for allocating production overhead to its products based on direct labour hours. Total production overhead cost is €/ \pounds 1,225,000 and it has been determined that four major activities contribute towards this cost as follows:

	€/ \pounds
Set Up	428,750
Stores	367,500
Production Control	245,000
Quality Control	<u>183,750</u>
Total	<u>1,225,000</u>

The company is investigating the use of activity based costing and has ascertained the following production information in relation to its range of products:

	Product A	Product B	Product C	Total
No. of units produced	2,000	50,000	10,000	62,000
Direct Labour Hours used	10,000	140,000	25,000	175,000
No. of Set Ups	40	5	80	125
Inspections	40	-	35	75
Production Orders	50	25	50	125
Stock requisitions	400	30	320	750

Requirement:-

- (a) Prepare a schedule showing the production overhead charged to Products A, B and C per unit using the pre-determined overhead absorption rate used by LUD Ltd, based on traditional costing methods.

5 Marks

- (b) Identify cost drivers, calculate activity based overhead absorption rates for LUD Ltd, and show the revised production overhead charged to products A,B and C per unit.

8 Marks

- (c) Briefly explain which set of calculations is most accurate.

3 Marks

- (d) LUD Ltd has received a special order for a batch of 2,000 modified units of Product C. In addition to normal production overheads, it is anticipated that this job will require materials estimated at €/ \pounds 2,400 (requiring 3 stock requisitions) and 500 hours of labour at €/ \pounds 11.75 per hour. Calculate the prime cost per unit of the special order, using the activity based cost information.

4 Marks**Total 20 Marks**

QUESTION 3 (Compulsory)

Arcot Ltd has been approached by a customer wishing to commission a special job that would require the following materials

	Stock 101	Stock 201	Stock 301	Stock 401
Kg required	200	1,000	1,000	1,000
Kg in stock	200	600	750	-
Carrying stock value (per kg)	€/£40.00	€/£20.00	€/£30.00	-
Realisable value (per kg)	€/£25.00	-	€/£25.00	-
Current market price (per kg)	€/£60.00	€/£50.00	€/£40.00	€/£60.00

The stores manager has provided the following additional information:

- Stock 101 is no longer used in normal production, but an opportunity has recently been identified where this material could be used in another job as a substitute for Stock 51 (which currently costs the company €/£40.00 per kg).
- Stock 201 is used on other production lines and any stock allocated to this job will have to be replaced to meet demand.
- Stock 301 is now obsolete and no alternative use is envisaged.

It is estimated that 1,200 hours of direct labour will be required for the job (costing €/£12.50 per hour) and production overhead is normally charged at 50% of direct labour. A mark-up of 50% on cost is normally applied in preparing sales prices.

Requirement:-

(a) Calculate the relevant costs of materials for this special commission order, providing supporting explanation.

10 Marks

(b) Using the relevant materials cost, calculate the total job cost and normal sales price for this job.

6 Marks

(c) The customer is offering a price of €/£225,000 - advise Arcot Ltd on whether or not they should accept, briefly outlining any other factors for consideration.

4 Marks**Total 20 Marks**

QUESTION 5

The owner of your company has recently attended a training course that introduced him to some management accounting terminology. As a follow up, he has asked you to prepare a note explaining and giving examples of the following terms, which he feels are relevant:

- Equivalent units.
- By products.
- Incentive schemes.
- Step costs.
- Project planning.

Total 20 marks**QUESTION 6**

Resol Ltd commenced trading on 1 April 2011 making the product Resol. The standard cost sheet for Resol is as follows: -

	€	
	/£	
Direct Materials	8.00	
Direct Labour	5.00	
Variable Production Overhead	2.00	
Fixed Production Overhead	5.00	
Total Standard Cost	20.00	
Sales price		35.00

The fixed production overhead figure has been calculated on the basis of a budgeted normal output of 24,000 units per annum. Fixed Sales and Administration costs are estimated at €/£24,000 per annum. You may assume that all budgeted fixed expenses are incurred evenly over the year.

The sales price is €/£35.00 and the actual number of units produced and sold was as follows: -

	April	May
Production – units	2,000	2,500
Sales – units	1,500	3,000

Requirement:-

- a) Prepare a profit statement for each of the months April and May using:
- (i) marginal costing.
 - (ii) absorption costing.

12 Marks

- b) Outline the advantages and disadvantages of a standard costing system.

8 Marks**Total 20 Marks**

2nd Year Examination: August 2011

Management Accounting

Suggested Solutions

Students please note: These are suggested solutions only; alternative answers may also be deemed to be correct and will be marked on their own merits.

Suggested Solution 1 Elichenim Ltd

(a) Statement of Profit

	Budget		Actual	
	£/€	£/€	£/€	£/€
Sales		1,000,000		936,000
Materials	250,000		257,400	
Labour	675,000		597,375	
Variable Overhead	10,000	935,000	9,250	864,025
Gross Profit		65,000		71,975
Fixed Overhead		25,000		23,240
Net Profit		40,000		48,735

Standard contribution/profit per unit $65,000/10,000 = £6.5$

(b) Variable overhead absorption rate

Budgeted standard labour hours (5 x 10000) 50,000

Variable overhead €/ $£10,000$

Standard variable overhead rate per hour €/ $£0.20$

Standard variable overhead rate per unit €/ $£1.00$

(c)

(i) Sales Price Variance

(Actual Sales Quantity x Actual Price) – (Actual Sales Quantity x Standard Price)

(9,000 x 104.00)	-	(9,000 x 100.00)	
936,000	-	900,000	= £/€36,000 fav

(ii) Sales Volume Variance

(Actual Sales Quantity x Standard profit per unit) – (Standard Sales Quantity x Standard profit per unit)

(9,000 x 6.50)	-	(10,000 x 6.50)	
58,500	-	65,000	= £/€6,500 adv

(iii) Material price variance

(Actual quantity of inputs x Actual price) – (Actual quantity of inputs x Standard Price)

(9000 x 26 x 1.10)	-	(9000 x 26 x 1.00)	
257,400	-	234,000	= £/€23,400 adv

Suggested Solution 1 (Cont'd)**(iv) Materials usage variance**

$$\begin{aligned} & (\text{Actual quantity of inputs} \times \text{Standard price}) - (\text{Flexed quantity} \times \text{Standard price}) \\ & (9000 \times 26 \times 1.00) - (9000 \times 25 \times 1.00) \\ & 234,000 - 225,000 = \text{£/€9000 adv} \end{aligned}$$

(v) Labour rate variance

$$\begin{aligned} & (\text{Actual Hours of input} \times \text{Actual Rate}) - (\text{Actual Hours of input} \times \text{Standard rate}) \\ & (4.5 \times 9000 \times 14.75) - (4.5 \times 9,000 \times 13.50) \\ & 597,375 - 546,750 = \text{£/€50,625 adv} \end{aligned}$$

(vi) Labour efficiency variance

$$\begin{aligned} & (\text{Actual Hours of input} \times \text{Standard rate}) - (\text{Standard hours required for actual output} \times \text{Standard rate}) \\ & (4.5 \times 9000 \times 13.50) - (9000 \times 5 \times 13.50) \\ & 546,750 - 607,500 = \text{£/€60,750 fav} \end{aligned}$$

(vii) Variable overhead expenditure

$$\begin{aligned} & (\text{Actual variable overhead expenditure}) - (\text{Actual hours} \times \text{Variable overhead absorption rate}) \\ & 9,250 - (4.5 \times 9,000 \times 0.20) = \text{£/€1,150 adv} \end{aligned}$$

(viii) Variable overhead efficiency variance

$$\begin{aligned} & (\text{Actual Hours of input} \times \text{variable overhead absorption rate}) - (\text{Standard hours required for actual output} \times \text{variable overhead absorption rate}) \\ & (4.5 \times 9000 \times 0.20) - (9000 \times 5 \times 0.20) \\ & 8,100 - 9,000 = \text{£/€900 fav} \end{aligned}$$

(ix) Fixed overhead expenditure

$$\begin{aligned} & \text{Actual fixed overhead expenditure} - \text{Budgeted fixed overhead expenditure} \\ & 25,000 - 23,240 = \text{£/€1,760 fav} \end{aligned}$$

(d) Statement of Variance Reconciliation of Budget and Actual profit

	Adverse €/£	Favourable €/£	€/£
Budgeted Profit			40,000
Sales Price Variance		36000	
Sales Volume Variance	6500		
Material price variance	23400		
Materials usage variance	9000		
Labour rate variance	50625		
Labour efficiency variance		60750	
Variable overhead expenditure	1150		
Variable overhead efficiency variance		900	
Fixed overhead expenditure		1760	
	90,675	99,410	+8735
Actual Profit			48,735

Suggested Solution 2

(a)

	Product A	Product B	Product C
No of Direct labour Hours	10,000	140,000	25,000
Production Overhead allocated (x €/£7)	€/£70,000	€/£980,000	€/£175,000
No of units produced	2,000	50,000	10,000
Overhead cost per unit	€/£35.00	€/£19.60	€/£17.50

Pre-determined overhead absorption rate – based on direct labour hours
 $\frac{1,225,000}{175,000} = \text{€/£7 per direct labour hour}$

(b)

COST CENTRES	Set Up	Production Control	Quality Control	Stores
Production Overhead	€/£428,750	€/£245,000	€/£183,750	€/£367,500
Cost Driver	125	125	75	750
Activity Based Overhead rate	€/£3430	€/£1960	€/£2450	€/£490

	Product A €/£	Product B €/£	Product C €/£
Set Up	137,200	17150	274,400
Production Control	98,000	49,000	98,000
Quality Control	98,000	-	85,750
Stores	196,000	14,700	156,800
TOTAL	529,200	80850	614,950
No of units produced	2,000	50,000	10,000
Overhead cost per unit	264.60	1.617	61.50

(c) Activity based costing, which is represented by the second set of figures calculated at part (b), is generally regarded as being more accurate. The traditional pre-determined overhead rate based on direct labour is a general calculation which does not consider the activities which actually drive costs. The further information provided allows a more detailed calculation of actual costs attributable which provides better information for decision making.

This is clearly illustrated by the overhead costs allocated to product B. High volumes of Product B are produced in large batches – hence it requires less support in terms of set up, quality control and stores. Under traditional overhead costing – it is apportioned a significant overhead cost of €/£980,000 or €/£19.60 per unit – which does not reflect the true value of costs it uses. Activity based costing allocates €/£80,850 overheads representing €/£1.617 per unit – which more accurately reflects costs incurred in producing Product B. Products A and C appear to be more specialised and require significantly more support which incurs overhead cost. This is only recognised by activity based costing and this information will better inform pricing decisions in the future.

Suggested Solution 2 (*Cont'd*)

(d) Special Order Costing

	€/£
Direct Materials	2,400
Direct Labour (500 x 11.75)	5,875
Production Overhead	
Set Up	3,430
Production Control	1,960
Quality Control	2,450
Stores (3 x 490)	<u>1,470</u>
Prime Cost	<u>17,585</u>

Suggested Solution 3

(a) Summary of Relevant Materials Costs			€/£
Stock 101	Note 1	200kg @ €/£40.00	8,000
Stock 201	Note 2	1000kg @ €/£50.00	50,000
Stock 301	Note 3	750kg @ €/£25.00	18,750
		250kg @ €/£40.00	10,000
Stock 401	Note 4	1000kg @ €/£60.00	60,000
Total relevant cost			146,750

Note 1 Stock 101

Exactly 200kg of material is held and would not be replaced if used. There are two options for use – either to sell the existing stock at €/£ 25.00 per kg or to use as a substitute for Stock 51 (normally costing €/£40.00 per kg). Since substitution is the most beneficial for the company, the relevant cost for this exercise is the opportunity cost to the company of not using this material as a substitute material on the other contract - €/£40.00 per unit

Note 2 Stock 201

There are 600kg of this material in stock and it is used regularly by the company and this would have to be replaced. In addition 400kg will have to be purchased to meet this contract requirement. The relevant costs for the entire requirement is the current market price - €/£50.00 per unit

Note 3 Stock 301

750kg of this stock is held and it is no longer required and will not be replaced. If used in the contract then they cannot be sold at the realisable value of €/£25.00 per kg – this represents the opportunity cost of sales revenue foregone. An additional 250kg will be required to fulfil this order and these must be purchased at €/£40.00 per kg.

Note 4 Stock 401

There is no stock held and therefore this material will have to be purchased at the current market price - €/£ 60.00.

(b)	€/£
Direct materials – relevant costs (as above)	146,750
Direct Labour 1200 x 12.50	15,000
Production Overhead - 50% of direct labour	7,500
Production cost	169,250
Mark Up – 50%	84,625
Normal Sales price	253875

Suggested Solution 3 (*Cont'd*)**(c)**

At a price of £225,000, Arcot Ltd will make a contribution on production costs of £55,750, which represents a margin of almost 25%. This is £28,875 lower than the normal sales price and has a similar impact on profitability.

The primary factor influencing the decision on whether to accept this special order is the capacity of the business, both in terms of production and labour. It would not be advantageous to accept the order if this meant that other business priced at normal rates would be affected. However if there is adequate spare capacity existing, then the contribution is sufficient to justify accepting the order.

Other factors which will impact on the decision will include

- other customer and competitor considerations

- production quality, efficiency and control management issues

- credit experience and reliability of customer

Scope for repeat business

Suggested Solution 4 COUNTDOWN LTD**(a) Projected Profit & Loss Accounts**

	Jan 2012 €/£	Feb 2012 €/£	Mar 2012 €/£	Apr 2012 €/£
Sales	144,000	200,000	240,000	240,000
Opening Stock	50,000	75,000	90,000	90,000
Direct Materials	45,000	55,000	60,000	67,500
Direct Labour	72,000	88,000	96,000	108,000
Variable Production Overhead	18,000	22,000	24,000	27,000
Closing Stock	(75,000)	(90,000)	(90,000)	(112,500)
Cost of Goods Sold	110,000	150,000	180,000	180,000
Gross Profit	34,000	50,000	60,000	60,000
Sales & marketing	14,400	18,000	21,600	21,600
Administration	8,500	10,500	12,000	8,500
Premises	20,000	20,000	25,000	20,000
Depreciation	3,500	3,500	3,500	3,500
Total Costs	46,400	52,000	62,100	53,600
Net profit/(loss)	(12,400)	(2,000)	(2,100)	6,400

(b) Countdown Ltd**Projected Balance Sheet as at 30 April 2011**

Fixed Assets – Equipment	£/€	£/€
		196,000
Stock	112,500	
Debtors	48,000	
	160,500	
Bank Overdraft	(123,600)	
Trade Creditors	(25,000)	
Net current assets		11,900
Net Assets		207,900
Reserves		207900

(c) Continuous/Rolling Budget

A continuous or rolling budget is constantly updated to reflect the current operating circumstances and revised projected position, as new information becomes available. As each month or quarter end, a new period is added and projections are updated to reflect the most recent trading position. This approach ensures that budgeting and planning are very focused on the current position and maintained up to date.

Suggested Solution 4 (Cont'd)**Workings****Stock & Production Calculation**

	Jan 2012	Feb 2012	Mar 2012	Apr 2012
Next months Sales quantity	10000	12000	12,000	15000
Closing Stock (a) – 50%	5000	6000	6000	7500
Sales quantity	8000	10000	12000	12000
	13000	16000	18000	19500
Opening Stock	(4000)	(5000)	(6000)	(6000)
Production requirements	9000	11000	12000	13500
	€/£	€/£	€/£	€/£
Direct Materials	45,000	55,000	60,000	67,500
Direct Labour	72,000	88,000	96,000	108,000
Variable Prod'n Overhead	18,000	22,000	24,000	27,000
Closing Stock (a) x €/ <u>£15.00</u>	75,000	90,000	90,000	112,500

Depreciation Calculation

$$\begin{aligned} \text{€}/\text{£}210,000 \times 20\% &= \text{€}/\text{£}42,000 \text{ per annum} \\ &= \text{€}/\text{£}3500 \text{ per month} \end{aligned}$$

<u>Reserves @ 1 January</u>		218,000
Projected Loss	-January 2012	(12400)
	-February 2012	(2000)
	-March 2012	(2100)
Projected Surplus	-April 2012	6400
Projected Reserves @ 30 April 2012		207,900

Bank overdraft – calculated in Balance Sheet as balancing figure
Proof of calculation

Opening Bank balance		82,000
Projected deficit	-10100	
Increase in stock	-62500	
Decrease in debtors	+32000	
Decrease in creditors	-15000	
Depreciation (Non Cash)	+14000	41,600
		123,600

Suggested Solution 5**MEMORANDUM**

To: Mr Smith
From: A Technician
Re: Management Accounting Terminology
Date: x/x/xx

As requested please find attached further information with relevant supporting examples on the following subjects

- Equivalent units
- By products
- Incentive scheme
- Step costs
- Project planning

Equivalent Units

This is a term used in process costing which can also be relevant to the valuation of manufactured stock. At the end of any given period of accounting, there are likely to be partly completed units in process. Clearly, some of the costs, including direct materials, direct labour and overhead which have been incurred during the period are attributable to these units as well as those which are fully complete. In order to spread cost equitably, the number of equivalent units is calculated on a mathematical basis - this is the equivalent number of fully complete units which the partly complete units represent. The formulae for Equivalent units is

Number of Partially completed units X percentage of completion

Example:

Production of fully complete units during period 2000 units

Work in progress 500 units – 50% complete

*Total equivalent production 2000 + (500*50%) = 2250 units*

Cost would be spread over the total equivalent production of 2250 units

By- Products

By-product is the term used for one or more products, which are produced simultaneously and incidental to the main product and have a relatively small sales value relative to the main product of processing, Some by products may need further processing after separation from the main product. A simple approach to costing of by-products is normally adopted – this may involve deduction of any proceeds from total cost or treatment as incidental income in the profit and loss account.

Example: sawdust and small off cuts are regarded as by products of timber processing processes.

Suggested Solution 5 (Cont'd)**Incentive scheme**

Incentive schemes are a means of remuneration which relate payment to output. The aim of such schemes are to benefit the employee by providing an opportunity to increase earnings, while encouraging performance and providing for increased productivity, which may reduce overhead cost per unit. Schemes can be based upon individual performance or aimed at incentivising groups of employees. Incentive schemes should be based on efficient working methods following comprehensive work studies and may be financial or non-financial in nature.

Example: Piecework Incentive scheme

Charlie works a standard 40 hour week and is paid a flat hourly rate of €/£ 8.50 /hour. The company is offering a piecework incentive scheme based on the following parameters:

Product A – time allowance 1.5 minutes per unit

Piecework rate – €/£0.15 per production minute

Charlie estimates that he produces between 1500 and 1700 units of Product A in a standard week.

Impact of incentive scheme

Normal weekly wage - €/£340 (40 x €/£8.50)

Production at 1500 units - €/£337.50 (1500 x 1.5 = 2250 x 0.15)

*Production at 1700 units - €/£382.50 (1700*1.5 = 2550 x 0.15)*

Step costs

Step costs are generally overheads which remain constant for a range of activity and then increase by a notable amount when the activity increases to a higher level. The correlation between steps may not be based on an algebraic calculation and may be ad hoc based on other factors.

Example:

Production up to 10,000 units can be accommodated at existing factory incurring a premises overhead of £150,000;

Production in the range 10,000- 15,000 units can be facilitated at an adjoining facility incurring additional premises overheads of £60,000

Production in excess of 15,000 units will require new factory premises at an estimated premises overhead cost of £150,000

Project Planning

Planning is the process of setting goals and objectives, developing strategies and outlining tasks and schedules to accomplish the goals. This process will involve resource considerations and this is how management accounting can support the business function.

Project planning is normally concerned with specific issues in a set timeframe. The goal is usually clear, the timeframe is normally short term and immediate action is required. Project planning is likely to involve clear schedules of tasks, details of key roles and responsibilities, defined stages and budget allocations.

Example

A company wishes to upgrade their management information system.

A project plan is developed which outlines the task, key activities, budgeted costs (including staff time) and milestones. This plan acts as a control document – firstly to ensure approval and commitment of resources are in place and then at various project stages to monitor progress and any variance against the plan.

Suggested Solution 6

(a) (i) Marginal Costing Profit Statement

	April 2011 €/£ €/£	May 2011 €/£ €/£
Sales	52,500	105,000
Cost of Sales		
Opening Stock	0	7,500
Variable production cost	30,000	37,500
Closing Stock	(7,500)	0
	22,500	45,000
Contribution	30,000	60,000
Fixed production Overheads	10,000	10,000
Sales & Administration Overheads	2,000	2,000
	12,000	12,000
Profit for period	18,000	48,000

(ii) Absorption Costing Profit Statement

	April 2011 €/£ €/£	May 2011 €/£ €/£
Sales	52,500	105,000
Cost of Sales		
Opening Stock	0	10,000
Production cost (total)	40,000	50,000
Closing Stock	(10,000)	0
	30,000	60,000
Gross Profit	22,500	45,000
Sales & Administration Overheads	2,000	2,000
Over-absorbed fixed production overhead	0	(2,500)
Profit for period	20,500	45,500

Suggested Solution 6 (Cont'd)

Workings

Calculation of Unit costs

Direct Materials		8.00
Direct Labour	5.00	
Variable overhead	2.00	
Variable production cost	15.00	
Fixed Overhead		5.00
Total production cost	20.00	

Closing stock calculations

April	500 units	
Marginal costing @€/£15.00	€/£7500	
Absorption costing @€/£20.00	€/£10,000	

Fixed Production Overhead

24000 x 5.00 = €/£120,000 pa = €/£10,000 per month (ie 2000 units @ £5)

Over absorption of fixed production overhead

May production 2500 x 5.00 = 12,500 - 10,000 = €/£2500 over absorbed

Fixed Sales and Administration cost
month

€/£24000/12 = €/£2,000 per month

(b) Advantages and Disadvantages of Standard Costing

Standard costing is a detailed process involving the estimation of product costs and related sales revenues. The standard costs are pre-determined costs that would be incurred under normal efficient operating circumstances. Standard costing is used as a control system in organisations - actual results are compared with the standard and the arising variances are analysed to inform management on issues which may lead to more effective and efficient operations. Standard costing is useful for decision making, for budget preparation, for target setting and also in some instances for profit measurement and stock valuation. These uses provides the context for the advantages and disadvantages of standard costing systems

<u>ADVANTAGES</u>	<u>DISADVANTAGES</u>
Useful for management by Exception - variances outside a range can be focussed upon for attention	Reports and information is prepared after the event on a historical basis
Motivational aspects - reasonable standards can be used to establish production targets/benchmarks	Standards used inappropriately, with a focus on negative impacts, can have a demotivational impact
Easy to administer and facilitates accounting particularly in a high volume or complex manufacturing process	Calculation of efficiency variances assume labour is always variable and that normally production is a factor of labour
Provides useful information for total cost build up which can inform pricing decisions	Favourable and adverse variance can be difficult to understand.
Variance analysis may prompt investigation of positive as well as negative variances - highlighting areas of good practice	No consideration of qualitative factors

2nd Year Examination: August 2011

Management Accounting

Examiner's Report

A relatively small number of candidates presented for this re-sit paper. The performance at this session was disappointing and it was evident that many candidates were not adequately prepared for this examination. Arithmetic and calculation errors were a feature, together with a clear lack of functional knowledge and competency in some core subject elements. This resulted in an overall average mark of 41.13% (2010 2nd session – 43.5%) and a pass rate of just 28.37% (2010 – 35%)

The performance per individual question was as follows:

	Question 1	Question 2	Question 3	Question 4	Question 5	Question 6
No attempting	208	199	155	168	46	195
Ave. %	45%	37.5%	34.4%	45.75%	53.8%	53.7%

The questions were designed assess the module objective and key learning outcome – the students knowledge and technical competency in management accounting to support business functions, activities and decision making, and covered all areas of the syllabus.

Question 1

This question assessed the subject area of variance analysis – a key element of the standard costing, budgetary planning and control section of the syllabus. The question was designed with parts (a) and (b) providing marks for basic calculations – which were not achieved in a number of cases due to incomplete information or calculation errors. Part (c) required nine standard variance and part (d), a variance reconciliation. The standard varied from those who were not able to present the variance formulae and struggled with the question, to those who produced the formulae without fully applying it and the minority who were able to attempt the relevant calculations. The majority of candidates did not attempt part (d) which showed a lack of overall knowledge of this subject matter.

Question 2

This question examined overhead costing in a practical scenario using tradition absorption methodology and activity based costing. It was on of the poorest answers in terms of marks awarded on the paper, despite being one of the compulsory questions. The calculations required were quite simple, but required an understanding of how the theory should be applied. Some candidates incorrectly used activity based cost drivers in Part (a). Part (d) was a job costing exercise which was not attempted by most candidates.

Question 3

This was the second consecutive session which saw the question related to decision making cause candidates some considerable difficulty. This question related to a special pricing decision focussed on the area of stock. This question attracted the lowest overall mark on the paper, as in many instances the information was incomplete apart from being incorrect. Marks were allocated for an explanation of the costs used, but this was not often provided. The standard of answers to part (c) was very poor with only a small number discussing factors outside of the stock costs.

Question 4

This question required the practical application of budgetary planning techniques to produce a projected profit & loss and balance sheet. Typical errors included application of discount to all sales, no adjustment for stock, incorrect depreciation calculations and presentation in the form of a cashflow statement. Recent performance in this subject area has been good, however the standard was not maintained at a satisfactory level at this session. The rolling budget explanation was in some instances incorrect and in most others extremely brief.

Question 5

It is difficult to understand why so few candidates attempted this straightforward theory based question, unless this is an indication of the level of preparation. The overall average mark was marginally the highest on the paper but, even among those who did attempt this question, the standard of answers was often poor demonstrating a lack of knowledge of terminology which is clearly covered in the manual. In order to attract good marks, the five terms required a brief, but relevant definition and practical example as stated in the question.

Question 6

This was a popular question in the optional section and was one of only two questions which had an overall average in excess of 50%. Most candidates did attempt to present calculations for marginal and absorption costing with varying degrees of accuracy. The main errors related to stock calculations, while a minority did not demonstrate an appreciation of the differences between the two methods. Only some candidates made an effort to calculate the over-absorbed overheads for the May absorption costing statement. Answers to part (b) were satisfactory but were in some cases not well presented.