



Accounting  
Technicians  
Ireland



**1<sup>st</sup> Year Examination Summer 2009**

# **MANAGEMENT ACCOUNTING**

**PAPER, SOLUTIONS  
and  
EXAMINER'S REPORT**

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**The solutions are relevant to the tax rates in the year the Examination was sat. A copy of the tax rates is enclosed with the solutions.**

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# 1<sup>st</sup> Year Examination : Summer 2009

## PAPER : MANAGEMENT ACCOUNTING

Friday 22<sup>nd</sup> May 2009 - 9.30 a.m. to 12.30 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 the € symbol may be understood by candidates in the Republic of Ireland to indicate the Euro.**

**Answer ANY FIVE of the six questions.**

**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 next page.**

**QUESTION 1**

WRIGHT Ltd. makes and sells a single product which has the following projected sales and production data:-

	<i>January</i>	<i>February</i>	<i>March</i>
Sales .....	10,000 units	15,000 units	12,000 units
Production .....	15,000 units	14,000 units	8,000 units
 General Administration Overhead	 €/£200,000	 €/£160,000	 €/£220,000
	<i>Per unit</i>	<i>Per unit</i>	<i>Per unit</i>
Sales Price .....	125	130	140
Direct Material .....	30	30	30
Direct Labour .....	40	40	45
Variable Overhead .....	10	10	10

- Fixed Production Overhead is estimated to be €/£3,000,000 per annum and is absorbed at the rate of 50% of direct labour costs.
- There is no opening stock.

**Requirement:**

Prepare a report detailing the following:-

- (a) A statement of stock valuation for each month using:-  
Absorption costing  
Marginal costing  
**4 Marks**
- (b) A profit statement for each month using:-  
Absorption costing  
Marginal costing  
**14 Marks**
- (c) Briefly explain the difference between the reported profits.  
**2 Marks**
- Total 20 Marks**

**QUESTION 2**

You have been asked to prepare a paper for the management team to clarify and explain a number of management accounting terms, giving examples of their use in a practical situation. With the exception of yourself and the Finance Director, most of the team members do not have significant accounting knowledge. Prepare a paper for their attention providing an explanation, supported where relevant by a practical example, of the following terminology:-

- (a) Abnormal losses.
- (b) Cost Codes.
- (c) Short Term Decision Making.
- (d) Economic Order Quantity.
- (e) Pre-determined Overhead Absorption Rate.

**Total 20 Marks**

**QUESTION 3**

DIXIE Ltd. uses a standard costing system and has produced the following production information for a product line for the month of April 2009.

**Standard Cost**

Direct Materials ..... 5 kg @ €15 / kg  
 Direct labour ..... 3 hours @ €20 / hour

Total projected overheads .. €600,000 per annum  
 Fixed ..... 40%  
 Variable ..... 60%

The projected activity level of production and sales is 48,000 units and it is anticipated that these will be incurred evenly over the year. The sales price is set using a mark-up of 50% on costs.

The actual data for the month of April is as follows:-

		€/£
Sales .....	4,250 units	892,500
Production .....	4,400 units	
Materials .....	21,000 kg	304,500
Labour .....	12,250 hours	269,500
Overhead .....	Variable	28,500
	Fixed	22,000

**Requirement**

- (a) Calculate the budgeted selling price of the product for DIXIE Ltd. **2 Marks**
- (b) Prepare a statement showing the budgeted profit and the actual profit for month of April 2009. **2 Marks**
- (c) Calculate the following variances:-
  - (i) Sales price
  - (ii) Sales volume margin
  - (iii) Materials price
  - (iv) Materials usage
  - (v) Labour rate
  - (vi) Labour efficiency
  - (vii) Variable overhead
  - (viii) Fixed overhead

**16 Marks**  
**Total 20 Marks**

**QUESTION 4**

BAMAR Ltd. produces 3 products and has provided the following operating information:-

	Product Alpha	Product Beta	Product Delta
Sales - Volume .....	2,000	5,000	10,000
Sales - Price per unit .....	€/£100	€/£50	€/£75
Production Overheads .....	€/£150,000	€/£200,000	€/£500,000

- Production overhead is 60% variable and 40% fixed.
- General company overheads are €/£225,000 and these are apportioned evenly between each product line.
- There are no stock-holdings.

**Requirement**

- (a) On the basis of the information provided calculate the contribution and the net profit reported by each product and by BAMAR Ltd. in total. **6 Marks**
- (b) Calculate the contribution/sales ratio for each product. **4 Marks**
- (c) Calculate the breakeven point for each product, expressed in sales value. **4 Marks**
- (d) Prepare a further statement showing the contribution and profit for each product and for the company, based on all the following assumptions:-

Sales of products **Alpha** and **Beta** are ceased.  
 Sales and production of product **Delta** is increased by 10%.  
 Total fixed production overheads and general overheads are reduced by 5%.

- (e) Advise the company if they should cease selling Products **Alpha** and **Beta**. **4 Marks**
- 2 Marks**  
**20 Marks**

**QUESTION 5**

COUNTY CRYSTAL is a small manufacturing business which produces two distinct items of decorative giftware, a **VASE** and a **BOWL**. The following information has been prepared following discussions for the purposes of preparing a cash budget for the year ahead:-

Sales & Production Data	VASE	BOWL
Sales (units) .....	15,000	7,500
Sales (Price per unit) .....	€/£45	€/£30
<b>Variable Costs</b>	€/£	€/£
Materials .....	16	14
Labour .....	13	12
<b>Overhead Costs</b>	€/£	
Production Heat & light .....	8,000 per annum, paid quarterly in arrears.	
Fixed Production Overheads ..	3,000 per quarter, paid monthly in arrears.	
Rent of premises .....	12,000 per annum, paid monthly in advance.	
Managers' salaries .....	48,000 per annum.	
Other staff salaries .....	42,000 per annum.	

**QUESTION 5 (Cont'd.)**

- (i) Sales and production are projected to be incurred evenly over the year.
- (ii) 50% of sales are received in cash and get a 10% discount. The remaining 50% are on credit terms of one month.
- (iii) Materials costs are paid for two months in arrears.
- (iv) Net labour and salary costs of 65% are paid in the month they are incurred, with employer costs paid in the next month.
- (v) Assume that there are no stock-holdings and that production is based on sales demand.
- (vi) Opening Debtors of €/£20,000 were received in **Month 1**.
- (vii) Opening Creditors were €/£60,000 - two thirds of this balance is payable in **Month 1** and one third in **Month 2**.
- (viii) Employer salary and wage costs of €/£10,937 are outstanding from the previous month.
- (ix) The bank account balance at the start of the year was overdrawn by €/£22,500.

**Requirement**

- (a) Prepare a cash budget (cashflow forecast/projection) for COUNTY CRYSTAL, detailing projected cashflows by month for the first *three* months of the year. **15 Marks**
- (b) Explain *briefly* why there is a difference between cashflows and reported profits. **5 Marks**

**20 Marks**

**QUESTION 6**

ROB Ltd manufactures and sells two main products **LOWE** and **DOWNE**. The company has recently implemented an activity based costing system and has provided you with the following information:-

	<b>LOWE</b>	<b>DOWNE</b>	<b>TOTAL</b>
<b>Production Cost (per unit)</b>			
Direct materials .....	€/£20.00	€/£8.50	
Direct Labour .....	€/£42.00	€/£16.00	
Budgeted production ( <b>units</b> ) .....	200,000	500,000	700,000
No. of production runs .....	5,000	6,000	11,000
No. of orders placed .....	1,000	20,000	21,000
Machine hours .....	80,000	20,000	100,000

**Production overheads by Cost pool**

	€/£
Set Ups .....	99,000
Materials handling .....	273,000
Inspection .....	350,000
Machining .....	1,680,000

**Requirement**

- (a) Identify the cost drivers for each of ROB Ltd's cost pools, and calculate an activity absorption rate for each cost pool. **8 Marks**
- (b) Prepare a statement showing the:
  - (i) total overhead cost for the production of products LOWE and DOWNE
  - (ii) overhead cost per unit, and
  - (iii) total cost per unit **8 Marks**
- (c) Calculate the selling price for each product on the basis of:-
  - (i) 25% mark-up on total production
  - (ii) 40% margin on sales price **4 Marks**

**Total 20 Marks**

# 1<sup>st</sup> Year Examination : Summer 2009

## MANAGEMENT ACCOUNTING

### SOLUTIONS

#### Solution to question 1

##### (a) Statement of Stock Valuation

	<i>January</i>	<i>February</i>	<i>March</i>
Opening Stock	-	5,000	4,000
Production	15,000	14,000	8,000
Sales	10,000	15,000	12,000
Closing Stock	<u>5,000</u>	<u>4,000</u>	

	<i>(i) Absorption Costing</i>		<i>(ii) Marginal Costing</i>	
	<i>January</i>	<i>February</i>	<i>January</i>	<i>February</i>
Stockholding	5,000	4,000	5,000	4,000
<b>Cost per unit</b>	<b>€/£</b>	<b>€/£</b>	<b>€/£</b>	<b>€/£</b>
Direct materials	30	30	30	30
Direct Labour	40	40	40	40
Variable Overhead	10	10	10	10
Fixed Overhead	20	20	-	-
<b>Total Cost per Unit</b>	<b>€/£100</b>	<b>€/£100</b>	<b>€/£80</b>	<b>€/£80</b>
<b>Stock Valuation</b>	<b>€/£500,000</b>	<b>€/£400,000</b>	<b>€/£400,000</b>	<b>€/£320,000</b>

##### (b) Statement of Profit & Loss

###### Absorption Costing

	<i>January</i>	<i>February</i>	<i>March</i>
	€/£	€/£	€/£
Sales	1,250,000	1,950,000	1,680,000
Cost of Sales			
Opening Stock	-	500,000	400,000
Direct Materials	450,000	420,000	240,000
Direct Labour	600,000	560,000	360,000
Variable Overhead	150,000	140,000	80,000
Fixed Production Overhead	300,000	280,000	160,000
Closing Stock	(500,000)	(400,000)	-
Cost of Goods Sold	<u>1,000,000</u>	<u>1,500,000</u>	<u>1,240,000</u>
<b>Gross Profit</b>	<b>250,000</b>	<b>450,000</b>	<b>440,000</b>
Under/(Over) absorbed			
Fixed Prod'n O/head	(50,000)	(30,000)	90,000
General Overhead	200,000	160,000	220,000
<b>Net Profit /(Loss)</b>	<b>100,000</b>	<b>320,000</b>	<b>130,000</b>



Solution to question 1 (Cont'd)

(b) Marginal Costing

<i>January</i>	<i>February</i>	<i>March</i>	
	€/£	€/£	€/£
<b>Sales</b>	1,250,000	1,950,000	1,680,000
<b>Cost of Sales</b>			
Opening Stock	-	400,000	320,000
Direct Materials	450,000	420,000	240,000
Direct Labour	600,000	560,000	360,000
Variable Overhead	150,000	140,000	80,000
Closing Stock	(400,000)	(320,000)	-
Cost of Goods Sold	800,000	1,200,000	1,000,000
<b>Gross Profit</b>	<b>450,000</b>	<b>750,000</b>	<b>680,000</b>
Fixed Prod'n Overhead	250,000	250,000	250,000
General Overhead	200,000	160,000	220,000
<b>Net Profit</b>	<b>-</b>	<b>340,000</b>	<b>210,000</b>

(c)

<i>Reported Profit / (Loss)</i>	<i>January</i>	<i>February</i>	<i>March</i>
	€/£	€/£	€/£
Absorption Costing	100,000	320,000	130,000
Marginal Costing	-	340,000	210,000
<b>Difference</b>	<b>100,000</b>	<b>(20,000)</b>	<b>(80,000)</b>

The absorption costing figures are related to production and include a fixed overhead element (at the pre-determined overhead absorption rate of €/£20 per unit) in the closing stock at the end of each month. This results in a reported profit of €/£100,000 in the month of January, when production is higher than sales and lower reported profits in subsequent months of a similar amount when production is lower than sales.

The marginal costing figures exclude the fixed overhead element in stock valuations and hence the stock value is lower. Profit is therefore reported when the sales are recorded.

**Solution to question 2**

**(a) Abnormal losses**

Abnormal loss is a term normally used in process costing - that is costing of products which result from a series of processes. During such production processes, certain losses can be inherent and cannot be eliminated. For example, a percentage of liquids may evaporate during certain production processes or part of the cloth cut to make a suit may be lost due to the style/cut of the suit. These losses, which occur under efficient operating conditions, are described as normal losses. However, in addition to losses which cannot be avoided, there are some losses which are not expected to occur under efficient operating conditions.

*For example through improper mixing of ingredients or the incorrect cutting of cloth.*

These losses are not an inherent part of the production process and are referred to as abnormal losses. Abnormal losses are not included in the process cost, but are removed from the process account and written off as a period cost to the profit & loss account.

**(b) Cost Codes**

Job cost management modules enable you to effectively manage jobs from revenue and cost perspective. To do this effectively, we allow for a work breakdown, which we refer to as a cost code. User defined cost codes can be established by type of job.

Cost Analysis by cost-code links each class of expense with budget. These reports may be selected by job range, open or complete jobs, department, or division.

*Features:*

- Cost codes are user defined. They may be customized according to the needs and preferences. Different code structures may be set up for each job.
- Balancing of jobs to general ledger is easy because nothing hits job cost without hitting general ledger.
- Reporting of labour burden cost allows a more accurate job cost by allowing one to see not only what is paid to an employee, but also what the employee is costing in invisible cost.

**(c) Short Term decision making**

Short term decision making involves consideration of alternatives, qualitative and quantitative, with the objective of maximising the contribution. It is often informed by opportunity costing.

Short term decisions normally relate to issues such as best use of resources or facilities (e.g. acceptance of a special offer; termination of a product; limiting factors; make or buy decisions).

**Example** Company manufacturers 20,000 units of component, with the following costs:

Materials	5
Labour	10
Variable Overhead	2
Fixed Overhead	3
	€/ <u>£20</u> per unit

The component can be purchased from another supplier for €/£18 per unit

Decision - while it would appear more cost effective to purchase the component from the other supplier. Fixed costs will be incurred regardless, thus the relevant cost for decision making is the marginal cost of production, as follows: -

Materials	5
Labour	10
Variable Overhead	2
	€/ <u>£17</u> per unit

**Solution to question 2 continued on next page**

**Solution to question 2 (Cont'd)**

**(d) Economic Order Quantity**

The Economic Order Quantity (EOQ) is the calculated re-order quantity which will minimise costs, considering the costs of stock-holding and the cost of ordering.

The EOQ is calculated as follows

$$\sqrt{\frac{2Co D}{S}}$$

Co - Ordering cost per order  
 D - Demand per annum  
 S - Stockholding cost (per annum)

**Example:** Order cost - €/£200 per order  
 Annual demand - 25,000 units  
 Stockholding cost - 8% of price (€/£5/unit)

$$EOQ = \sqrt{\frac{2 \times 200 \times 25,000}{0.40}} = 5,000 \text{ units}$$

In order to calculate the EOQ, the costs of stockholding and ordering must be known and must be fixed. The rate of demand and the price per unit must be known and should be constant. There should be no time delay upon ordering.

The EOQ is a useful statistical calculation which can ensure cost effectiveness in materials purchasing and stockholding.

**(e) Predetermined Overhead absorption rate**

The practicalities of costing & budgeting mean that in most circumstances, the actual overhead cost will not be known until it has actually been incurred, but in order to accurately budget and cost, an estimate must be made in advance. This estimate, which is charged to the actual production output, is based on budgeted overhead costs and is known as the **pre-determined overhead absorption rate**.

The process involved in calculating a pre-determined overhead rate is firstly to estimate the total overhead (a); then to estimate the activity level on which the overhead absorption rate is to be calculated (b); then calculate by dividing (a) by (b).

**Example:**

Estimated overhead	€/£150,000
Estimated units of production	75,000
Pre-determined overhead absorption rate	€/£2 per unit

If the actual overhead transpires to be greater or less than €/£150,000, and/or production is greater or less than 75,000, then this will result in an over or under absorption of the overhead.

I trust the foregoing is adequate for explanatory purposes but should further explanations/clarification be necessary please feel free to contact me directly.

**QUESTION 3 DIXIE Ltd**

<b>(a) Sales Price</b>	€/£
Direct Material	75.00
Direct labour	60.00
Variable Overhead (W1)	7.50
Fixed Overhead (W2)	5.00
Total Cost	147.50
Mark Up (50%)	73.75
Budgeted Sales Price	<u>221.25</u>

**(b) Statement of Profit**

	€/£	<i>Budgeted</i>	€/£	€/£	<i>Actual</i>	€/£
Sales (W3)			885,000			892,500
<b>Cost of Sales</b>						
Direct Materials	300,000				304,500	
Direct Labour	240,000				269,500	
Variable Overhead	30,000				28,500	
Fixed production O/head (W2)	<u>20,000</u>		590,000		<u>22,000</u>	624,500
<b>Gross Profit</b>			<u>295,000</u>			<u>268,000</u>

**(c) Variances**

- (i) Sales price variance  
*(Actual Sales Quantity x Actual Price) - (Actual Sales Quantity x Standard Price)*  
 (4,250 x 210) - (4,250 x 221.25)  
 892,500 - 940,312.50 = **£/€47,812 adv**
- (ii) Sales volume variance  
*(Actual Sales Quantity x Standard Margin) - (Standard Sales Quantity x Standard Margin)*  
 (4,250 x (73.75 + 5.00)) - (4,000 x (73.75 + 5.00))  
 334,687.50 - 315,000 = **£/€19,688 fav**
- (iii) Material price variance  
*(Actual quantity of inputs x Actual price) - (Actual quantity of inputs x Standard Price)*  
 (21,000 x 14.50) - (21,000 x 15.00)  
 304,500 - 315,000 = **£/€10,500 fav**
- (iv) Materials usage variance  
*(Actual quantity of inputs x Standard price) - (Flexed quantity x Standard price)*  
 (21,000 x 15.00) - (4,400 x 5 x 15)  
 315,000 - 330,000 = **£/€15,000 fav**
- (v) Labour rate variance  
*(Actual Hours of input x Actual Rate) - (Actual Hours of input x Standard rate)*  
 (12,250 x 22.00) - (12,250 x 20)  
 269,500 - 245,000 = **£/€24,500 adv**
- (vi) Labour efficiency variance  
*(Actual Hours of input x Standard rate) - (Flexed hours x Standard rate)*  
 (12,250 x 20) - (4,400 x 3 x 20)  
 245,000 - 264,000 = **£/€19,000 fav**
- (vii) Variable overhead  
*(Flexed quantity x standard variable overhead absorption rate) - Actual expenditure*  
 (4,400 x 7.50) - 28,500  
 33,000 - 28,500 = **£/€4,500 fav**
- (viii) Fixed Overhead  
*Budgeted Overheads - Actual Overheads*  
 20,000 - 22,000 = **£/€2,000 adv**

Workings on next page

**Solution to question 3 (Cont'd)**

**Workings**

**Overhead Calculations**

<b>W1</b>	$600,000 \times 60\%$	=	360,000 Variable Overhead
	$360,000 / 48,000$	=	€/£7.50 per unit
<b>W2</b>	$600,000 \times 40\%$	=	240,000 Fixed Overhead
	$\therefore 240,000 / 48,000$	=	€/£5.00 per unit
	$\therefore 240,000 / 12$	=	€/£20,000 per month
<b>W3</b>	$4,000 \times 221.25$	=	885,000

Solution to question 4

(a) Statement of Contribution and Profit

	<i>Product Alpha</i>	<i>Product Beta</i>	<i>Product Delta</i>	<i>Total</i>
	€/£	€/£	€/£	€/£
Sales	200,000	250,000	750,000	1,200,000
Variable Production Overhead	90,000	120,000	300,000	510,000
<b>CONTRIBUTION</b>	<b>110,000</b>	<b>130,000</b>	<b>450,000</b>	<b>690,000</b>
Fixed Production Overhead	60,000	80,000	200,000	340,000
Apportioned General Overhead	75,000	75,000	75,000	225,000
<b>NET PROFIT/(LOSS)</b>	<b>(25,000)</b>	<b>(25,000)</b>	<b>175,000</b>	<b>125,000</b>

(b) Contribution/sales ratio

	<i>Product Alpha</i>	<i>Product Beta</i>	<i>Product Delta</i>	<i>Total</i>
	€/£	€/£	€/£	€/£
Sales	200,000	250,000	750,000	1,200,000
CONTRIBUTION	110,000	130,000	450,000	690,000
Contribution/Sales ratio	55%	52%	60%	

(c) Breakeven Point Calculation

	<i>Product Alpha</i>	<i>Product Beta</i>	<i>Product Delta</i>
	€/£	€/£	€/£
Fixed Production Overhead	60,000	80,000	200,000
Apportioned General Overhead	75,000	75,000	75,000
Total Overheads	135,000	155,000	275,000
Contribution/Sales ratio	55%	52%	60%
Breakeven Point	£245,455	£298,075	£458,333

(d) Revised Statement of Contribution and Profit

	<i>Product Delta &amp; Total</i>
	€/£
Sales	825,000
Variable Production Overhead	330,000
<b>CONTRIBUTION</b>	<b>495,000</b>
Fixed Production Overhead ( <i>Note 1</i> )	190,000
Apportioned General Overhead ( <i>Note 2</i> )	213,750
<b>NET PROFIT</b>	<b>91,250</b>

*Note 1*

200,000 - 5% = £190,000

*Note 2*

225,000 - 5% = £213,750

- (e) BAMAR Ltd should not cease sales of product Alpha and Beta as on the basis of current information, both make a contribution of € / £50,000 to the general overheads of the company.

Even though, Product Delta has a higher contribution/sales ratio, despite other overhead savings and increased sales, Product Delta does not make a similar profit.

Product Delta also has a higher breakeven point - which means that it could be viewed as a more riskier option. Offering Product Alpha and Beta spreads the risk of the company.

Solution to question 5

(a) COUNTY CRYSTAL - CASH BUDGET FOR THE THREE MONTHS

	<i>Month 1</i>	<i>Month 2</i>	<i>Month 3</i>	<i>TOTAL</i>
	€/£	€/£	€/£	€/£
<b>Inflows</b>				
Cash sales (W1)	33,750	33,750	33,750	101,250
Credit sales	20,000	37,500	37,500	95,000
<b>Total Inflows</b>	<b>53,750</b>	<b>71,250</b>	<b>71,250</b>	<b>196,250</b>
<b>Outflows</b>				
Supplier (Materials) (W2)	40,000	20,000	28,750	88,750
Labour costs - net (W3)	15,438	15,438	15,438	46,314
Production Heat & Light	-	-	2,000	2,000
Fixed production Overhead	1,000	1,000	1,000	3,000
Rent of premises	1,000	1,000	1,000	3,000
Managers' salaries - net (W4)	2,600	2,600	2,600	7,800
Other staff salaries - net (W5)	2,275	2,275	2,275	6,825
Employer salary On-costs (W6)	10,937	10,937	10,937	32,811
<b>Total Outflows</b>	<b>73,250</b>	<b>53,250</b>	<b>64,000</b>	<b>190,500</b>
Net Inflow/(Outflow)	(19,500)	18,000	7,250	5,750
Opening Balance	(22,500)	(42,000)	(24,000)	(22,500)
<b>Closing Balance</b>	<b>(42,000)</b>	<b>(24,000)</b>	<b>(16,750)</b>	<b>(16,750)</b>

Workings

<b>1.</b>	<b>VASE</b>	<b>BOWL</b>	
Sales per month	1,250	625	
Sales Price	€/£45	€/£30	
	€/£56,250	€/£18,750	€/£75,000
Cash Sales per month			37,500
Less 10%			(3,750)
Net Cash Sales - per month			€/£33,750
Credit Sales - per month			€/£37,500
<b>2.</b>	<b>VASE</b>	<b>BOWL</b>	
Materials	€/£16	€/£14	
Production per month	1,250	625	
	€/£20,000	€/£8,750	€/£28,750
<b>3.</b>	<b>VASE</b>	<b>BOWL</b>	
Labour	€/£13	€/£12	
Production per month	1,250	625	
	€/£16,250	€/£7,500	€/£23,750
65% - Net salary cost			€/£15,438
<b>4.</b>		=	
Managers' salaries	48,000/12		€/£4,000
65%			€/£2,600
<b>5.</b>		=	
Other staff salaries	42,000/12		€/£3,500
65%			€/£2,275
<b>6.</b>			
Employer On-costs			
Labour	35%	8,312	
Manager	35%	1,400	
Other salaries	35%	1,225	€/£10,937

- (b) The main reasons for differences between profit and cashflow during a period are:
- there are costs that do not involve cash flow, for example, depreciation
  - there may be changes in the level of sales debtors and creditors for purchases, which affect cashflow but do not affect profits
  - capital purchases have an immediate impact on cashflows, but are not charged against profits
  - there may also be differences between profit and cashflows caused by changes in stock levels, depending on the basis of the stock valuation

Solution to question 6

(a)

<i>Cost pool</i>	<i>Cost driver</i>	<i>€/£</i>
Set Ups	No. of production runs	<b>9.00 per run</b>
Materials handling	No. of orders placed	<b>13.00 per order</b>
Inspection	Production units	<b>0.50 per unit</b>
Machining	Machine hours	<b>16.80 per machine hour</b>

(b)

	<i>LOWE</i>	<i>DOWNE</i>	<i>TOTAL</i>
	<i>€/£</i>	<i>€/£</i>	<i>€/£</i>
Set Ups	45,000	54,000	99,000
Materials handling	13,000	260,000	273,000
Inspection	100,000	250,000	350,000
Machining	1,344,000	336,000	1,680,000
<b>Total Overhead Cost</b>	<b>1,502,000</b>	<b>900,000</b>	<b>2,402,000</b>
<b>Per Unit</b>	<b>7.51</b>	<b>1.80</b>	
Direct Materials	20.00	8.50	
Direct Labour	42.00	16.00	
<b>Total Cost per Unit</b>	<b>€/£69.51</b>	<b>€/£26.30</b>	

(c)

	<i>LOWE</i>	<i>DOWNE</i>
	<i>€/£</i>	<i>€/£</i>
Total Cost per Unit	69.51	26.30
Mark Up - 25%	17.38	6.58
<b>(i) Selling Price</b>	<b>€/£86.89</b>	<b>€/£32.88</b>
Margin (/1-.0.40)		
<b>(ii) Selling Price</b>	<b>€/£115.85 (W1)</b>	<b>€/£43.83 (W2)</b>

Workings

$$\text{W1 - Lowe - if margin} = 40\% \therefore 69.51 = 60\% \therefore \frac{69.51}{0.60} = 115.8 \left( \frac{69.51}{60} \times 100 \right)$$

$$\text{W2 - Downe - if margin} = 40\% \therefore 26.30 = 60\% \therefore \frac{26.30}{0.60} = 43.83 \left( \frac{26.30}{60} \times 100 \right)$$





Accounting  
Technicians  
Ireland

**1<sup>st</sup> Year Examination Summer 2009**  
**MANAGEMENT ACCOUNTING**  
**Examiner's Report**

A relatively small number of candidates presented for this re-sit paper on the old syllabus and as a result it is not possible to draw great significance for the statistical results. The pass rate was 67%, based on an average mark of slightly over 50%. In general terms, those candidates who attempted five questions were successful and those who did not attempt the requisite number struggled to achieve a pass mark.

<b>Question</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
No attempting	28	16	28	23	27	28
Ave. %	13.1 %	10.9%	11.7%	11.7%	11.4%	U.7%

The performance per individual question was as follows:

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

**Question 1**

This question was a practical numerical assessment of marginal and absorption costing, which is an important decision making tool. Overall this question attracted the highest average mark.

**Question 2**

This question was a narrative question which asked for an explanation and examples for a number of current terms used in management accounting. Less than half the candidates attempted this question and it attracted the lowest average mark as many did not attempt all five terms.

**Question 3**

This question assessed the subject area of variance analysis - a key element of the standard costing, budgetary planning and control section of the syllabus. Some candidates produced the formulae without fully applying it and some had difficulty with the relatively simple overhead variances.

**Question 4**

Management accounting for decision making is an important part of this syllabus and this question examined cost volume profit and breakeven analysis, leading to assessment of product continuation/cessation. The former parts of the question were generally better answered than the later.

**Question 5**

This question asked the candidate to prepare a cash budget and then to note the differences between cashflows and profits. This is a common application of management accounting skills, but was answered by around 50% of candidates at this session. Layout was generally good although some errors were made in relation to sales calculations, labour and material cashflows.

**Question 6**

This question examined overhead costing using activity based costing. Some candidates scored excellently well in this question. while some others struggled to perform the calculations, particularly in parts (b) and (c).

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