General Comments

The revised syllabus and assessment methodology appear to have successfully discriminated candidates' performance. A full range of marks was recorded and it was felt that the standard achieved and the pass rate were appropriate.

Generally candidates coped quite well with the short questions in section A. As this section represented half of the marks available on the paper it was inevitable that to be successful a strong performance in section A was important.

Candidates seemed less comfortable with the compulsory question 2 which formed section B. At times no attempt was made to answer some parts of this compulsory question; at others the candidates' expression was often poor or unclear.

In section C question 4 was slightly preferred by candidates but there were some good attempts at both questions 3 and 4. However a number of poor or incomplete answers were submitted in this section. Candidates must manage the time they spend on questions in accordance with the marks available.

In both sections B and C candidates would be advised to work on their ability to apply management accounting principles to the particular circumstances mentioned in the question rather than providing answers which basically regurgitate the theory.

Section A – 50 marks

The following data are given for sub-questions 1.1 and 1.2 below.

Summary financial statements are given below for one division of a large divisionalised company.

Summary Divisional Financial Statements for the year to 31 December

Balance sheet	*£000*	*Income statement*	*£000*
Non-current assets	1,500	Revenue	4,000
Current assets	600	Operating costs	3,600
Total assets	2,100	Operating profit	400
		Interest paid	70
Divisional equity	1,000	Profit before tax	330
Long-term borrowings	700		
Current liabilities	400		
Total equity and liabilities	2,100		

The cost of capital for the division is estimated at 12% each year.
Annual rate of interest on the long term loans is 10%.
All decisions concerning the division's capital structure are taken by central management.

Question 1.1

The divisional Return on Investment (ROI) for the year ended 31 December is

A 19·0%
B 19·4%
C 23·5%
D 33·0%

(2 marks)

The answer is **C**

Workings

400 / 1700 = 23·5%

Question 1.2

The divisional Residual Income (RI) for the year ended 31 December is

A £160,000
B £196,000
C £230,000
D £330,000

(2 marks)

The answer is **B**

Workings

400 - [1,700 x 12%] = £196,000

The following data are given for sub-questions 1.3 and 1.4 below

X40 is one of many items produced by the manufacturing division. Its standard cost is based on estimated production of 10,000 units per month. The standard cost schedule for one unit of X40 shows that 2 hours of direct labour are required at £15 per labour hour. The variable overhead rate is £6 per direct labour hour. During April, 11,000 units were produced; 24,000 direct labour hours were worked and charged; £336,000 was spent on direct labour; and £180,000 was spent on variable overheads.

Question 1.3

The direct labour rate variance for April is

A £20,000 Favourable
B £22,000 Favourable
C £24,000 Adverse
D £24,000 Favourable

(2 marks)

The answer is **D**

Workings

Actual rate is £336,000 / 24,000 = £14 per hour
24,000 x [£15-£14] = £24,000 Fav

Question 1.4

The variable overhead efficiency variance for April is

A £12,000 Adverse
B £12,000 Favourable
C £15,000 Adverse
D £15,000 Favourable

(2 marks)

The answer is **A**

Workings

[(11,000 x 2) - 24,000] x £6 = £12,000 Adv

Question 1.5

The fixed overhead volume variance is defined as

A the difference between the budgeted value of the fixed overheads and the standard fixed overheads absorbed by actual production.
B the difference between the standard fixed overhead cost specified for the production achieved, and the actual fixed overhead cost incurred.
C the difference between budgeted and actual fixed overhead expenditure.
D the difference between the standard fixed overhead cost specified in the original budget and the same volume of fixed overheads, but at the actual prices incurred.

(2 marks)

The answer is **A**

Question 1.6

Summary results for Y Limited for March are shown below.

	£000	*Units*
Sales revenue	820	
Variable production costs	300	
Variable selling costs	105	
Fixed production costs	180	
Fixed selling costs	110	
Production in March		1,000
Opening inventory		0
Closing inventory		150

Using ***marginal costing***, the profit for March was

A £170,000
B £185,750
C £197,000
D £229,250

(2 marks)

The answer is **A**

Workings

Closing inventory would be valued at £300,000 / 1,000 = £300 per unit.

	£
Turnover	820,000
Production costs [£300,000 – (150 x £300)]	255,000
Other costs	395,000
Profit	170,000

Question 1.7

The CIMA definition of zero-based budgeting is set out below, with two blank sections.

> "Zero-based budgeting: A method of budgeting which requires each cost element _____, as though the activities to which the budget relates _____."

Which combination of two phrases correctly completes the definition?

	Blank 1	*Blank 2*
A	to be specifically justified	could be out-sourced to an external supplier
B	to be set at zero	could be out-sourced to an external supplier
C	to be specifically justified	were being undertaken for the first time
D	to be set at zero	were being undertaken for the first time

(2 marks)

The answer is **C**

Question 1.8

Definition A: "A technique where the primary goal is to maximise throughput while simultaneously maintaining or decreasing inventory and operating costs."

Definition B: "A system whose objective is to produce or procure products or components as they are required by a customer or for use, rather than for inventory."

Which of the following pairs of terms correctly matches the definitions A and B above?

	Definition A	*Definition B*
A	Manufacturing resource planning	Just-in-time
B	Enterprise resource planning	Material requirements planning
C	Optimised production technology	Enterprise resource planning
D	Optimised production technology	Just-in-time

(2 marks)

The answer is **D**

Question 1.9

Division P produces plastic mouldings, all of which are used as components by Division Q. The cost schedule for one type of moulding – item 103 – is shown below.

Direct material cost per unit	£3·00
Direct labour cost per unit	£4·00
Variable overhead cost per unit	£2·00
Fixed production overhead costs each year	£120,000
Annual demand from Division Q is expected to be	20,000 units

Two methods of transfer pricing are being considered:

(i) Full production cost plus 40%
(ii) A two-part tariff with a fixed fee of £200,000 each year

The transfer price per unit of item 103 transferred to Division Q using both of the transfer pricing methods listed above is

	(i) Full production cost plus 40%	*(ii) Two-part tariff*
A	£21·00	£9
B	£21·00	£15
C	£15·00	£19
D	£12·60	£9

(2 marks)

The answer is **A**

Workings

Full cost

	£
Variable cost	9
Fixed cost = 120,000 /20,000 =	6
Full cost	15
plus 40%	6
Total cost plus	21

Two-part tariff requires only variable cost of £9 for additional transfers

Question 1.10

Which of the following statements is/are true?

(i) Computer-integrated manufacturing (CIM) brings together advanced manufacturing technology and modern quality control into a single computerised coherent system.
(ii) Flexible manufacturing systems (FMS) are simple systems with low levels of automation that offer great flexibility through a skilled workforce working in teams.
(iii) Electronic data interchange (EDI) is primarily designed to allow the operating units in an organisation to communicate immediately and automatically with the sales and purchasing functions within the organisation.

A (i) only
B (i) and (ii) only
C (i) and (iii) only
D (ii) and (iii) only

(2 marks)

The answer is **A**

Question 1.11

D Limited manufactures and sells musical instruments, and uses a standard cost system. The budget for production and sale of one particular drum for April was 600 units at a selling price of £72 each. When the sales director reviewed the results for April in the light of the market conditions that had been experienced during the month, she believed that D Limited should have sold 600 units of this drum at a price of £82 each. The actual sales achieved were 600 units at £86 per unit.

Calculate the following variances for this particular drum for April:

(a) Selling price planning variance
(b) Selling price operating variance

(4 marks)

Workings

A - Original plan	600 x £72 = £43,200
B - Revised ex post plan	600 x £82 = £49,200
C - Actual results	600 x £86 = £51,600

Selling price planning variance is B – A = £6,000 Fav
Selling price operating variance is C – B = £2,400 Fav
(Total variance is C – A = £8,400 Fav to check)

Question 1.12

A plastics company operates a process in which all materials are added at the beginning of the process. At the beginning of March, the work-in-process in a plastic moulding machine was 200 units, which were 25% complete with respect to conversion costs. During March, 1,400 units were completed and transferred to the next process. Also during March, 50 units were scrapped due to an operator error at the end of the process, although it is unusual for this to occur. At the end of March, there were 200 units in process, which were 50% complete with respect to conversion costs.

Using the First-in-First-out (FIFO) method, calculate the equivalent units of production for the month of March that would be used in the computation of the cost per equivalent unit for

(a) Material costs
(b) Conversion costs

(4 marks)

Workings

	Units	*Material*	*Conversion*
Opening stock	(200)	(200)	(50)
Completed and transferred	1,400	1,400	1,400
Abnormal loss	50	50	50
Closing stock	200	200	100
Equivalent Units	1,450	1,450	1,500

Question 1.13

A company has a process in which the standard mix for producing 9 litres of output is as follows:

	$
4·0 litres of D at $9 per litre	36·00
3·5 litres of E at $5 per litre	17·50
2·5 litres of F at $2 per litre	5·00
	58·50

A standard loss of 10% of inputs is expected to occur. The actual inputs for the latest period were:

	$
4,300 litres of D at $9·00 per litre	38,700
3,600 litres of E at $5·50 per litre	19,800
2,100 litres of F at $2·20 per litre	4,620
	63,120

Actual output for this period was 9,100 litres.

You are required to calculate

(a) the total materials mix variance
(b) the total materials yield variance

(4 marks)

Workings

Mix variance

	Actual usage in standard proportions	$	
D =	4,000 litres at $9 per litre	36,000	
E =	3,500 litres at $5 per litre	17,500	
F =	2,500 litres at $2 per litre	5,000	
	10,000	58,500	(1)

	Actual usage in actual proportions		
D =	4,300 litres at $9 per litre	38,700	
E =	3,600 litres at $5 per litre	18,000	
F =	2,100 litres at $2 per litre	4,200	
	10,000	60,900	(2)

Mix variance is (1) – (2) = $2,400 Adverse

Yield variance

Standard cost of 1 litre is $58.50 / 9 =	$6·50
Expected output is 10,000 x 90% =	9,000 litres
Actual output =	9,100 litres
Yield variance is (9,100 – 9,000) x $6.50 =	$650 Fav

The following data are given for sub-questions 1.14 to 1.16 below

SM makes two products, Z1 and Z2. Its machines can only work on one product at a time. The two products are worked on in two departments by differing grades of labour. The labour requirements for the two products are as follows:

	Minutes per unit of product	
	Z1	*Z2*
Department 1	12	16
Department 2	20	15

There is currently a shortage of labour and the maximum times available each day in Departments 1 and 2 are 480 minutes and 840 minutes, respectively.

The current selling prices and costs for the two products are shown below:

	Z1	*Z2*
	£ per unit	*£ per unit*
Selling price	50·00	65·00
Direct materials	10·00	15·00
Direct labour	10·40	6·20
Variable overheads	6·40	9·20
Fixed overheads	12·80	18·40
Profit per unit	10·40	16·20

As part of the budget-setting process, SM needs to know the optimum output levels. All output is sold.

Question 1.14

Calculate the maximum number of each product that could be produced each day, and identify the limiting factor/bottleneck.

(3 marks)

Workings

	Maximum no of units of Z1	Maximum no of units of Z2
Dept 1	480 / 12 = 40	480 / 16 = 30
Dept 2	840 / 20 = 42	840 / 15 = 56

Dept 2 has more capacity than Dept 1 for both products, therefore Dept 1 is the limiting factor or bottleneck.

Question 1.15

Using traditional contribution analysis, calculate the 'profit-maximising' output each day, and the contribution at this level of output.

(3 marks)

Workings

	Z1	Z2
Variable cost	£26·80	£30·40
Sales price	£50·00	£65·00
Contribution	£23·20	£34·60

Calculate contribution per limiting factor (Dept 1 time)
Z1 = £23.20 / 12 = £1.933 per minute
Z2 = £34.60 / 16 = £2.1625 per minute
So maximum contribution would be to make as many Z2 as possible, that is 30 units x £34.60 = £1,038

Question 1.16

Using a throughput approach, calculate the 'throughput-maximising' output each day, and the 'throughput contribution' at this level of output.

(3 marks)

Workings

Throughput or throughput contribution is sales less direct materials, so
Z1 is £50 - £10 = £40
Z2 is £65 - £15 = £50

Throughput per bottleneck minute is:
Z1 £40 / 12 = £3.333
Z2 £50 / 16 = £3.125

Thus maximum throughput is by production of maximum number of Z1, that is, 40 units of Z1 giving throughput contribution of 40 x £40 = £1,600

Question 1.17

A is a food processing company. The following data have been produced for one of its processes for April. There were no inventories in the process at the beginning or end of the month.

	£
Inputs: 2,400kg at £8 per kg	19,200
Process costs	4,800
Transferred to packing department: 2,060kg	22,889

There is usually a loss of 10% by weight of inputs during the process. The normal loss does not have a sale value.

During April there was an abnormal loss that was sold for £400.

Prepare the Process Account and the Abnormal Loss Account to record the events that occurred in this process during April.

(4 marks)

Workings

Process Account

	Kg	*£*		*Kg*	*£*
Input materials	2,400	19,200	Normal loss	240	-
Process costs		4,800	Abnormal loss	100	1,111
			Transfer to packing	2,060	22,889
	2,400	24,000		2,400	24,000

Abnormal Loss Account

	£		*£*
Process Account	1,111	Cash sale	400
		To Income Statement	711
	1,111		1,111

The following data are given for sub-questions 1.18 and 1.19 below

The summarised financial statements for P Limited, a potential major supplier, are shown below. Before a contract is signed, the financial performance of P Limited is to be reviewed.

Summary Balance Sheets for P Limited at year end

	2003	*2002*
	£000	*£000*
Non-current assets	1,600	1,400
Inventories	300	280
Trade receivables	200	210
Cash	50	10
Trade payables	(280)	(290)
Long-term borrowings	(900)	(800)
Net assets	970	810
Share capital	600	600
Retained earnings	370	210
	970	810

Summary Income Statements for the years

	2003	*2002*
	£000	*£000*
Sales	3,000	2,500
Cost of sales	1,600	1,300
Operating profit	600	450

Question 1.18

Calculate the following financial statistics for P Limited for 2003.

(a) Receivables days
(b) Payables days
(c) Inventory days

(3 marks)

Workings

Receivables days	200 / 3000 x 365 =	24 days
Payables days	280 / 1600 x 365 =	64 days
Inventory days	300 / 1600 x 365 =	68 days

Alternative answers for these calculations using average figures would be equally allowable.

Question 1.19

Calculate the following financial statistics for P Limited for 2003.

(a) Current ratio
(b) Acid test (quick) ratio

(2 marks)

Workings

Current ratio	550:280	1·96:1
Quick ratio	250:280	0·89:1

Section B – 30 marks

ANSWER ALL *SIX SUB-QUESTIONS. EACH SUB-QUESTION IS WORTH 5 MARKS*

Question 2(a)

A general insurance company is about to implement a Balanced Scorecard. You are required to

(i) State the ***four*** perspectives of a Balanced Scorecard; and
(ii) Recommend ***one*** performance measure that would be appropriate for a general insurance company, for ***each*** of the four perspectives, and give a reason to support each measure. (You must recommend one measure only for each perspective.)

(5 marks)

Rationale

This part of the question covers learning outcome C(xii) – *Discuss the role of non-financial performance indicators and compare and contrast traditional approaches to budgeting with recommendations based on the 'balanced scorecard'.*

Suggested Approach

- List the four perspectives.
- For each perspective, recommend a different performance measure.
- For each performance measure, provide a reason why this measure is appropriate.

Marking Guide	Marks
State four perspectives	1
Performance measure and reason 4 x 1	4

Examiner's Comments

Candidates tended to know the perspectives of the balanced scorecard. However the performance measures and particularly the reasons why each measure is appropriate were not always clearly indicated in answers.

Common Errors

- Not generating measures in all four perspectives.
- Suggesting unusual, implausible or unclear measures.
- Not providing reasons for the measures suggested.

Question 2(b)

(i) Briefly explain the main features of Economic Value Added (EVA®) as it would be used to assess the performance of divisions.

(2 marks)

(ii) Briefly explain how the use of EVA® to assess divisional performance might affect the behaviour of divisional senior executives.

(3 marks)

Rationale

This part of the question covers learning outcome D(v) – *Discuss the likely behavioural consequences of the use of performance metrics in managing cost, profit and investment centres.*

Suggested Approach

- Explain the main features of EVA, including adjustments to profit and the charge for capital.
- Discuss the fact that EVA is designed to create incentives for certain behaviour, in particular the creation of long term decision making and relating income to the full amount of capital being used by the division.

Marking Guide	**Marks**
Main features	2
Three ways that behaviour might be affected	3

Examiner's Comments

Though there were a few good answers, it seemed that many candidates were not clear about the exact nature of EVA and even more so about its impact on the behaviour of executives.

Common Errors

- Providing brief answers to part (ii) that were restricted to generalities, thus giving an impression of limited understanding.

Question 2(c)

Briefly discuss ***three*** different circumstances where participation in setting budgets is likely to contribute to ***poor*** performance from managers.

(5 marks)

Rationale

This part of the question covers learning outcome C(xiii) – *Evaluate the impact of budgetary control systems on human behaviour.*

Suggested Approach

- Discuss ways in which participation might produce POOR performance. Creation of budget slack is the most obvious.

Marking Guide	**Marks**
Up to two marks for each of the three circumstances to a maximum of 5 marks	5

Examiner's Comments

Candidates responded well to this part. They seemed to have prepared well for it and were often able to develop focussed answers.

Common Errors

- Failing to read the question carefully and thus not dealing with 'participation' or 'poor performance' but instead producing a much broader answer in relation to budgets.

Question 2(d)

W Limited designs and sells computer games. There are many other firms in this industry. For the last five years the senior management has required detailed budgets to be produced for each year with slightly less detailed plans for the following two years. The managing director of W Limited has recently attended a seminar on budgeting and heard the 'Beyond Budgeting' arguments that have been advanced by Hope and Fraser, among others.

You are required to

(i) Briefly describe the 'Beyond Budgeting' approach; and

(2 marks)

(ii) Advise the management of W Limited whether or not it should change its current budgeting system to a 'Beyond Budgeting' approach.

(3 marks)

Rationale

This part of the question covers learning outcome C(xiv) – *Evaluate the criticisms of budgeting particularly from the advocates of techniques that are 'beyond budgeting'.*

Suggested Approach

- Describe the basics of the 'beyond budgeting' approach.
- Analyse the nature of the business and its environment.
- Explain how this analysis relates to the beyond budgeting approach, in particular assess the extent to which the key variables in the budget can be reliably forecast.

Marking Guide	**Marks**
Main features of beyond budgeting	2
Analysis and recommendation: guide is a mark for each relevant point that is well explained	3

Examiner's Comments

This part was not popular. Some candidates did not answer it at all and others seemed to guess at the description of Beyond Budgeting.

Common Errors

- Not relating answers clearly to the scenario provided.
- Offering little reasoned advice.

The following information is to be used to answer sub-questions (e) and (f)

C plc is a large company that manufactures and sells wooden garden furniture. It has three divisions:

The *Wood Division (WD)* purchases logs and produces finished timber as planks or beams. Approximately two-thirds of its output is sold to the Products Division, with the remainder sold on the open market.

The *Products Division* (PD) manufactures wooden garden furniture. The policy of C plc is that the PD must buy all its timber from the WD and sell all its output to the Trading Division.

The *Trading Division* (TD) sells wooden garden furniture to garden centres, large supermarkets, and similar outlets. It only sells items purchased from PD.

The current position is that all three divisions are profit centres and C plc uses Return on Investment (ROI) measures as the primary means to assess divisional performance. Each division adopts a cost-plus pricing policy for external sales and for internal transfers between divisions. The senior management of C plc has stated that the divisions should consider themselves to be independent businesses as far as possible.

Question 2(e)

For each division suggest, with reasons, the behavioural consequences that might arise as a result of the current policy for the structure and performance evaluation of the divisions.

(5 marks)

Rationale

This part of the question covers learning outcome D(vi) – *Explain the typical consequences of divisional structure for performance measurement as divisions compete or trade with each other*.

Suggested Approach

- Briefly analyse the structure given in the data section, and analyse the methods of performance evaluation.
- Analyse the likely behavioural consequences from the analysis above.
- Ensure that the scenario information is used in the answer.

Marking Guide	**Marks**
Many approaches are possible. Marking guide is up to one mark for each relevant point well explained, but all three divisions must be discussed	5

Examiner's Comments

Candidates need to practice responding to 'applied' questions. They seemed to have difficulty interpreting the behavioural consequences in the divisionalised structure indicated. Good answers were rare.

Common Errors

- Repeating the principles of divisionalisation learned from a textbook rather than applying these principles, with reasoning, to the circumstances described in the question.

Question 2(f)

The senior management of C plc has requested a review of the cost-plus transfer pricing policy that is currently used.

Suggest with reasons, an appropriate transfer pricing policy that could be used for transfers **from PD to TD**, indicating any problems that may arise as a consequence of the policy you suggest.

(5 marks)

Rationale

This part of the question covers learning outcome D(vii) – *Identify the likely consequences of different approaches to transfer pricing….*

Suggested Approach

- Analyse the market position of the transfer between PD and TD; to what extent can external prices be established.
- Discuss the conditions where a cost-plus approach would be appropriate.
- Suggest an alternative approach to transfer pricing and discuss the extent to which it might be suitable.

Marking Guide	**Marks**
Many approaches are possible. Marking guide is up to one mark for each relevant point well explained in the three aspects mentioned above.	5

Examiner's Comments

Answers were often brief and limited to describing various transfer pricing approaches. In a somewhat similar manner to part 2(e) answers relied upon text book theory.

Common Errors

- Not justifying with reasons the transfer pricing policy suggested.
- Failing to indicate potential problems.

Section C – 20 marks

ANSWER *ONE* OF THE TWO QUESTIONS

Question 3(a)

Calculate the charge for selling and distribution overheads for Order A and Order B using:

(i) the current system; and
(ii) the activity-based costing approach.

(10 marks)

Rationale

This part of the question covers learning outcome A(vi) – *Compare activity-based costing with traditional …absorption costing methods and evaluate its potential as a system of cost accounting.*

Suggested Approach

- Calculate the labour-based overhead rate and then apply it to calculate the overhead charge for each order.
- Calculate the cost driver rates.
- Apply these rates to the activities undertaken for each order to obtain the total charge for overheads.

Marking Guide	Marks
Current system	2
Cost driver rates	3.5
ABC costs	4.5

Examiner's Comments

Part (i) was often correctly computed though surprisingly there were a few miscalculations. In part (ii) candidates were able to generate parts of the answer but the ability to follow all calculations through, to a correct total charge for each order, was rare.

Common Errors

- In part (ii) making errors in the calculation of some of the cost driver rates and extending these to the respective orders.

Question 3(b)

Write a report to the management of F plc in which you

(i) assess the strengths and weaknesses of the proposed activity-based costing approach for F plc; and

(5 marks)

(ii) recommend actions that the management of F plc might consider in the light of the data produced using the activity-based costing approach.

(5 marks)

Rationale

This part of the question covers learning outcome C(vi) – *Evaluate and apply alternative approaches to budgeting.*

Suggested Approach

- Start with report headings.
- Separately provide strengths and weaknesses; this can be done in numbered list form.
- State the actual management actions required, that is, decisions taken as a result of the ABC information.

Marking Guide	**Marks**
Part (i) Up to one mark for each strength and weakness well explained	5
Part (ii) Up to one mark for each recommendation well explained	5

Examiner's Comments

In part (i) the strengths and weaknesses were reasonably well understood. However in part (ii), which required recommended action, candidates had fewer good ideas.

Common Errors

- In part (i), failing to apply the strengths and weaknesses to F plc.
- In part (ii), demonstrating a lack of ideas and/or failing to generate recommended action specific to F plc.

Question 4(a)

Prepare a report to the operations manager of S Limited commenting on the performance of the company for the four months to 31 December. State probable causes for the key issues you have included in your report and state the further information that would be helpful in assessing the performance of the company.

(15 marks)

Rationale

This part of the question covers learning outcome B(ii) – *Calculate and interpret material, labour, variable overhead, fixed overhead and sales variances.*

Suggested Approach

- Start with report headings.
- Review the overall performance of S Limited, highlighting both good features and apparent poor performance.
- Suggest probable causes for the main features described above, relating these to the data in the question scenario.
- For each of the probable causes state any additional information that would be needed to assess performance.

Marking Guide **Marks**

This style of question can be answered in many ways and thus a marking guide is not binding

Up to one mark for comments on each of the eight rows of variances	8
Comment on volume changes	1
Comment on November/December change	1
Comment on inter-relationships between variances	2
Comments on further information needed	3

Examiner's Comments

This question was quite popular. However the standard of answers was only reasonable. Too many candidates did not write enough in their commentary and explanation of the variances and possible causes.

Common Errors

- Demonstrating an inability to link the variances reported to the possible causes, many of which were alluded to in the scenario.
- Not offering in the candidates' discussion many of their own ideas.
- Not developing the report comprehensively.

Question 4(b)

Prepare a short report to the operations manager of S Limited suggesting ways that the budgeting system could be used to increase motivation and improve performance.

(5 marks)

Rationale

This part of the question covers learning outcome B(vi) – *Discuss the behavioural implications of setting standard costs.*

Suggested Approach

- Start with report headings.
- Describe at least five ways in which the budgeting system can be used to increase motivation.

Marking Guide	**Marks**
Up to one mark for each recommendation well explained	5

Examiner's Comments

Answers here were brief and not of a good standard.

Common Errors

- Demonstrating very limited ideas in any direction or at any level about how to increase motivation and improve performance through enhancing the budgeting system.