MGT705 Advanced Cost & Management Accounting

Final Term paper on 27-02-2013 by

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Total 60 Questions for 86 Marks. Time 120 Minutes

There were 52 MCQs, a lot of numerical MCQs with very small calculations. If you had read the hand-outs paper was solvable in time. Most of the paper was from final term syllabus.

Short Questions.

1. Mr someone wants to implement Balanced Scorecard and he has asked you to tell him how he can implement Balanced Scorecard in his organization? (3 Marks)

   Answer:

   - **To implement the balanced scorecard, the major objectives of each of the four perspectives should be stated.**
   - **The chart shows that these objectives should then be translated into specific performance measures.**
   - **There may be one or more objectives to each perspective, and one or more performance measure linked to each.**
   - **In the scorecard, firms should identify major initiatives for achieving each objective and also establish targets for each performance measure.**

	Objectives	Measures	Targets	Initiatives	
FINANCIAL					
CUSTOMER					
INTERNAL BUSINESS PROCESS					
LEARNING AND GROWTH					

2. Convert the following into leaner function? (3 Marks)
   a. 5 units of material are used for sweet (something) and 3 are used for machine (something) where total material available is 1880 units.
   b. Sweet (something) requires 1 hour and machine (something) requires 0.75 hours where total hours available are 680.

   Note: the figures are fictitious as I don't remember exact figures.

   Answer: I solved it this way coz I didn't knew that I had to work it further or not.

   a) 5Y + 3Z = 1880 b) 1Y + 0.75Z = 680

3. Data was provided and it was asked to calculate the Total Cost (TC) for Q units? (3 Marks)

   Answer: the answer was something like this just the figures were different.

   Total cost TC for EOQ of 400 units = $\frac{DO}{Q} + \frac{QH}{2}$

   = $\frac{40000 \times 2}{400} + \frac{400 \times 1}{2}$

   = Rs 400.

4. Data was provided for 2 products (I am going to recreate the data based on my memory).

	Product A	Product B
Sales in Units	1300	600
Selling price per unit	360	240
Variable cost per unit	150	100
Contribution per unit	210	140

Required:

Calculate the "Total Sales Revenue" and "Contribution available to cover common and individual fixed cost" for both Product A and Product B? (5 Marks)

Answer:

Total Sales Revenue = Sales in units x Selling price per unit

Total Sales Revenue for Product A = 1300 x 360 = 468,000

Total Sales Revenue for Product B = 600 x 240 = 144,000

Contribution available to cover common and individual fixed cost = Sales in units x Contribution per unit

Contribution available to cover common and individual fixed cost for Product A = 1300 x 210 = 273,000

Contribution available to cover common and individual fixed cost for Product B = 600 x 140 = 84,000

5. Total budget and actual costs for the dept for period are Rs 1,000,000 and Rs 1,060,000 respectively respectively. (5 Marks)

	Budget %	Actual %
Scheduling new products	20	16
Scheduling existing products	40	34
Remedial scheduling	5	12
Special studies –specific orders	10	8
Training	10	15
Management and administration	15	15

Required:

Prepare budget control statement for department and compare with actual, showing variances, using Activity based analysis. (5 Marks)

Note: (the budgeted and actual % figures are not correct as I don't remember them but the Total budget and actual costs for the dept were given as Rs 1,150,000 and Rs 1,200,500 respectively but coz the data of percentages is inaccurate so using the correct figures will not produce proper results so I changed the figures in question.)

Answer:

Performance report – activity based

– Activity	Budget	Actual	Variance
– **Scheduling new**	**200000**	**169600**	**30400F**
– **Scheduling existing**	**400000**	**360400**	**39600F**
– **Remedial**	**50000**	**127200**	**77200A**
– **Special studies**	**100000**	**84800**	**15200F**
– **Training**	**100000**	**159000**	**59000A**
– **Mgt and admin**	**150000**	**159000**	**9000F**
	1000000	**1060000**	**60000A**

6. Discuss and differentiate between Domestic Transfer Pricing and International Transfer pricing? (5 Marks)

Answer:

Domestic transfer pricing

- **1. Where a competitive market exists for the intermediate product, the market price (less any adjustments to reflect additional selling and distribution expense) should be used as the transfer price.**

- **If supplying division has spare capacity, receiving division should be instructed to purchase the agreed quantities from the supplying division to ensure overall optimality.**
- **2. where no external market exists for the intermediate product, transfers should be made at the long run marginal costs.**
- **The long run marginal cost should consist of two elements: a short run marginal cost per unit of product and a fixed lump sum fee based on budgeted use of average capacity of the supplying division.**
- **This is to ensure the receiving division incorporates the full cost of the supplying division's resources.**
- **3. Where an imperfect market for the intermediate product exists, and a small number of transactions are involved, a negotiated transfer pricing system is likely to be most suitable.**
- **Some external benchmarking is likely to be used to enable a meaningful bargaining process to take place.**
- **4. where cost based transfer prices are used, standard costs and not actual costs per unit should be used. If actual costs are used, supplying division will be able to pass on the cost of any inefficiency to the receiving division.**

International transfer pricing

- **Supplying and receiving divisions may be located in different countries with different taxation rates, and the taxation rates in one country may be much lower than the other.**
- **It would be in the company's interest that most of the profits are located in the country with low tax rates.**
- **For example an organization manufactures products in country A which has a marginal tax rate of 25% and sells those products in country B where marginal tax rate id 40%. Company will use highest possible transfer price so that country be will have higher costs and lower profits. The opposite for country A.**
- **In many multi-national organizations, the taxation issues outweigh other transfer pricing issues and the dominant consideration is the minimization of global taxes.**
- **Taxation authorities are aware that companies can use the transfer pricing system to manipulate the taxable profits. The arms length principle is used:**

- **Similar transactions involving unrelated parties**
- **Deduction of profit from selling price**
- **Cost- plus method.**

7. A company purchases raw materials at a cost of Rs 5 per unit. The total annual demand for this product is 8000 units. The holding cost is Rs 3 per unit and the ordering cost is Rs 5 per order.

A quantity discount of 4% of purchase price is available for orders of 1050 units.

Should the company order in batches of 1500 units and take advantage of quantity discounts? (5 Marks)

Note: (No, I didn't make a typing error. The question was exactly like this with two different discount order sizes of 1500 and 1050 and so I knew there was a mistake in the question so I solved the question for both figures and mentioned this on top of the answer.)

Answer:

EOQ = Under-root [(2 x 8000 x 5) / 3] = 163 units

Savings made if purchase is in batches of 1050 instead of 163 units:

- **price: 4% x 40000 1600**
- **Ordering cost: $\frac{8000 \times 5}{1050} - \frac{8000 \times 5}{163}$ 207**

Holding cost: $\frac{(1050 - 163) \times 3}{2}$ -1330

Total savings 477

Decision: order in batch size of 1050 units and avail the discount.

Savings made if purchase is in batches of 1500 instead of 163 units:

- **price: 4% x 40000 1600**
- **Ordering cost: $\frac{8000 \times 5}{1500} - \frac{8000 \times 5}{163}$ 219**

Holding cost: $\frac{(1500 - 163) \times 3}{2}$ -2005

Total savings -186

Decision: order in batch size of 163 units and don't avail the discount.

8. Discuss Accounting Rate of Return in Detail? (5 Marks)

Answer:

Accounting Rate of Return:

- **Also known as return on capital employed, is calculated by dividing the average annual profits from a project by the average investment cost.**
- **Profits rather than cash flows are used.**
- **Assuming depreciation represents the only non-cash expense, profit is equal to cash flow less depreciation.**
- **When the average annual profits are calculated, only additional revenues and costs that follow from the investment are included in the calculation.**
- **The average investment figure that is used in the calculation depends upon the method of depreciation adopted.**
- **If straight line method is used, the average investment is half of the initial investment minus half the scrap value at the end of the project.**

Good Luck…!!! ☺