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NEW SYLLABUS



FOUNDATION EXAMINATION

AUTUMN 2008

MANAGEMENT ACCOUNTING

PAPER, SOLUTIONS

and

EXAMINERS REPORT

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NEW SYLLABUS

The Institute of Accounting Technicians in Ireland

Foundation Examination : Autumn 2008

PAPER 3 : MANAGEMENT ACCOUNTING

Thursday 27th August 2008 - 9.30 a.m. to 12.30 p.m.

INSTRUCTIONS TO CANDIDATES

PLEASE READ CAREFULLY

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 are answered, then only the first five, in the order filed, will be corrected.

If more than the required number of questions are answered in Section B, 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

SAULCO Ltd uses a standard costing system and has produced the following production information for the month of June 2008.

	<i>Standard</i>	<i>Actual</i>
Sales (units).....	10,000	10,000
Sales price	€/£30	€/£32
Materials used (kg).....	5,000	5,250
Materials price (per kg).....	€/£7.50	€/£7.80
Labour hours	12,500	13,650
Labour rate (per hour).....	€/£10	€/£9.70
Fixed production overhead.....	€/£66,000	€/£69,400

Requirement

- (a) Prepare a statement showing the budgeted profit and the actual profit for month of June 2008. **2 Marks**
- (b) Calculate the following variances:
- (i) sales price margin variance
 - (ii) materials usage variance
 - (iii) materials price variance
 - (iv) labour efficiency variance
 - (v) labour rate variance
 - (vi) fixed overhead expenditure variance
- 12 Marks**
- (c) Provide possible explanations for the following variances:
- (i) labour efficiency
 - (ii) materials usage
 - (iii) fixed overhead expenditure

6 Marks
Total 20 Marks

QUESTION 2

LIQUIDE Plc manufactures and sells three different types of products – Alpha, Beta and Delta. The company has recently implemented an activity based costing system and has provided you with the following information:

	<i>Alpha</i>	<i>Beta</i>	<i>Delta</i>	<i>Total</i>
Production Cost (per unit)				
Direct materials	€/£47.50	€/£55.45	€/£82.30	
Direct Labour	€/£22.00	€/£42.50	€/£72.50	
Budgeted production – units	50,000	30,000	25,000	105,000
No. of production runs	2,000	3,000	1,000	6,000
No. of orders placed	25,000	40,000	50,000	115,000
Machine hours	50,000	30,000	20,000	100,000

Production overheads by Cost pool

	€/£
Set Ups	135,000
Materials handling	546,250
Inspection	840,000
Machining	1,720,000

QUESTION 2 (Cont'd.)

Requirement

- (a) Identify the cost drivers for each of Liquide Plc'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 *Alpha, Beta* and *Delta*
 - (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) 20% mark-up on total production
 - (ii) 30% margin on sales price
- 4 Marks**
- Total 20 Marks**

QUESTION 3

LIMON Ltd is considering whether to use marginal or absorption costing to report results in its management accounts for a new division. The following information has been provided:

	<i>April</i>	<i>May</i>	<i>June</i>
Sales	40,000 units	70,000 units	70,000 units
Production	60,000 units	60,000 units	60,000 units
Fixed Production Overhead	€/£350,000	€/£350,000	€/£360,000
General Administration Overhead	€/£400,000	€/£445,000	€/£425,000
	<i>Per unit</i>	<i>Per unit</i>	<i>Per unit</i>
Sales Price	40	40	45
Direct Materials	10	10	10
Direct Labour	14	12	11
Variable Overhead	5	5	6

- In advance of the commencement of production a predetermined fixed production overhead recovery rate of €/£6 per unit was established.
- There is no opening stock.

Requirement

Prepare a report detailing the following:

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

QUESTION 4

The Managing Director of your company has recently attended a management accounting course for managers from a non-accounting background. Unfortunately, he was unable to attend the second day of the course due to an important sales meeting. As the first day's discussion sparked his interest, he has followed up by asking you to prepare a memorandum explaining and giving an applied example of the following terminology which was due to be covered in the second day:

- (a) Zero based Budgeting
- (b) Service Costing
- (c) Ideal standard
- (d) Just in time purchasing
- (e) Short term decision making

Total 20 Marks

QUESTION 5

RASS Ltd produces 3 products and has provided the following operating information:

	Product X	Product Y	Product Z
Sales - Volume.....	10,000	2,500	5,000
Sales - Price per unit	€/£40	€/£50	€/£60
Production Overheads	€/£350,000	€/£100,000	€/£250,000

- Production overhead are 65% variable and 35% fixed.
- General company overheads are £90,000 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 RASS Ltd in total.

10 Marks
- (b) Calculate the contribution/sales ratio for each product.

4 Marks
- (c) Prepare a further statement showing the contribution and profit for each product and for the company, on the following assumptions:
 - (i) Sales of products X and Z remain as presently.
 - (ii) Sales and production of product Y ceases.
 - (iii) Total fixed production overheads and general overheads are reduced by 10% and split evenly between the remaining product lines.

**6 Marks
Total 20 Marks**

QUESTION 6

Mr Jollie, the owner of FLEX Ltd has been offered an investment opportunity. It is his intention to take up this offer and invest €/\$200,000 of company funds in November 2008. He has asked you to examine his normal business cashflows and advise if it is feasible to fund the investment out of normal company funds or whether he needs to arrange special facilities with the bank. He has presented you with the following information:-

(1)	<i>Sales</i> €/\$	<i>Purchases</i> €/\$	<i>Casual wages</i> €/\$	<i>Overheads</i> €/\$
July	100,000	20,000	20,000	10,000
August	80,000	15,000	15,000	8,000
September	75,000	18,000	12,000	5,000
October	90,000	20,000	15,000	10,000
November	100,000	25,000	20,000	8,000
December	60,000	15,000	10,000	5,000

- (2) 50% of sales will be for cash and avail of an 5% discount. 25% are expected to pay 1 month after sale; 10% are expected to pay after 2 months; the balance will pay after 3 months, although it is expected that 5% of total credit sales will become bad debts (and will relate to the debts paid after 3 months).
- (3) Purchases will be paid two month in arrears.
- (4) Net salaries (65%) will be paid in the month in which they are incurred. The balance, relating to employer costs, is paid the following month.
- (5) Overheads, which include €/\$2,000 depreciation each month, are paid in the month which they are incurred.
- (6) The balance of the company's bank account at 30th September 2008 is projected to be €/\$25,000.

Requirement

- (a) Mr Jollie has asked you prepare a cash budget (cashflow forecast/projection) for FLEX Ltd, detailing projected cashflows by month for the months of October, November and December 2008. **12 Marks**
- (b) Discuss the implication of the cash budget highlighting the peak cash requirements and suggest options available to Mr Jollie. **4 Marks**
- (c) Explain briefly why there is a difference between cashflows and reported profit. **4 Marks**

Total 20 Marks





NEW SYLLABUS

The Institute of Accounting Technicians in Ireland

Foundation Examination : Autumn 2008

SOLUTIONS TO PAPER 3

Management Accounting

Author : Ms Celine McCartan FCA, MCIPD

Solution to question 1 (Saulco Ltd)

(a) Statement of Profit

	<i>Budgeted</i>		<i>Actual</i>	
	£/€	£/€	£/€	£/€
Sales		300,000		320,000
Cost of Sales				
Direct Materials	37,500		40,950	
Direct Labour	125,000		132,405	
Fixed production Overhead	<u>66,000</u>	<u>228,500</u>	<u>69,400</u>	<u>242,755</u>
Gross Profit		<u><u>71,500</u></u>		<u><u>77,245</u></u>

(b) Variance calculations

Sales price margin variance

<i>(Actual Quantity x Actual Price)</i>	–	<i>(Actual Quantity x Standard Price)</i>	=	
(10,000 x 32.00)	–	(10,000 x 30.00)	=	
320,000	–	300,000	=	20,000 Fav

Materials Usage Variance

<i>(Actual Quantity x Standard Price)</i>	–	<i>(Standard Qty x Standard Price)</i>	=	
(5,250 x 7.50)	–	(5,000 x 7.50)	=	
39,375	–	37,500	=	1,875 Adv

Materials Price Variance

<i>(Actual Quantity x Actual Price)</i>	–	<i>(Actual Quantity x Standard Price)</i>	=	
(5,250 x 7.80)	–	(5,250 x 7.50)	=	
40,950	–	39,375	=	1,575 Adv

Labour Efficiency Variance

<i>(Actual Hours x Standard Rate)</i>	–	<i>(Standard Hours x Standard Rate)</i>	=	
(13,650 x 10.00)	–	(12,500 x 10.00)	=	
136,500	–	125,000	=	11,500 Adv

Labour Rate Variance

<i>(Actual Hours x Actual Rate)</i>	–	<i>(Actual Hours x Standard Rate)</i>	=	
(13,650 x 9.70)	–	(13,650 x 10.00)	=	
132,405	–	136,500	=	4,095 Fav

Fixed Overhead Expenditure Variance

<i>(Actual Fixed O/head expenditure)</i>	–	<i>(Budgeted Fixed O/head Exp)</i>	=	
66,000	–	69,400	=	3,400 Adv

Solution to question 1 continued on next page

Solution to question 1(b) (Cont'd)

***Reconciliation of Variances to Profit
(Not required – proof of solution)***

	£/€		£/€
Budgeted Profit			71,500
Sales Price margin variance	20,000	Fav	
Materials Usage variance	(1,875)	Adv	
Materials Price variance	(1,575)	Adv	
Labour Efficiency variance	(11,500)	Adv	
Labour Rate variance	4,095	Fav	
Fixed overhead Expenditure variance	<u>(3,400)</u>	Adv	
Actual Profit			<u><u>5,745</u></u> <u><u>77,245</u></u>

(c)

- (i) Saulco Ltd may have used a lower grade of labour, who were not as skilled and therefore took longer time, resulting in the adverse labour efficiency variance of £/€11,500.
- (ii) Similarly, the unskilled workforce may also have incurred a higher than normal level of wastage, hence the adverse materials usage variance of £/€1,875.
- (iii) Fixed Overhead expenditure costs may have increased due inflationary elements such as the high cost of fuel.

Solution to question 2 (Liquide plc)

(a) Cost Pool	Cost Driver
Set up costs	No of production runs
Materials handling costs	No of orders placed
Inspection costs	Units of production
Machining costs	No of machine hours

Activity Based Overhead Absorption Rate

Set up activity cost rate
 $135,000/6,000 = \text{£/€}22.50 \text{ per production run}$

Materials handling activity cost rate
 $546,250/115,000 = \text{£/€}4.75 \text{ per order placed}$

Inspection activity cost rate
 $840,000/105,000 = \text{£/€}8 \text{ per unit produced}$

Machining activity cost rate
 $1,720,000/100,000 = \text{£/€}17.20 \text{ per machine hour}$

(b) Statement of Costs

	<i>Alpha</i> £/€	<i>Beta</i> £/€	<i>Delta</i> £/€	<i>Total</i> £/€
Set up cost	45,000	67,500	22,500	135,000
Materials handling cost	118,750	190,000	237,500	546,250
Inspection costs	400,000	240,000	200,000	840,000
Machining costs	860,000	516,000	344,000	1,720,000
Total overhead cost	1,423,750	1,013,500	804,000	3,241,250
Total production	50,000 units	30,000 units	25,000 units	105,000 units
Overhead cost per unit	28.47	33.78	32.16	
Direct materials cost	47.50	55.45	82.30	
Direct labour cost	22.00	42.50	72.50	
Total production cost	97.97	131.73	186.96	

(c) Product Selling Price

	<i>Alpha</i> £/€	<i>Beta</i> £/€	<i>Delta</i> £/€
Total Production Cost	97.97	131.73	186.96
20%	19.60	26.35	37.39
Sales Price (Mark Up)	117.57	158.08	224.35
Sales Price (Margin) *	139.95	188.18	267.08

* Margin calculation = $x \ 100/70$ (ie: $100-30$)

Solution to question 3

(a) Statement of Stockholding

	<i>April</i>	<i>May</i>	<i>June</i>
Opening Stock	-	20,000	10,000
Production	60,000	60,000	60,000
Sales	40,000	70,000	70,000
Closing Stock	20,000	10,000	-

(b) Statement of Stock Valuation

	<i>Absorption Costing</i>		<i>Marginal Costing</i>	
	<i>April</i>	<i>May</i>	<i>April</i>	<i>May</i>
Stockholding	20,000	10,000	20,000	10,000
Cost per unit				
Direct materials	10	10	10	10
Direct Labour	14	12	14	12
Variable Overhead	5	5	5	5
Fixed Overhead	6	6	-	-
Total Cost per Unit	£/€35	£/€33	£/€29	£/€27
Stock Valuation	£/€700,000	£/€330,000	£/€580,000	£/€270,000

(c) Statement of Profit & Loss

Absorption Costing			
	<i>April</i>	<i>May</i>	<i>June</i>
	£/€	£/€	£/€
Sales	1,600,000	2,800,000	3,150,000
Cost of Sales			
Opening Stock	-	700,000	330,000
Direct Materials	600,000	600,000	600,000
Direct Labour	840,000	720,000	660,000
Variable Overhead	300,000	300,000	360,000
Fixed Production Overhead	360,000	360,000	360,000
Closing Stock	(700,000)	(330,000)	-
Cost of Goods Sold	1,400,000	2,350,000	2,310,000
Gross Profit	200,000	450,000	840,000
Under/(Over) absorbed Fixed Prod'n Overhead	(10,000)	(10,000)	-
General Overhead	400,000	445,000	425,000
Net Profit /(Loss)	(190,000)	15,000	415,000

Solution to question 3 (c) continued on next page

Solution to question3 (c) (Cont'd)

Marginal Costing

	<i>April</i> £/€	<i>May</i> £/€	<i>June</i> £/€
Sales	1,600,000	2,800,000	3,150,000
Cost of Sales			
Opening Stock	-	580,000	270,000
Direct Materials	600,000	600,000	600,000
Direct Labour	840,000	720,000	660,000
Variable Overhead	300,000	300,000	360,000
Closing Stock	(580,000)	(270,000)	-
Cost of Goods Sold	1,160,000	1,930,000	1,890,000
Gross Profit	440,000	870,000	1,260,000
Fixed Prod'n Overhead	350,000	350,000	360,000
General Overhead	400,000	445,000	425,000
Net Profit	(310,000)	75,000	475,000

(d) Reported Profit/(Loss)

	<i>April</i> £/€	<i>May</i> £/€	<i>June</i> £/€
Absorption Costing	(190,000)	15,000	415,000
Marginal Costing	(310,000)	75,000	475,000
Difference	(120,000)	60,000	60,000

The absorption costing figures are related to production and include a fixed overhead element (at the pre-determined overhead absorption rate of £/€6 per unit) in the closing stock at the end of each month. This results in lower reported losses in the month of April, when production is higher than sales and lower reported profits in subsequent months when production is lower than sales.

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

Solution to question 4

MEMORANDUM

To : Managing Director
From: Student
Re: Costing Terminology

Date XX/XX/XX

In response to your enquiry in relation to costing terminology, I have set out a definition and practical example of each of the relevant terms:

(a) Zero Based Budgeting

Zero based budgeting is defined as

‘a method of budgeting whereby all activities are re-evaluated each time a budget is formulated. Each functional budget starts with the assumption that the function does not exist and is at zero cost. Increments of cost are compared with increments of benefit, culminating in the planning maximum benefit for a given budgeted cost’
 CIMA

Zero based budgeting is a cost benefit approach which starts with a Nil budgetary allocation, until each item of cost expenditure is justified. By adopting this through, questioning approach budgetary allocations can be matched with organisational objectives and ensures that expenditure benefits the organisation.

This approach was developed by P Phyr in the US during the 1970’s and has gained much support. Zero Based Budgeting is concerned with using opportunity costing to evaluate the costs and benefits of alternatives.

Example. A marketing budget is set at Nil

A detailed specific marketing programme linked to organisational objectives and sales targets is prepared, which details proposed cost

	£/€
Print advertising	4,000
Promotional Materials	2,000
Product Launch	1,750
Staff Cost	10,000
Total Budget	<u>17,750</u>

(b) Service Costing

Service costing is defined as “cost accounting for specific services or functions. For example canteens; maintenance; personnel. These may be referred to as service centres, departments or functions”

In a manufacturing organisation, this type of costing is used to calculate the cost of providing a service internally.

Example – the cost of the maintenance department could be allocated to other cost centres on the basis of the value of equipment used or using more detailed maintenance time records.

Service costing is also appropriate for costing services provided for sale by service organisations. All costs incurred are collated, analysed and then expressed in terms of a cost per unit of service. The cost per unit of service is calculated as follows:

$$\text{Cost per unit of service} = \frac{\text{Total costs incurred for the period}}{\text{No of units of service in the period}}$$

Example - a transportation firm's costs are allocated on the basis of miles/kilometres or tonnes transported per mile.

(c) Ideal standard

An ideal standard is defined as 'a standard which can be attained under the most favourable conditions with no allowance for normal losses, waste and machine breakdown. Also known as a potential standard'.

An ideal standard is a target production cost which should be attained in the best possible operating conditions (ie: no wastage; no breakdowns; no downtime). Because in reality this is an unlikely situation, ideal standards are normally unattainable in practice, and therefore are rarely used except for development or research purposes. The ideal standard can be used to inform the normal attainable standard, which should be based upon technical, engineering and work studies.

Example:

A widget, produced in perfect working conditions has the following costs

			£/€	£/€
Direct Materials	2 kg	@	5	10.00
Direct Labour	4 hours	@	10	40.00
Production overhead	4 hours	@	4	16.00
				<u>66.00</u>

Due to normal losses and expected downtime, the standard cost of widget is

			£/€	£/€
Direct Materials	2.5 kg	@	5	12.50
Direct Labour	5 hours	@	10	50.00
Production overhead	5 hours	@	4	20.00
				<u>82.50</u>

(d) Just in Time Purchasing

The philosophy of Just in time (JIT) which involves the elimination of waste originated in Japanese production environments in the 1970's and 1980's in order to create greater efficiency. JIT requires the examination of all aspects of operations, including purchasing.

JIT purchasing involves the delivery of materials only in quantities sufficient to satisfy immediate production requirements. There is no buffer or safety stock and all deliveries must be defect free. This requires close contact between manufacturer and supplier. Often in JIT purchasing relationships, in exchange for high quality products – long term supply contracts are agreed.

The advantages of JIT purchasing include reduction in stockholding costs; lower space requirements; shorter throughput times; reduction in stocks of parts and finished products; production of better quality products; reduced scrap; less stock-outs and for shorter periods.

Example: JIT purchasing

Production requires 100 units of Product A on Day 1
 200 units of Product B on Day 2
 500 units of Product C on Day 4

Company enters into a supply agreement with a local company to deliver Products A, B and C as required on Day 1, 2 and 4 respectively.

(e) 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. However as fixed costs will be incurred regardless, 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

I trust this answers your initial queries and I shall be happy to discuss these issues at further length with you.

A Student

Solution to question 5 RASS Ltd

(a) Statement of Contribution and Profit

	<i>Product X</i> £/€	<i>Product Y</i> £/€	<i>Product Z</i> £/€	<i>Total</i> £/€
Sales	400,000	125,000	300,000	825,000
Variable Production Overhead	227,500	65,000	162,500	455,000
CONTRIBUTION	172,500	60,000	137,500	370,000
Fixed Production Overhead	122,500	35,000	87,500	245,000
Apportioned General Overhead	30,000	30,000	30,000	90,000
NET PROFIT	20,000	(5,000)	20,000	35,000

(b) Contribution/sales ratio

	<i>Product X</i> £/€	<i>Product Y</i> £/€	<i>Product Z</i> £/€	<i>Total</i> £/€
Sales	400,000	125,000	300,000	825,000
CONTRIBUTION	172,500	60,000	137,500	370,000
Contribution/Sales ratio	43.125%	48%	45%	

(c) Revised Statement of Contribution and Profit

	<i>Product X</i> £/€	<i>Product Z</i> £/€	<i>Total</i> £/€
Sales	400,000	300,000	700,000
Variable Production Overhead	227,500	162,500	390,000
CONTRIBUTION	172,500	137,500	310,000
Fixed Production Overhead *	110,250	110,250	220,500
Apportioned General Overhead *	40,500	40,500	81,000
NET PROFIT	21,750	(13,250)	8,500

* Working – Recalculation of Overhead Costs

	Fixed Production Cost £/€	General Overhead £/€
Original Costs	245,000	90,000
Less 20%	(24,500)	(9,000)
Revised Cost	220,500	81,000
Product X – 50%	110,250	40,500
Product Z – 50%	110,250	40,500

Solution to question 6 (Flex Ltd)

(a) Cashflow Forecast

	October 2008 £/€	November 2008 £/€	December 2008 £/€	TOTAL £/€
Cash Inflows				
Cash Sales	42,750	47,500	28,500	118,750
Credit Sales	39,250	40,000	43,375	122,625
	82,000	87,500	71,875	241,375
Cash Outflows				
Purchases	15,000	18,000	20,000	53,000
Salaries - Net	9,750	13,000	6,500	29,250
- Other	4,200	5,250	7,000	16,450
Overheads	8,000	6,000	3,000	17,000
Purchase of equipment		200,000		200,000
	36,950	242,250	36,500	315,700
Net inflow/(outflow)	45,050	(154,750)	35,375	(74,325)
Opening balance	25,000	70,050	(84,700)	25,000
Closing balance	70,050	(84,700)	(49,325)	(49,325)

Sales workings

	Cash			1 month	2 months	5%	12.5%
	50%	5%	Net	25%	10%		
July						2,500	12,500
August					8,000	2,000	10,000
September				18,750	7,500	1,875	9,375
October	45,000	2,250	42,750	22,500	9,000	2,250	11,250
November	50,000	2,500	47,500	25,000	10,000	2,500	12,500
December	30,000	1,500	28,500	15,000	6,000	1,500	7,500

Credit sales receipts

	1 month credit	2 month credit	3 month credit	Total
	£/€	£/€	£/€	£/€
October	18,750	8,000	12,500	39,250
November	22,500	7,500	10,000	40,000
December	25,000	9,000	9,375	43,375

(b) The peak cashflow requirement is in the month of November - £/€84,700

Mr Jollie could consider the following options:

- reduce terms of credit sales and increase cash inflows
- increasing credit taken from suppliers
- seek additional capital funding (eg share issue)
- reduce amount of proposed investment
- seek term loan facilities from bank.

(c)

The main reason why there is a difference between profit and cashflow during a period are:

- there are costs that do not involve depreciation, for example, depreciation
- there are 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 are also differences between profit and cashflows caused by changes in stock levels, depending on the basis of the stock valuation.

NEW SYLLABUS

EXAMINERS REPORT

Management Accounting

Autumn 2008

Statistics							
Question	1	2	3	4	5	6	Total
No attempting	217	212	194	102	186	177	239
Average Mark	13.41	12.32	12.21	9.85	10.77	9.49	
Average %	67%	62%	61%	49%	54%	47%	
Overall pass rate	70%						
Overall Average mark	53%						

General Comment

This was the second management accounting paper set in the context of the new syllabus. The overall performance at this session has improved slightly on the first sitting with an average mark of 53% (Summer – 51%) and a Pass Rate of 70% (Summer – 66%).

The examination assessed all aspects of the syllabus and in terms of content presentation and layout was very similar to the published pilot paper for this examination. As previously, the format comprised of five scenario based, largely computational type questions with some associated theory which aimed to assess the application of key concepts of the syllabus in practical situations; and a question requiring the definition and explanation of terminology.

There was a clear divide in terms of the quality of the scripts with some excellent submissions (top mark – 98%) and some very poor submissions. In general terms, where the candidate made a reasonable attempt at the required 5 questions, they gained sufficient marks to pass. Candidates who did not complete the requisite number of questions or who left out significant parts of a question struggled to achieve the required grade. Candidates who were well prepared presented answers in a logical and professional format, with relevant supporting workings evident.

The average marks for individual questions ranged from 9, in respect of questions 4 and 6 to 13 for question 1. The average mark in four of the six questions exceeded 50%. The most popular question on the paper was Question 1 which dealt with variance analysis and the least popular was Question 4 – the theory/terminology question.

Question 1

This question examined standard costing in the context of variance analysis. Most candidates scored well, however mistakes were most common where some candidates calculated a total variance (e.g. total materials variance) rather than calculating the specific question requirement (e.g. Materials usage and materials price variance). Some expressed their variance in hours or kgs and did not present their answer in terms of €/£. **Part (c)** of the question requires an explanation for the variance – not a restatement of the variance formulae. As stated this was the most popular question on the paper which scored an average mark of 13.4.

Question 2

This question examined activity based costing in a typical manufacturing scenario. Many solutions were very accurate and the main errors arose when students tried to adopt a traditional overhead absorption method, largely ignoring the cost drivers at **part (b)**. **Part (c)** required a costing based on mark up and margin – most correctly calculated the mark-up but struggled with the margin calculation – which is somewhat concerning.

Question 3

This question required a standard comprehensive comparison between marginal and absorption costing. Most candidates completed stock calculations correctly, although some did not provide a correct stock valuation. Most also correctly identified the positioning of the fixed production overhead in the relevant statements. Marks were lost where they were lost related to the figures used for fixed production overhead and only some identified the under/over absorption issue in absorption costing and the actual period cost in the marginal costing. The average mark for this question was 12, which reflected satisfactory performance in this important area of the syllabus.

Question 4

This question required a discussion of a number of specific terms in connection with costing in a manufacturing environment. Presentation was in most cases quite good and candidates made some relevant comment in respect of each of the topics. This discussion would have been usefully supplemented by the use of relevant examples (e.g. of the use of zero based budgeting, service costing, etc.). This was the least popular question on the paper and also scored an average mark of 9.85.

Question 5

This computational question was in the area of decision making and required students to complete calculations using cost-volume-profit techniques and consider alternate scenarios. The average mark was 10.7. Most candidates were able to identify the issues in the scenario, even if they did not have all the correct calculations. It was disappointing to note that the part which provided the most difficulty was **part (b)** which required the calculation of a C/S ratio for the three products.

Question 6

The final question examined budgeting – a key element of the cost planning and control aspect of the syllabus. It was the question which attracted the lowest overall mark on the paper due to a number of fundamental errors. It was surprising how few answers correctly calculated the sales income for the three months concerned and many chose to ignore consideration of the investment. The standard of answers to **parts (b)** and **(c)** varied from comprehensive to poor.

