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GULF COLLEGE – MUSCAT – SULTANATE OF OMAN

UNDERGRADUATE BUSINESS PROGRAMME

ACADEMIC YEAR: 2016-2017

Second Semester

Assignment

Module Title: Managerial Accounting

Module Code: BLB00045-5

Method of Assessment : Assignment

Weighting: 50%

Module Credits: 30

Level: 5

Semester/Teaching block: 2

Morning / Evening session : Both

Examiner: Sonia Shibila Allen

Additional Information (if any): Maximum Word Length:2000 words

Module Name: Managerial Accounting

Module Code: BLB00045-5

Module Leader: Sonia Shibila Allen

Weighting: 50%

Submission Time and Date: June 4th to 6th, 2017

You should hand in one copy of your assignment by the time and date above to the appropriate 'hand-in location' at the Gulf College. Fill in the front cover (staple together with your assignment). MAKE SURE that you fill in all the relevant details on this form. An acknowledgement will be given to you upon receiving your assignment. This is your receipt, keep it. You can submit work by post, but you must send it recorded delivery, it must be postmarked two days before the deadline date and a copy must be kept by you in case it is lost in the post. Faxed assignments will not be accepted.

Assignments **must** be submitted by the due date. The only circumstance in which assignments can be submitted late is if an extenuating circumstances form is submitted at the same time. In these circumstances work may be submitted up to 5 days late only. If the extenuating circumstances are upheld, the assignment will be graded, otherwise a 0 will be awarded.

Maximum Word Length: 2000 words

State the number of words used at the end of your assignment. You may include diagrams, figures etc. without word penalty. A sliding scale of penalties for excess length will be imposed according to the amount by which the limit has been exceeded.

1-10%	excess	no penalty
11-20%	excess	10% reduction in the mark
21-30%	excess	20% reduction in the mark
31%+	excess	the work will be capped at a pass i.e. 40%.

NB. None of the above penalties will be used to change a student mark which is above the pass mark, to one that is below the pass mark. Therefore the *maximum penalty* for exceeding the word limit will be a reduction to a pass grade.

This assignment will assess the following learning outcomes:

- LO1 Analyse costs in business organisations contexts
- LO2 Apply cost estimation techniques in a range of business situations
- LO3 Evaluate cost and revenue information and costing methods for managerial decision-making
- LO5 Effectively communicate cost and revenue information in a decision making context.

ANSWER ALL THE QUESTIONS

Question 1



GlaxoSmithKline

The exchange of information between production and finance departments is crucial when it comes to controlling costs and meeting production needs. Any information produced by accountants needs to be timely and readily understood by non-financial managers if cost reductions are to be realised.

In 2011, GlaxoSmithKline's finance team in Cape Town embarked on a mission to simplify and improve the flow of financial and operational information across the organisation. The key objective was to embed sound management accountancy principles within the Cape Town factory so that meaningful information could be shared and acted upon.

This initiative gave management accountants greater participation and involvement with the operational side of the business. In turn, that led to an increased ability within production departments to make more effective and timely decisions.

The initiative was particularly effective for the annual standard setting process. Leveraging clearer management information meant that the finance and production teams could identify a range of key products and trim costs by 9% to 15% year on year.

With a strong commitment to driving improvement, reducing cost and waste, and increasing the robustness of the manufacturing process while maintaining the highest quality in its production line, the company's management accountants now have more exposure within production

departments. They directly influence the daily activities of the Cape Town factory and those cost reductions testify to the fact that having the right people with the right knowledge and attitude in place is crucial when it comes to achieving growth and sustainability.

Mark Petersen, Cost Accountant at GlaxoSmithKline, says: 'As an organisation and a CIMA Training Partner, our perspective is that CIMA has the right balance of professional knowledge and understanding when it comes to interpreting what the numbers mean and what you can do with them. Our job as management accountants is to assist in the interpretation of those numbers to non-financial users through simplification and easy to understand reporting within the factory and providing possible solutions as opposed to merely laying out the trends and analysis.'

For me, a good management accountant takes the data presented to a simplistic level by putting forward ideas for possible remedial actions. Developing simplified management accounting visuals and placing them in the hallways of the factory has enabled daily interaction with the production department, where real-time reporting information is shared on the factory floor. The major advantage is knowing exactly what product to focus on at that given period.'

Source : <http://www.cimaglobal.com/Employers/CGMA-The-new-global-standard/Case-Studies/#>

Based on the article above, you are required to:

- i. Set out the main types of purpose for which managerial accounting may be required in a business organisation. 7 marks
- ii. Explain how GlaxoSmithKline improved the performance of its management accounting system. 8 marks

Total 15 marks

Question 2

Auckland Public Limited Company manufactures three products in two production departments, a machine shop and a fitting section; it also has two service departments, a canteen and a machine maintenance section. Shown below are next year's budgeted production data and manufacturing costs for the company.

	Product X1	Product X2	Product X3
Production	8400 units	13800 units	3400 units
Prime cost:			
Direct materials	OMR22 per unit	OMR28 per unit	OMR34 per unit
Direct labour:			
Machine shop	OMR12 per unit	OMR8 per unit	OMR4 per unit
Fitting section	OMR24 per unit	OMR6 per unit	OMR42 per unit
Machine hours per unit	12 hours per unit	6 hours per unit	8 hours per unit

	Machine shop	Fitting section	Canteen	Machine maintenance section	Total
Budgeted overheads (OMR):					
Allocated overheads	55 320	38 940	33 200	53 300	180 760
Rent, rates, heat and light					34 000
Depreciation and insurance of equipment					50 000

Additional data:

Gross book value of equipment (OMR)	300 000	150 000	60 000	90 000
Number of employees	36	28	8	8
Floor space occupied (square metres)	7 200	2 800	2 000	1 600

It has been estimated that approximately 70 per cent of the machine maintenance section's costs are incurred servicing the machine shop and the remainder incurred servicing the fitting section.

Required:

1. Calculate the following budgeted overhead absorption rates:
 - i. A machine hour rate for the machine shop
 - ii. A rate expressed as a percentage of direct wages for the fitting section.

All workings and assumptions should be clearly shown. 9 marks

2. Calculate the budgeted manufacturing overhead cost per unit of product X1. 2 marks

3. The production director of Auckland PLC has suggested that 'as the actual overheads incurred and units produced are usually different from the budgeted and as a consequence profits of each month end are distorted by over/under absorbed overheads, it would be more accurate to calculate the actual overhead cost per unit each month end by dividing the total number of all units actually produced during the month into the actual overheads incurred.'

Critically examine the production director's suggestion. 4 marks

Total 15 marks

Question 3

You are provided with the following data from the books of the company Paragon Product Ltd., producing one product XXX, for the year 2016.

Direct material cost per unit	OMR24
Direct labour cost per unit	OMR27.20
Variable manufacturing overhead per unit	OMR2.80
Total fixed manufacturing overhead per year	OMR344,000
Variable selling and administration expenses	OMR6 per unit sold
Fixed selling and administration expenses	OMR196,000
Number of units produced per year	30,000 Units
Number of units sold per year	24,000 Units
Opening stock of finished goods	0
Selling price	OMR120

You are required to:

1. Calculate the profit under marginal costing and absorption costing
8 marks
2. Explain the reason for any difference in net profit reported in the two statements and reconcile any such difference
4 marks
3. According to the information given, calculate the quantity of product XXX that Paragon Product Ltd. needs to sell to breakeven next year. 4 marks
4. Based on the following expectations of Paragon Product Ltd. for the next year 2017:
 - All the variable costs will increase by one third.
 - Fixed costs will increase by 10%.

- The income tax rate of 40% will be unchanged

You are required to:

- Calculate the selling price to be adopted in 2017 which would maintain the same contribution rate as 2016
4 marks
- Calculate the sales volume for a target net profit of OMR180,000 in 2017
4 marks
- Critically evaluate the use of 'Cost-Volume-Profit analysis in decision making.
6 marks

Total 30 Marks

Question 4

A furniture making business manufactures quality furniture to customers' orders. It has three production departments and two service departments. Budgeted overhead costs for the coming year are as follows:

	Total(OMR)
Rent and rates	25 600
Machine insurance	12 000
Telephone charges	6 400
Depreciation	36 000
Production supervisor's salaries	48 000
Heating and lighting	<u>12 800</u>
	140 800

The three production departments – A, B and C and the two service departments – X and Y, are housed in the new premises, the details of which, together with other statistics and information, are given below.

	Departments				
	A	B	C	X	Y
Floor area occupied(sq.metres)	6 000	3 600	1200	1 200	800
Machine value(OMR '000)	48	20	16	8	4

Direct labour hours budgeted	6 400	3 600	2 000		
Labour rates per hour(OMR)	7.60	7.00	6.80	6	6
Allocation overheads:					
Specific to each department(OMR'000)	5.6	3.4	2.4	1.6	1.2
Service department X's cost apportioned	50%	25%	25%		
Service department Y's cost apportioned	20%	30%	50%		

Required:

i. Prepare a statement showing the overhead cost budgeted for each department, showing the basis of apportionment used. Also calculate suitable overhead absorption rates.

18 marks

ii. Why are budgeted overhead rates preferred to actual overhead rates? 6 marks

iii. Give the reasons for the under or over-recovery of overheads at the end of the accounting period. 6 marks

Total 30 marks

Question 5

XYZ Limited makes three main products, using broadly the same production methods and equipment for each. A conventional product costing system is used at present, although an Activity Based Costing System is being considered. Details of the three products for a typical period are:

	Hours per Unit			Volumes
	Labour hours	Machine hours	Materials Per unit (OMR)	
Product X	1	3	40	1500
Product Y	3	2	24	2500
Product Z	2	6	50	14000

Direct labour cost OMR6 per hour and production overheads are absorbed on a machine hour basis. The rate for the periods is OMR28 per machine hour.

Further analysis shows that the total of production overheads can be divided as follows:

Costs relating to set ups	35%
Cost relating to machinery	20%

Costs relating to materials handling	15%
Costs relating to inspection	<u>30%</u>
Total production overhead	<u>100%</u>

The following activity volumes are associated with the product line for the period as whole.

Total activities for the period:

	Number of Set ups	Number of Movements of materials	Number of inspections
Product X	150	24	300
Product Y	230	42	360
Product Z	<u>960</u>	<u>174</u>	<u>1340</u>
	<u>1340</u>	<u>240</u>	<u>2000</u>

You are required:

1. Calculate the cost per unit for each product using conventional method. 3 marks
2. Calculate the cost per unit for each product using ABC principles. 13 marks
3. Comment on the reason for any differences in the costs in your answers to questions (1) and (2). 4 marks

Total 20 marks

Total: 100 marks

Plagiarism Warning

Summary

- Plagiarism occurs if you use somebody else's work in an assignment or exam answer, but fail to state where you got the material from.
- It can happen in any type of assessment where you are given the questions or tasks in advance.
- If another student uses your work in their answer(s), both you and they will be punished when caught.
- Punishments for committing plagiarism can be very severe.

The details

Plagiarism is a form of cheating in which students use the work of others and present it as their own. Staffordshire University publishes a fully detailed description of what the term 'plagiarism' means on the University's main web-site under the heading '*Procedures for dealing with suspected cases of academic dishonesty*'. We strongly recommend that you go and read the full document at the above address. Meanwhile, here is an extract of some of the relevant content. You will have committed plagiarism and may be caught, reported and punished (as described below) if you:

- Copy extensively from the work of others (from sources such as books, magazines, journals, web-sites for example) and submit the work as your own. NB It is acceptable to refer to the work of others as long as you do not use too much, and reference your sources properly. If you do not know how to do this, please follow the guidelines given in the document entitled '*Adding quotations and references to your written work*' at this web-site address:
<http://www.staffs.ac.uk/schools/business/bsadmin/staff/s3/jamr.htm>
- Copy another students' work and submit it for assessment under your own name.

- Allow another student to copy *your* work and they then submit it for assessment under *their* name

This last item is of particular importance; few students seem to understand what it means. If, for example, you allow another student to borrow your work and they subsequently copy some that work and present it as their own, you and they will *both* be punished even though someone else copied your work.

The risks of working with other students

Some assessment tasks are explicitly designed for group work, and it will be made clear that a group answer is expected from you. All other tasks are intended as an assessment of your *individual* comprehension and performance, and group answers are not permitted. In individually assessed forms of assessment your work must be different from that of every other student. Plagiarism can occur in assignments and any examination where the questions are issued to students in advance. In both cases it is possible for you to ask other people about how best to answer the questions or complete the necessary tasks

You should be aware that *different modules* and subjects may have *different* requirements. In some subjects, answers to questions may, for example, require every student on a module to employ or refer to the same diagram(s), concepts and the like in order to construct an acceptable answer. You should note, however, that even in these circumstances your explanations of what the diagrams mean, and any other writing referring to any common diagrams and concepts should all be *in your own words*. Moreover, the situation may be very different on other modules, where the submission of work that has a very similar structure, or the use of very similar materials such as concepts, diagrams, quotations and the like, to that of another student, may lead to you being accused of plagiarism.

The picture is complicated and, unfortunately, it is not possible to give advice that is directly relevant to *every* module you study. If you are unsure about how to avoid plagiarism in any specific module, then rather than hoping and guessing, you should ask for guidance from the member of staff who delivers that module.

Our overall advice is straightforward; by all means discuss how best to answer questions or complete tasks with your colleagues, but when it comes to actually writing your answers - **DO IT ALONE!**

What happens if you get caught?

Contrary to some student rumours, getting caught and being punished for committing plagiarism is *not* an extremely unusual student offence. The Business School typically uncovers and reports for disciplinary action 25 to 30 students each year for plagiarism.

Examination Boards may punish offending students in any manner that they deem fit. Typical punishments Boards may choose range from reducing grades, making students re-sit modules, through to failing students on a module or an entire award. The University regards this form of cheating as a serious offence. Full details of the range of likely punishments can be found on the University's web-site under the heading *'Procedures for dealing with suspected cases of academic dishonesty'*.

Please consider yourself warned.