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Family Name					
Given Name/s					
Student Number					
Teaching Period	Semester 1, 2019				

ACT502 – Management Accounting	DURATION	
	Reading Time:	10 minutes
	Writing Time:	180 minutes
INSTRUCTIONS TO CANDIDATES		
<p>There are eight (8) questions in total. Marks are shown for each question. Complete requirements for all the questions, show your calculations. Answers to all the questions should be provided in the space provided below each question. Additional answer booklet is NOT provided.</p>		
EXAM CONDITIONS		
<p><u>You may begin writing from the commencement of the examination session.</u> The reading time indicated above is provided as a guide only.</p>		
This is a RESTRICTED OPEN BOOK examination		
Any non-programmable calculator is permitted		
No handwritten notes are permitted		
Any hard copy, unannotated English dictionary is permitted		
ADDITIONAL AUTHORISED MATERIALS	EXAMINATION MATERIALS TO BE SUPPLIED	
No additional printed material is permitted	2 x Scrap Paper	

Question	Marks	Question	Marks
1		5	
2		6	
3		7	
4		8	

Total Marks /100

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DOUBLE-SIDED.**

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Question 3

(14 Marks)

Strong Cartons Australia Pty Ltd uses ABC system. Following table demonstrates their activities:

Activity area	Cost driver rate in 2018
Order processing	\$50 per order
Line-item ordering	\$4 per line item
Store deliveries	\$55 per store delivery
Carton deliveries	\$2 per carton
Shelf stocking	\$18 per stocking-hour

Jo Smith, the financial controller of the company wishes to use ABC system to examine individual customer profitability within each distribution market. He focuses first on the single-store distribution market particularly in two customers (Smart Metal, Soft Fixer).

The following table relates to these customers in October 2018.

	Smart Metal	Soft Fixer
Total orders	14	11
Average line items per order	10	19
Total store deliveries	8	11
Average carton shipped per store delivery	23	21
Average hours of shelf stocking per store delivery	0.2	0.6
Average revenue per delivery	\$2500	\$1900
Average cost of goods sold per delivery	\$2200	\$1750

Required:

Use this information to:

1. Compute the Activity-Based costing and operating profit for each customer as of October 2018.(10 marks)
2. Comment on your findings. (4 marks)

Question 4

(12 Marks)

McDonald Corporation is one of the largest hamburger fast food restaurants chain in the world. The restaurants serve various menus at a variety of prices for about 68 million people in 119 nations, with over 33,000 franchising stores worldwide. McDonald focuses on the placement of the company, suppliers and franchisees known as three-legged stool system.

The business is managed based on a geographical structure model, which allows them to take a part in the local communities and enables the company itself to adjust to the changing customer needs by identifying and implementing the innovations. To achieve customer satisfaction and an increased market share, they pursue strategies such as quality food and services, cleanliness. These values are the same everywhere, but McDonald allows local franchises to adapt to the country culture that operates in, so that local consumers' needs could be satisfied and the development can be maximized.

McDonald focuses on meeting the needs of the employees to improve customer satisfaction and profitability. It leverages a compelling employee value proposition, providing values such as trainings, benefits and opportunities to its workers. This is referred to as Employee Value Proposition (EVP). Executives believe that this value proposition will continue to have good impact on the achievement of its goals, and their strength in financial resources (arising from the branches in over 119 countries) and the image of the brand enables them to increase their profits, market share and return to their shareholders.

Required:

Design a Balanced Scorecard for McDonald that would support the achievement of the company objectives, including:

- a) Two objectives for each of the four perspectives of the Balanced Scorecard (4 marks)
- b) Two measures for each objective. (8 marks)

Provide your answers in the table below.

Perspective	Objectives	Performance Measures
Financial		
Customer		
Internal Business Processes		
Learning and Growth		

Question 5

(14 Marks)

Part A (6 Marks)

The Sydney City Council is considering the purchase of a site for a new sanitary land-fill. The purchase price for the site is \$100,000 and preparatory work will cost \$34,200. The land-fill would be useable for 10 years. The Council hired a consultant, who estimated that the new land-fill would cost the city \$20,000 per year less to operate than the city's current land-fill. The current land-fill also will last 10 more years. For a land-fill project, the Sydney City Council can borrow money at 4 per cent.

Required:

Calculate the net present value of the new land-fill.

Part B (4 Marks)

Explain three limitations of the payback method that the management of Sydney City Council need to be aware of?

Part C (4 Marks)

Suppose the manager of Sydney City Council is using capital budgeting to evaluate two alternative business opportunities. Both require comparable investments and have comparable average cash flows. However, the cash flows of one business appear to be more volatile than those of the other (ie. the cash flows of this opportunity vary more about its average). Is this an important consideration in capital budgeting? Justify your answer.

Question 6

(12 Marks)

Spartan Leather operates in Sydney. The company manufactures two types of Tool bags: a) Everyday Use and b) Heavy Duty. Production and sales result for last year are shown in the table below:

	Heavy Duty Bag	Everyday Use Bag
Units sold	9,500	21,000
Selling price per unit	\$98	\$76
Variable cost per unit	\$53	\$41
Fixed cost per unit	\$25	\$25

Spartan averages total fixed costs over the total number of units (of both heavy duty and everyday use) produced and sold. The research department has developed a new product (Super) as a replacement for everyday use bag. Market studies show that Spartan Leather could sell 11,000 units of Super bags next year a price of \$120, the variable cost per unit of this product is \$50. The introduction of Super bag will lead to a 10% increase in demand for Heavy Duty bags and discontinuation of Everyday Use bags. If Spartan does not introduce the new product, it expects next year's results to be the same as last year's.

Required:

Should Spartan Leather introduce Super bags next year? Explain why or why not. Conduct incremental analysis to support your decision.

Question 7

(10 Marks)

Part A (5 Marks)

HJ Heinz is manufacturer and supplier of infant food. The glass bottles are produced in the bottle division, and then transferred to the food division, where they are filled with food contents. The company's best-selling product is 'Big Red Soup'. The standard cost of the bottle of Big Red Soup is shown in the following table:

	Bottle division	Food division
Direct material	\$10	\$20
Direct labour	\$ 20	\$10
Variable Overhead	\$25	\$32
Total standard cost	\$68	\$80

Bottle division can also sell the bottles directly to glass bottle wholesalers. The sales price for a unit of bottles is \$85. The food division sells its finished product for \$6.00.

Required:

- 1- Assume that there is no spare capacity in the Bottle division:
 - a) Use general rule to calculate the transfer price for bottles (1 mark).
 - b) Calculate the transfer price if it is based on standard variable cost with a 10% mark-up (1 mark).

- 2- Assume that there is spare capacity in the bottle division.
 - a) Use the general rule to calculate transfer price for bottles (1 mark),
 - b) Explain why your answers to requirements 1(a) and 2(a) differs (2 marks)

Part C (2 Marks)

At Dell Computers, managers of profit centres and investment centres have considerable autonomy in deciding whether to accept or reject orders for goods or services, and whether to source their materials and components, or services, from inside or outside the organization. They also have considerable autonomy over setting and accepting transfer prices. Describe the difference between market-based and cost-based pricing that managers of Dell, might choose to use?

Question 8

(10 Marks)

Part A (7 Marks)

Lights Shine is a retailer of electrical products and operates with three units: White Light, Light Bolb and ExLight. At the end of each year the three divisional managers are evaluated and bonuses are awarded based on ROI. Last year the company as a whole produced a ROI of 13%. Recently the management of White Light was approached about the possibility of buying the operations of a competitor ComLight. The following data relate to recent performance of White Light and ComLight.

	White Light	ComLight
Sales	\$8,650,000	\$5,450,000
Variable costs	72% of sale	67% of sale
Fixed costs	\$2,200,000	\$1,700,000
Invested capital	\$1,720,000	\$500,000

If the acquisition occurs, the operations of ComLight will be absorbed into the White Light.

