Applied Management Accounting: Summary of corrections to course materials

These changes affect version V001 of the materials.

Course Notes

Pg 40-41	The answer to practice example 12 is given in answer 13 and the answer to practice example 13 is given in answer 12.
Pg 328	Answer to practice example 3 part (b) 'Explain why….' has been re-written as follows (previously made reference to reduced volumes from years 2 to 3): There are a number of reasons why the costs have changed over the 3 years. From year 1 to year 2 the cost per unit has fallen. This could be due to economies of scale, with Addles purchasing bigger volumes of raw materials and receiving discounts. The learning effect will reduce the production time for the lawnmowers, and therefore the labour costs along with any variable overheads will decrease. There may also be a reduction in wastage due to increased staff experience in year 2. The marketing cost has increased from years 1 to 2 due to promotional activities to increase market presence. From years 2 to 3 the unit production cost has increased. It may be that Addles has lost some of the discounts enjoyed previously, as their suppliers have decided not to continue offering them. Staff may have begun being transferred to new products and projects, and so the labour efficiencies of experience are less, causing the labour costs to increase. There may also be higher machine running and maintenance costs as the equipment is now older. The marketing costs have reduced from years 2 to 3, as the product is no longer being promoted and inventory is being sold off.
Pg 329	Answer to practice example 6 part (b) should be £1,532.88.
Pg 355	Practice example 9 should say: An investment has an NPV of £24**m** at 5% and an NPV of -**£**6m at 10%.
Pg 370	Workings for practice example 10 should say: Total cash inflows = £15,000 + £20,000 + £25,000 + £30,000 + £35,000 (Answer is correct)
Pg 370	Answer to practice example 11 should be 22.88% (2 decimal places).

Pg 371

Answer to practice example 13 should be:

	Annual cashflow £	Cumulative cashflow £
Investment	(85,000)	(85,000)
First year	33,500	(51,500)
Second year	33,500	(18,000)
Third year	33,500	15,500

Payback period _____2.5_____ years

Cash generated p.a. = profit + depreciation = 25,000 + (85,000 / 10) = 33,500

Payback is 2 years + 18,000/33,500 = 2.5 years

Task Bank

Pg 12

Task 1 Revision Example 2 part (d)

Last line of the table should say: Sales revenue at year **4** prices (£)

Pg 106

Task 2 Revision Example 2 part (a)

Answer should be:

Material Usage Budget	Material D	Material H
	2kg	3kg
Production of TreeLeaf (Production Volume x kg per unit) (25000 x 2kg : 25000 x 3kg)	50,000	75,000
Add Wastage (50,000 / 98 x 2) ; (75,000 / 98 x 2)	1,020	1,531
Total Material Usage (check 50,000 / 98 x 100) : (75,000 / 98 x 100)	51,020	76,531

Material purchases budget	Material D kgs	Material H kgs	Total kgs
Total material usage (from above)	51,020	76,531	127,551
Add closing inventory of raw materials (2000 x 2kg) : (2000 x 3kg)	4,000	6,000	10,000
Less opening inventory of raw materials (given)	(3,600)	(5,400)	(9,000)
Total purchase requirement (in kg)	51,420	77,131	128,551
Price per kg	£0.75	£1.05	
Total material purchase cost (quantity x price) (51,420 x 0.75) : (77,131 x 1.05)	£38,565	£80,988	**£119,553**

Pg 108

The correction above has a knock-on impact on Task 2 Revision Example 3. Updated solution:

Material purchases budget savings	Material D kgs	Material H kgs	Total Savings £
Current wastage	1,020	1,531	
Savings **(current wastage x 25%)**	255	383	
Price per kg	£0.75	£1.05	
Savings per month **(savings x price per kg)**	£191	£402	
Savings per year **(savings per month x 12)**	£2,292	£4,824	**7,116**

Note: It is likely that there would be a rounding tolerance in a task like this.

Labour cost budget savings	Hours	£
Current labour costs per Month		
Basic hours	11,200	103,040
Over time hours	7,300	100,740
	18,500	203,780
Savings per Month of 5%	18500 x 0.05 = 925	
This will be deducted from overtime @£13.80		925 x 13.80 = 12,765
Savings per year		**12,765 x 12 = 153,180**

Cost savings	Per year	£ Total four year saving
Cost of machine		275,000
Savings - wastage	From above 7,116	7,116 x 4 = 28,464
Savings - labour	From above 153,180	153,180 x 4 = 612,720
Total savings over the four years		**28,464 + 612,720 = 641,184**
Net savings over four years		**641,184 - 275,000 = 366,184**

<table>
<tr><td>Pg 126</td><td>Task 4 Revision Example 2
All figures should be in £ not $.</td></tr>
<tr><td>Pg 128</td><td>Task 4 Revision Example 3 part (b) (ii)
The answer (third paragraph) has the net profit/turnover as 40%. This should say 38%.</td></tr>
<tr><td>Pg 134</td><td>Task 5 Revision Example 3 part (c) and (d)
Answer should be:
(c)
<table>
<tr><th></th><th>Contribution per unit of scarce resource
£</th><th>Rank</th></tr>
<tr><td>The Blam (B1)</td><td>100-30-25 = 45
/5 = 9</td><td>1</td></tr>
<tr><td>The Bling (B2)</td><td>120-40-45 = 35
/9 = 3.89</td><td>2</td></tr>
</table>
(d)
<table>
<tr><td>5 (kg of materials)</td><td>B1</td><td>+</td><td>9 (kg of materials)</td><td>B2</td><td>≤</td><td>15,000</td></tr>
</table>
<table>
<tr><td>3 (labour hours)</td><td>B1</td><td>+</td><td>4 (labour hours)</td><td>B2</td><td>≤</td><td>12,000</td></tr>
</table>
Part (e) is still correct.</td></tr>
<tr><td>Pg 138</td><td>Task 6 Revision Example 2 part (d)
The accounting rate of return (%) should be: 49.4% (172,750 / 350,000)</td></tr>
</table>

Pg 142

Task 7 Revision Example 1 part (a)

Answers should be:

	20X0 £	20X1 £	Workings
Gross profit margin (%)	47.84	45.51	689/1514 x100 = 45.51
Variable costs as a % of turnover	52.16	54.49	825/1514 x100 = 54.49
Operating profit margin (%)	15.86	17.24	261/1514 x 100 = 17.24
Expenses as a % of turnover	31.98	28.27	428/1514 x 100 = 28.27
Return on Capital Employed (%)	49.23	68.87	261/379 x 100 = 68.87
Asset Turnover (times)	3.10	3.99	1514/379 = 3.99
(%) Increase in customers		16.67	315-270 = 45/270 x 100 =16.67
(%) Increase in customer complaints		50.00	48-32 = 16/32 x100 = 50.00

Pg 148

Task 8 Revision Example 1 part (b)

Answer should be:

	Department L	Department P
Net divisional profit	122,000	21,000
Less imputed interest	(976000x12%) = 117,120	(126000x12%) =15,120
Residual income	**4,880**	**5,880**

Pg 150

Task 8 Revision Example 2 part (d)

Should be:

	Seasonal variation (+/-)
Quarter 1	38,000 – 33,000 = +5,000
Quarter 2	42,000 – 33,625 = +8,375
Quarter 3	29,000 – 31,125 = -2,125
Quarter 4	22,000 -32,125 = -10,125

Pg 151

Task 8 Revision Example 3 part (c)

Should be:

Quarter 20X4	Sales trend £	Sales forecast £
January-March	1,320,000 + (185,000 x 1) = 1,505,000	1,505,000 x 0.82 = 1,234,100
April-June	1,320,000 + (185,000 x 2) = 1,690,000	1,690,000 x 0.89 = 1,504,100
July-September	1,320,000 + (185,000 x 3) = 1,875,000	1,875,000 x 1.09 = 2,043,750
October-December	1,320,000 + (185,000 x 4) = 2,060,000	2,060,000 x 1.20 = 2,472,000

Pg 151

Task 8 Revision example 4 part (c)

Q1 should be:

Quarters in year 2	Seasonal variation	Sales trend £	Sales forecast £
Q1 January-March	20000+3000 *1 = 23,000 24000/23000 = 104%	20000+3000 *5 = 35,000	35,000 x 104% = 36,400

Mock Bank

<table>
<tr><td>Pg 189</td><td>Mock 1 Task 1

Task information should say: Initial cost is £<u>8</u>5,000 with no value at the end of the project.</td></tr>
<tr><td>Pg 200 – 201</td><td>Inconsistent labelling. The two departments should be referred to as Department X and Department Y.</td></tr>
<tr><td>Pg 207</td><td>Mock 1 Task 1 part (c)

The answer to the third statement should be variance analysis.</td></tr>
<tr><td>Pg 213 – 214</td><td>Mock 1 Task 4 part (e)

Profit should be £360,000 (12% x net assets £3m). Answer should be:

If the profit margin is 25% then the profit of £360,000 will be 25% of the sales revenue figure which must therefore be £360,000/25% (or £360,000/0.25) = £1,440,000.

<table>
<tr><th></th><th>Scenario 3</th></tr>
<tr><td>Net assets (£)</td><td>3,000,000</td></tr>
<tr><td>Return on net assets (%)</td><td>15</td></tr>
<tr><td>Profit margin (%)</td><td>20</td></tr>
<tr><td>Profit (to the nearest £)</td><td>360,000</td></tr>
<tr><td>Sales revenue (to the nearest £)</td><td>1,440,000</td></tr>
</table>
</td></tr>
<tr><td>Pg 234 & 257</td><td>Mock 2 Task 4 part (a)

The column headers “Adams” and “Bould” need to be swapped over.

<table>
<tr><th></th><th>Bould
£</th><th>Adams
£</th></tr>
<tr><td>Fixed overheads</td><td>136,000</td><td>204,000</td></tr>
</table>
</td></tr>
</table>

Pg 254	Mock 2 Task 2 part (c) (i) Answer expanded upon as follows: An index number series measures the relative change in the volume or the value of an item over time. **(1)** It is a way of allowing us to easily see changes occurring over time; it might be harder to interpret those changes when looking at the raw data. **(1)** Using index numbers requires a 'base year'; this is the 'starting point' for the index numbers and the year that we compare every other year to. **(1)** The base year is normally given an index number of 100 (although this is not always the case), as this allows us to easily identify percentage changes. **(1)** The base year should be a typical time period with no unusual or extreme circumstances. **(1)** An index number can be calculated, for example using total material costs above of £957,000, by dividing that cost by the total material cost in the base year, and then multiplying by the index number in the base year. **(1)** If the base year index is 100, this will allow us to quickly see how much total material cost has increased by, for example if the current year index number was 115, this shows the cost has increased by 15% from the base year. **(1)** The general formula to convert every other period's figure to the equivalent index is as follows: $\frac{\text{Current period figure}}{\text{Base period figure}} \times 100$ **(1)** Index numbers can be calculated over long periods of time. For example, the Retail Price Index compares the average cost of household expenditure to its equivalent cost in the base year of 1987. **(1)**