



FINAL EXAMINATION
NOVEMBER 2023

COURSE TITLE	MANAGEMENT ACCOUNTING 2
COURSE CODE	AACT3233
DATE/DAY	16 FEBRUARY 2024 / FRIDAY
TIME/DURATION	03:00 PM - 06:00 PM / 03 Hour(s) 00 Minute(s)

INSTRUCTIONS TO CANDIDATES :

1. Please read the instruction under each section carefully.
2. Candidates are reminded not to bring into examination hall/room any form of written materials or electronic gadget except for stationery that is permitted by the Invigilator.
3. Students who are caught breaching the Examination Rules and Regulation will be charged with an academic dishonesty and if found guilty of the offence, the maximum penalty is expulsion from the University.

(This Question Paper consists of 7 Printed Pages including front page)

*****DO NOT OPEN THE QUESTION PAPER UNTIL YOU ARE TOLD TO DO SO*****


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There are FOUR (4) questions on this question paper. Answer ALL questions in the answer booklet provided. (100 MARKS)

QUESTION 1

(25 Marks)

Gold Club Bhd is a newly established company that has not yet commenced trading. The two shareholders/directors are planning to set up an Internet business. With the help of finance from venture capitalists, they plan to set up a website through which individuals can join a 'Gold Club'. Membership of the club will provide members with a range of quality travel services including access to a High Class lounge at airports, travel insurance for an unlimited number of trips and discounted upgrades for seats on flights. It will take one year to set up the business.

You have been asked to appraise the investment of capital in the project based on a six-year plan (one year to set up the business followed by five years of operation).

- (i) Market research has been carried out at a cost of RM500,000. This indicates that the number of new members joining the club would be approximately 4,000 each year. Of these new joiners each year, 60% will renew their membership ONCE, in the following year.
- (ii) Membership fees for new members joining the club each year will be RM1,000. Members renewing their membership in the subsequent year will benefit from a reduced annual fee of 50%.
- (iii) The costs of setting up the website are as follows:
 - Design costs: RM1,500,000
 - Administrative costs: RM205,000
 - Legal advice fees: RM135,00030% of these costs will be paid immediately as a deposit, with the remainder being paid in one year's time.
- (iv) The costs of the technical support for maintaining the website will be RM200,000 for the first year it is in operation. These costs will increase by 20% year-on-year thereafter.
- (v) All new members will be issued with a club card, with an electronic chip in it. The cost of this card for Gold Club Bhd will be RM5 per member. Once the original card is issued, there will be no need to issue a further card for renewal of membership. The supplier will be paid annually in arrears for all cards issued in that year. The first payment is therefore due at the end of the second year.
- (vi) For every member who uses a High Class lounge at any airport worldwide, a charge of RM50 will be made to Gold Club Bhd each time the lounge is used. It is estimated that 30% of members will use it three times a year, 40% of members will use it twice a year, 20% will use it once a year and 10% will not use it at all.

- (vii) Gold Club Bhd will purchase a travel insurance policy based primarily on the number of members in the scheme. It is assumed that all members will make use of the travel insurance and the supplier will therefore charge Gold Club Bhd RM70 per member in the first year, increasing steadily by RM5 per member each year after that. Each member will have to e-mail the travel insurers with details of their trip in advance of each trip. Therefore, the insurers will also charge Gold Club Bhd an administrative fee of RM3 for every e-mail received. Gold Club Bhd estimates that on average each member will send two e-mails per annum.
- (viii) Gold Club Bhd will pay ten major airlines RM200,000 EACH per annum in order to provide their members with access to discounted seat upgrades.
- (ix) Interest on loan used will be RM25,000 per annum.
- (x) Assume that all cash flows, including the receipt of membership fees, occur at the end of each year, unless otherwise stated.
- (xi) The company's cost of capital is 10% per annum.
- (xii) Workings should be in RM'000, to the nearest RM'000.

Required:

- (a) Calculate the project's net present value (NPV) at the company's cost of capital. (20 marks)
- (b) Conclude as to whether the company should proceed with the project, giving a reason for your conclusion. (5 marks)

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QUESTION 2

(25 Marks)

Sure Win Bhd. has launched a new product recently. The company is using a standard absorption costing system. The following is the standard data for the new product.

	RM
Direct material per unit	32.00
Direct labour per hour	20.00
Variable overhead per direct labour hour	12.00
Fixed overhead per 4-week period	17,280

There are 20 direct workers working a five-day week, eight hours per day. 10% of the total available direct labour hours is provided for downtime. The production manager expects 80% learning effect for the new product.

The company has received the first order for 30 units of the new product. The first unit took 50 hours to complete. 25 units have been completed so far, with a total of 444 hours direct labour hours recorded.

Required :

- (a) Verify whether the assumption of a 80% learning effect is reasonable in this case, using the learning curve formula $y = ax^b$, where:
- | | | | |
|-----|---|--|-----------|
| y | = | cumulative average labour hours per unit. | |
| a | = | number of labour hours for the first unit. | |
| x | = | cumulative number of units. | |
| b | = | the learning index. | (5 marks) |
- (b) Calculate the estimated product cost for the first order. (7 marks)
- (c) Calculate the number of direct labour hours that are required for an expected second order of 20 units. (5 marks)
- (d) If the learning effect matured after producing 50th unit, calculate the average product cost after the maturity. (5 marks)
- (e) Briefly discuss the problems caused by the learning effect in the budgeting process. (3 marks)

QUESTION 3

(25 Marks)

Dossert Sdn Bhd has recently launched a new product, Product Shusi into the market, and obtained favourable responses from the consumers. The management is now planning the production and sales of Product Shusi for the coming year. The product will be sold at selling price of RM210.00 each.

Based on the product specifications, the estimated inputs and costs of Product Shusi are as follows:

Direct Material	M	:	7 kg
	N	:	6 kg at RM12.00 per kg
Direct Labour		:	5 hrs at RM8.00 per hour
Variable Overhead		:	10% of Direct Labour Cost

Dossert Sdn Bhd must place an advance order for direct material (M), for the coming year with the supplier, since the sales volume of the new product Shusi is not known at the time when the advance order is made. The advance order will be based on one of the three levels – high, medium or low, which will correspond to the requirements of a high, medium or low level of demand for Product Shusi. The management has also estimated a set of probabilities as to the likelihood of the demand for Product Shusi being high, medium or low.

Information concerning the advance order arrangement with the supplier is as follows:

- (1) When the advance order entered into for direct material M is in excess of that required to meet the actual level of demand for Product Shusi, a penalty payment in excess of the price for the original demand is payable for the total quantity of material M actually ordered.
- (2) When the advance order entered into for material M is lower than that required to meet the actual level of demand for Product Shusi, a discount from the price for the original demand is allowed for the total quantity of material M actually ordered.

Dossert Sdn Bhd and the supplier have come up with the following advance order agreement:

Product Shusi	estimated demand		Material M - Cost per kg		
	Units	Probability	Advance Order	Conversion Discount	Conversion Penalty
			RM	RM	RM
High	15,000	0.2	6.50		
Medium	10,000	0.5	7.00		
Low	8,000	0.3	7.80		
Material A : Conversion Order :					
				0.60	
				0.20	
				0.80	
					1.00
					0.70
					1.80

Required :

- (a) Prepare a summary showing the forecasted contribution earned by Dossert Sdn Bhd for the coming year for each of the nine possible outcomes. (12 marks)
- (b) Advise Dossert Sdn Bhd whether the advance order should be based on low, medium or high level, if its objective is to maximises the expected value. (7 marks)
- (c) How will the risk attitude of the management based on (i) Maximax, (ii) Maximin criteria affect the decision. (6 marks)

QUESTION 4

(25 Marks)

- (a) The four perspectives of the balanced scorecard are internal operation, innovation and improvement, financial and customer. Explain how each of these perspectives will reflect the entity's goals and strategies. (5 marks)
- (b) A list of objectives/goals and measures are presented below. Match each goal with one of the four perspectives and then match each measure with the most appropriate goal.

Goals	Measures
Develop employee skills	ROI
Increase shareholder value	Product cost per unit
Increase market share	Percentage of on-time deliveries
Introduce new products	Customer profitability
Improve manufacturing quality	Number of patterns
Improve technological age	Employee turnover rate
On-time delivery by suppliers	Number of rework hours
Improve sales per customer	Percentage of defective products
Decrease rework time	Number of new customers
Cost efficiency	Technological comparison with competitors

Rewrite the list using the table below in the answer booklet:

Perspectives	Goals	Measures
Financial perspectives		
Customer		
Internal operations		
Innovation and improvements		

(20 marks)

*** END OF QUESTION PAPER ***