

# Learning Assessment Guide

## Unit Standard 11627 – Version 3

### Explain and apply concepts of Management Accounting

#### Level 5 – 20 Credits

<b>Assessment Summary</b>			
<b>Learner to complete</b>			
<b>Learner's name:</b>			
<b>Employer:</b>			
<b>NSN no. (ROL):</b>		<b>DOB:</b>	
<b>Signed:</b>		<b>Date:</b>	
<b>Assessor to complete</b>			
<input type="checkbox"/> Meets requirements <input type="checkbox"/> More training required <input type="checkbox"/> More evidence required			
<b>Assessor's name:</b>		<b>Assessor's No.</b>	
<b>Signed:</b>		<b>Date:</b>	

## Before you begin...

- As well as this Learning Assessment Guide, you may also want to refer to the unit standard from the NZQA website (<http://www.nzqa.govt.nz>).
- Read the Trainee Information Kit. The kit contains important information and guidelines for Learners and can be found on the Learning State website (<http://www.learningstate.govt.nz>) under Learners, then Learning Assessment Guides.
- Check the learning resources available for this unit standard on the Learning State website (<http://www.learningstate.govt.nz>) under Learners, then Learning Assessment Guides.

This Learning Assessment Guide is made up of :

- Tasks for you to complete
- A learner verification form (This is a good tool to obtain independent workplace identification.)
- Assessment results that the assessor will use to assess your competence.

The tasks in this assessment are designed to show your assessor that you can:

- Explain the role of management accounting in resource management
- Explain the processes for controlling and allocating costs
- Apply the processes for controlling and allocating costs
- Explain the nature of budgets and prepare a master budget
- Calculate variances and prepare a variance report for standard costing system and
- Apply short term decision making techniques in decision making.

## Assessment Task One – Element 1

The questions in task one are designed to address:

- Components of the management accounting function
- The role of strategic management accounting in organizations
- Comparing management accounting with financial accounting and emphasizing the divergent needs served by each
- Impact of technology on management accounting
- The role of management accounting in achieving quality

### ***Task one performance criteria –***

The question one in the task tests your knowledge of explaining the major components of management accounting functions. Question two tests you on whether you can differentiate between management and financial accounting. Question three expects you to know impact of changing technology on management accounting. The last question will test your knowledge of explaining the behavioral implications for managers on management accounting.

### ***Task one questions –***

1. Explain what is meant by the term management accounting and describe the major components of management accounting functions.
2. Provide an explanation comparing management accounting and financial accounting, emphasizing the divergent needs served by each.
3. Explain the impact changing technology has had on the practice of management accounting. Also explain and describe the role of management accounting in achieving quality.
4. What behavioral implications does management accounting have for managers?

## Assessment Task Two – Elements 2 and 3

The questions in task two are designed to address:

- The flow of production costs in manufacturing and service organizations
- Control of material and labor costs
- Classification of costs according to information needs
- The most appropriate method of overhead allocation is selected for a given situation according to what drives the cost
- Product costs are accumulated and accounted for according to accepted management accounting practice

### ***Task two performance criteria –***

Question one in the task expects you to know the flow of production costs in manufacturing and service organizations. Question two tests if you can classify costs according to information needs. Question three will test your ability to apply the concepts of activity based costing. In the same question there given will be a case study and you will be expected to answer the three questions that follow.

You may complete task two, question three by producing similar figures and analysis, in writing, using your own material in context of your own business operation if you should choose to.

### ***Task two questions –***

1. Generally, the kind of costs that are incurred and the way in which these costs are classified depends on the type of organization involved. Describe the flow of production costs in manufacturing and service organizations.
2. Classify costs according to information needs and describe the processes for the control for material and labor costs. The classifications should be based on the information needs arising from:
  - a. Preparing external financial statements
  - b. Predicting cost behavior in response to changes in activity
  - c. Assigning costs to cost objects such as departments or products
  - d. Decision making
  - e. Cost of Quality

3. Read the case study and answer the questions that follow-

Dulux Co.Ltd. manufactures and sells three products X, Y and Z. It has a target profit margin of 40% on selling price. Product Y has achieved the planned margin but although product X is a high volume product it is only achieving a margin of 25% because of increased foreign competition. The company suspects that foreign firms must be 'dumping' this product as, despite a reduction in price, there has been a substantial decline in the sales volume of product X. This has been offset by product Z, which has achieved a margin of 50%. A recent increase in the selling price did not result in reduced sales nor encourage competitors to invade this market. The company's managers have concluded that product Z has some unique characteristics, thus enabling them to establish a market niche for this product. Last month's prices, sales and profit margins are summarised below:

Product	Sales (units)	Price per unit	Profit Margin on sales
X	28,000	\$90	25%
Y	18,000	\$154	40%
Z	5,000	\$101	50%

Also given is the following information-

Data on product costs and activity levels

Product:	X/unit	Y/unit	Z/unit	Total/month
Direct materials	\$28	\$22	\$20	\$1,280,000
Direct lab hours	1	3	2	92,000
Direct lab costs	\$7	\$21	\$14	\$644,000
Machine hours	2	3	1	115,000

	/mth	/mth	/mth	Total
Sales (Units)	28,000	18,000	5,000	51,000
No.of prod runs	4	8	20	32
No.of receipts	12	24	100	136
No. pack orders	36	12	80	128
No. prod orders	12	8	20	40

**Total overheads = \$1,886,000**

Required:

- A statement of the product cost per unit of X, Y and Z using the company's present (traditional method), absorbing total overheads on *machine hour* basis.
- A statement of product costs per unit of X, Y and Z using the activity based costing approach within the confines of the information available.
- A comparison of the alternative product costs generated, a statement of the effect of the activity based costing approach on perceived profit margins.

## Assessment Task Three – Element 4

The questions in task three are designed to address:

- The purposes of budgeting
- Master budget complying with accepted management accounting practice for master budgets
- Describing behavioral implications for managers of budgeting
- Role of budgeting in performance evaluation

### **Task three performance criteria –**

Question one in task three will test your knowledge of identifying two purposes of budgeting and describing the behavioral implications for managers of budgeting. In question two there would be two options and you would have to **attempt any one**. The first option will test your ability to prepare various subsidiary budgets and therefore prepare a master budget. The second option will ask you to prepare a budget which you might have prepared in your workplace. It would need to carry a verification that it had been completed by you, but this could be simply a statement, signature and date by their manager or a peer.

### **Task three questions –**

1. Identify two purposes of budgeting and describe the behavioral implications for managers of budgeting.
2. Regal Company is preparing budgets for the second quarter ending June 30<sup>th</sup>. The following information has been given to us-
  - Budgeted sales of the company's only product for the next five months are:

April	20,000 units
May	5,000 units
June	30,000 units
July	25,000 units
August	15,000 units

- The selling price per unit is \$10 per unit.
- All sales are on account
- The company collects 70% of these credit sales in the month of the sale; 25% are collected in the month following sale; and the remaining 5% are uncollectible.
- The accounts receivable balance on March 31<sup>st</sup> was \$30,000. All of this balance was collectible.

- The company desires to have inventory on hand at the end of each month equal to 20 per cent of the following month's budgeted unit sales.
- On March 31<sup>st</sup>, 4,000 units were on hand.

*Question* - You are required to prepare a sales budget, a production budget, a schedule of expected cash collections and therefore, a master budget.

**OR**

Prepare a budget that you might have prepared at your workplace.

## Assessment Task Four – Element 5

The questions in task four are designed to address:

- Calculations of materials, labor and efficiency variances
- Comments on possible reason for the variances calculated

### **Task four performance criteria –**

Question one in task four tests your ability to calculate variances that of direct materials, direct labor and variable manufacturing overhead. Question two tests whether you can explain the variances that you calculated in question one.

You may complete task four questions by producing similar figures and analysis, in writing, using your own material in context of your own business operation if you should choose to. i.e you are permitted to use current workplace evidence for the assessment if you have it.

### **Task four questions-**

1. Consider the following case study:

Speeds Inc. makes a popular jogging suit. The standard cost for one jogging suit would be:

#### Standard Cost Card for Jogging Suits

	Standard Quantity or Hours (1)	Standard Price or Rate (2)	Standard Cost (1) X (2)
Direct materials	3.5 yds.	\$6 per yd.	\$21
Direct labor	2.0 yds.	\$18 per hr.	\$36
Variable Manufact. Overhead	2.0 hrs.	\$4 per hr.	\$8
Total standard cost per suit			\$65

Also given is the following information-

Number of suits completed	5,000 units
Cost of material purchased (20,000 yds. @ \$5.40)	\$108,000
Yards of material used	20,000 yards
Cost of direct labor (10,500 hrs. @ \$20)	\$210,000
Actual direct labor hours	10,500 hrs.
Variable overhead costs incurred	\$40,950

Required:

- a. Calculate the materials price and quantity variances.
  - b. Calculate the labor rate and efficiency variances.
  - c. Calculate the variable manufacturing overhead spending and efficiency variances.
2. State possible causes for each variance that you have computed in Question 1.

## Assessment Task Five – Element 6

The questions in task five are designed to address:

- Identification of data appropriate to decision making
- Recommendations including qualitative considerations

### **Task five performance criteria –**

In question one of task five you will be given a case study testing your ability to calculate various cost-volume profit analysis elements. Question two will also consist of a case study and you would have to answer the questions that follow. This question will also test your knowledge to apply cost-volume profit analysis principles. Both of the questions will focus mainly on applying short-term decision making techniques in management accounting.

You may complete task five, questions by producing similar figures and analysis, in writing, using your own material in context of your own business operation if you should choose to.

### **Task five questions –**

1. Consider the following case study:

The following information is provided for Carruther's Coupled Cutlery:

Selling Price = \$200 per case

Variable costs:	\$ per case
Direct material	40
Direct labor	10
Total	50

Given are  
the following  
formulae:

Fixed Costs:	\$ per case
Labor	200
Overheads	300
Total	500

Contribution per unit = Sales – Variable cost

Contribution per unit = Selling price – Variable cost per unit

Contribution margin = Contribution per unit / Sales

Break even in units = Fixed costs / Contribution per unit

Break even in \$ sales = Fixed costs / Contribution margin ratio

Output for \$X profit = (Fixed cost + desired profit) / Contribution per unit

Sales for \$X profit = (Fixed cost + desired profit) / Contribution margin ratio

Calculate the following:

- a. Contribution per case
- b. Break-even cases
- c. How many cases for profit of \$1,750?
- d. How many cases for profit of \$3,250?
- e. Contribution margin
- f. Break-even sales
- g. What sales for profit of \$1,000?
- h. What sales for profit of \$2,500?

2. The following information for Company A and Company B is given below:

Each firm sells 100 units at \$1 each

	Company A(\$)	Company B(\$)
Sales Revenue	100	100
Variable Costs	20	60
Contribution margin	80	40
Fixed Costs	60	20
PROFIT	20	20

Required:

- a. Calculate the degree of operating leverage (cost volume profit analysis) for the two companies from the information given above. Explain the concept of cost-volume profit.

**(FORMULA : Degree of operating leverage = Contribution Margin / Profit)**

- b. You have been asked to provide an explanation regarding acquisition of one of these firms. Which would you recommend based on cost-volume profit analysis and why? What other considerations would you include in your analysis?

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THE END

**Learner Verification Form – Unit Standard 11627**

Name of learner: \_\_\_\_\_

This learner is currently being assessed toward unit standard 11627 – Explain and apply concepts of management accounting. Your knowledge of the learner is sought to verify whether or not the learner demonstrates a good understanding and application of management accounting and its principles.

Please complete this form and arrange for it to be passed on to the 11627 assessor.

Does the learner demonstrate understanding of role of management accounting in resource management?	Yes	No
Does the learner demonstrate the skills to explain and apply the processes for controlling and allocating costs?	Yes	No
Does the learner demonstrate the skills to explain the nature of budgets and prepare a master budget?	Yes	No
Can the learner calculate variances and prepare a variance report for a standard costing system?	Yes	No
Can the learner apply short-term decision making techniques in management accounting?	Yes	No

Comments:

Manager / Supervisor Name:

Position:

Contact Phone:

Email:

Signature:

Date:

## Assessment results

These are the judgments that your assessor will use to assess you.

Do the learner's answers provide sufficient and appropriate examples?	Yes	No
Do the learner's answers explain the role of management accounting in resource management?	Yes	No
Do the learner's answers identify major differences between financial accounting and management accounting?	Yes	No
Do the learner's answers explain the impact of technology on management accounting?	Yes	No
Do the learner's answers describe the flow of production costs in manufacturing and service organizations?	Yes	No
Do the learner's answers provide two purposes of budgeting?	Yes	No
Did the learners get the calculations right and explained the possible causes for each variance that they computed?	Yes	No
Were the learners able to provide proper calculation for the degree of operating leverage and were able to explain the concept of cost-volume profit?	Yes	No
Do the answers demonstrate valid recommendations for the appropriate decisions that have to be made? i.e. application of short term decision making techniques?	Yes	No
Do the learner's answers show proper classification of costs according to information needs?	Yes	No
Do the learner's answers demonstrate appropriate application of processes for controlling and allocating costs	Yes	No
Do the learner answers demonstrate the understanding and explanation of two behavioral implications for managers of budgeting?	Yes	No
Have the learners prepared the sales budget, production budget and schedule of expected cash collections correctly?	Yes	No