

## ACC200 Introduction to Management Accounting Group Assignment – Task Specification

This Case Study is designed for you to demonstrate your abilities in relation to the following subject learning outcomes (see Subject Outline)

Subject Learning Outcomes
a) Analyse the links between management accounting, customers, suppliers and sources of external information and assess what is relevant to business decision-making
b) Apply costing techniques and explain their strengths and limitations in specific circumstances
c) Analyse accounting information and present reporting in various formats using appropriate systems and software
d) Critically evaluate and apply relevant management accounting concepts and management control systems to organisational settings

A marking guide/rubric will be provided via Moodle so you can see how this assessment task will be assessed.

### Case Study – Seafarer Kayaks

Your team (group) at a public accountants practice has been assigned a client job to review the costs incurred in the manufacturing division of Seafarer Kayaks, a manufacturer of a range of kayaks which have proven popular for use both in the harbour and waterways as a fitness option for their customers. The kayaks come in two styles: Salt Water Sport and Whitewater (fresh water) models.

The two ranges are different in design, but both are high quality. Although they are both made from glass reinforced fibre, they have very different features to suit their use with the Salt Water model having more compartments and greater safety features and the fresh water model has thicker skinned material to deal with impacts on rocks while being used in white water river rapids.

The owners of Seafarer are keen sportspeople and formed the company as an extension of their own interests and developed it from a hobby company into well-known successful enterprise known for the quality of its products. Due to the high quality, Seafarer does not discount and is considered to be priced in the higher bracket of all similar products in the market.

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The firm's long-time accountant, also another keen weekend kayaker, had been doing the company's accounts since he was a student learning accounting and then after he qualified as a practicing accountant. Unfortunately the accountant had an accident skiing and has been incapacitated. You work for another medium-sized accounting firm who has been asked to come in and get the accounting for the company back on track and due to tight security, you cannot access all the accounting records their accountant has stored about the company.

The owners are obviously upset about the accident with their accountant as he was also a close friend so inform you that they 'just want you to get them through until he recovers'. You inform him you will need to work out the product costs to do your job successfully. He tells you: 'At the end of the day, all I need to do is total-up my revenues, total up my cash out and the difference is my profit. Do I really need to understand my product costs? What is the purpose of that? It's not like I can lower my prices if my product costs are lower.'

One of the owners, who looks after the administration is helping you collate the information they think you will need but does not know much about how the accounts work but has prepared a list, in alphabetical order of payments by the categories as they understand them.

You decide that at a minimum, you should prepare a Schedule of Cost of Goods Manufactured and a Schedule of Cost of Goods Sold.

The list of accounts (in alphabetical order) can be found in Appendix A.

You discover there are many records for the year you cannot access however the accounts and amounts you have gathered are shown in Appendix B and from these and the following information, you are able to reconstruct all the relevant accounts.

Some additional information:

- a) Predetermined overhead rate was based on budgeted direct labour hours (DLH) at \$63.00 per DLH.
- b) During the year, \$121,000 of Direct Materials had been added to the job.
- c) The accounts payable are for raw material purchases only and the opening balance in the account on 1 July was \$20,000. You examine the bank statements and calculate that (from the electronic bank payments), payments of \$117,500 were made to suppliers during the year.
- d) Payroll records direct labour hours were analysed and you find that 850 Direct Labour Hours were worked in production and the average hourly rate was \$42.00 per hour.

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You are now ready to reconstruct the T-accounts. Your manager reminds you not to forget to calculate the over or under applied overheads before finalising the Cost of Goods Sold amount for the year and after looking down your list of accounts in Appendix A, reminds you to ONLY include the costs related to manufacturing as the sales costs will be expensed separately as per AASB102 Inventories.

Before you set about preparing the accounts, one of the owners of Seafarer says to you: 'I have heard there is a costing system called STANDARD COSTING which is widely used by most manufacturers' and asks you '... can you write up a summary to explain why it might be a good idea, or not such a good idea to use standard costing rather than this 'NORMAL COSTING' we have been using?'

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### REQUIRED:

Prepare a report (no more than 10-pages in total) for the owners of Seafarer Kayaks that addresses the following:

- a) A brief description of the purpose of a product costing system and why it is necessary. Include comments on AASB102 in relation to production costs and refer to the text and other academic literature for information. Make sure you reference all the material. Do NOT use WIKIPEDIA!
- b) Prepare a Schedule of Cost of Goods Manufactured and Cost of Goods Sold. (The schedules may be in the appendix). Explain why some cost items have been excluded from the schedules. (Hint: See the reminder from your manager above!)
- c) Complete the T-accounts and complete ALL opening and closing balances AND
  - i. Overhead applied during the year;
  - ii. Calculate the total of Actual Indirect/Overhead Costs for the year;
  - iii. Calculate any over- or under-applied overhead based on the actual versus the applied overhead during the year.
  - iv. Complete (and show) the correct journal entry to dispose of any imbalance/differences.
- d) Discuss how overheads can be over- or under-applied and how the company should deal with the over- or under-application. Write the JOURNAL to eliminate any imbalance
- e) Write a brief analysis of the STANDARD COSTING system and explain how it may help Seafarer Kayaks owners and managers better plan and control their operations. (This will be covered in Week 8 however you can read the material in chapter 10 earlier if you want to finish this report early.)

**Appendix A**

<b>Accounts</b>	<b>\$</b>
Administrative (Sales) salaries	24000
Advertising expense	12000
Depreciation - Factory building	6500
Depreciation - Factory equipment	8900
Depreciation - Sales Office	1800
Direct labour cost	35700
Factory managers salary	12000
Factory supplies	5000
Raw materials - O/Bal	25000
Raw materials - ending	24000
Finished goods inventory, opening balance	12500
Finished goods inventory, balance c/f	13600
General Sales liability insurance	2400
Indirect labour cost	15000
Insurance – Factory	5000
Purchases - Raw Materials	120000
Repairs and maintenance - Factory	2500
Sales Manager's salary	13000
Land tax – Factory	2200
Travel and entertainment (sales) expense	14100
Work in process, opening balance	8000
Work in process, balance c/f	7500

**Appendix B**

Note a copy of this file in MS Excel format will be available on the Moodle page to assist you in preparing this part of the submission. When you have completed the cells and formulas necessary, then this should be cut and pasted into a LANDSCAPE set page in your report as a PICTURE FILE – do not just cut and paste or it will distort! (To create a landscape page in MS Word: At the end of the preceding page of your report, Click ALT+N and a new 'Section Break' will be made on the next page. To simplify handling, click ENTER twice, the Click ALT+N once again to add another 'Section Break'. Go to PAGE LAYOUT Menu and ensure your cursor is BETWEEN your two Section Breaks, then click Orientation and select LANDSCAPE. Go to your Excel worksheet and select relevant cells, then switch to Word and simply click, PASTE-SPECIAL and PICTURE PASTE to copy in your work from Excel.

Seafarer Kayaks - Template T Accounts					
Raw Materials		WIP		Finished Goods	
Op Bal 1 July	25000	Op Bal 1 July	8000	Op Bal 1 July	12500
					Bal c/f 30 June 13600
Manufacturing OHDS		Accounts Payable		Cost of goods sold	
Actual OHDS (Total shown)	Applied OHD		Op Bal 1 July	20000	
		Bal c/f 30 June	22500		Income Summary (Final COGS) <input type="text"/>