

UNIVERSITY OF GREATER MANCHESTER
OFF CAMPUS DIVISION
WESTERN INTERNATIONAL COLLEGE, RAS AL
KHAIMAH
BA (HONS) ACCOUNTANCY
SEMESTER 1 EXAMINATIONS 2025/2026
STRATEGIC MANAGEMENT ACCOUNTING
MODULE NO: ACC6005

Date: Wednesday, 14th January 2025

Time: 4.00pm – 7.00pm

INSTRUCTIONS TO CANDIDATES:

There are **FOUR (4)** questions on this paper.

Answer **ALL** questions.

All questions carry equal marks.

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Question 1

LeatherCraft Ltd is a family-run manufacturer specialising in high-quality, hand-stitched leather wallets sold through luxury department stores and online retailers. Each wallet is made from full-grain Italian leather with precision finishing by skilled craftperson. The company positions itself in the premium accessories market and sells each wallet for an average price of £150 per unit.

The company operates a standard costing system and has established the following labour standards for its main product:

- Standard labour time per wallet: 2 hours
- Standard labour cost per wallet: £36
- Fixed Overhead per wallet: £10

At the start of the most recent quarter, LeatherCraft Ltd had budgeted to produce 10,000 wallets. Due to strong online demand following a magazine feature, the company actually produced 11,000 wallets.

During this quarter:

- Total labour hours used: 30,200 hours
- Total labour cost incurred: £420,200
- The company achieved complete absorption of direct labour hours, and idle time variance was nil for the quarter.

Early in the quarter, management decided to add a decorative hand-stitched border and a branded embossing detail to enhance the product. This enhancement was expected to require an additional 12 minutes per wallet. However, the production accountant was not informed, so the standard labour time was not updated.

At the start of the same quarter, the workforce received a 3% wage increase after a pay review. This was not communicated to the management accountant, so the standard labour cost used for reporting was not revised.

Additional background

- The direct labour team consisted of 35 full-time craftperson working a planned 520 productive hours per quarter each.
- A new two-day craftsmanship workshop was run mid-quarter for new joiners to align techniques with house style.

Question 1 continues over the page

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Question 1 continued

- The company's online store reported a **customer repeat-purchase rate of 27%** during the quarter.
- **With increasing emphasis on maintaining product quality while managing costs, LeatherCraft Ltd is also exploring the use of Target Costing to ensure future designs remain profitable in a competitive luxury market.**

Required

a) Prepare calculations and a statement that shows:

- 1. Labour Rate Variance**
- 2. Labour Rate Planning Variance**
- 3. Labour Rate Operational Variance**
- 4. Labour Efficiency Variance**
- 5. Labour Efficiency Planning Variance**
- 6. Labour Efficiency Operational Variance**

(13 Marks)

b) Discuss the relationship between the labour variances and discuss how they contribute to a deeper understanding of overall labour performance in a standard costing system: In your answer, outline the purpose of separating planning and operational variances, describe how these measures interact to provide management insight, and evaluate how they can be used to distinguish between controllable and uncontrollable factors affecting labour costs and efficiency.

(8 Marks)

c) Discuss how the principles of target costing can assist LeatherCraft Ltd in aligning product design, production efficiency, and cost control with customer expectations and profitability objectives.

(4 Marks)

[Total 25 Marks]

Question 2

Critically discuss the role of carbon accounting in promoting corporate transparency, accountability, and ethical responsibility in response to global climate challenges.

[Total 25 Marks]

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Question 3

Sable Aero Components plc supplies precision parts to European aircraft maintenance hubs. Management suspects that the firm's blanket overhead rate is masking the true cost-to-serve across product lines and has commissioned a review using an activity-driver approach to trace indirect costs to the items that actually consume them.

Two assemblies are under review:

- NC-1 Nacelle Clip (high-volume hardware)
- DC-2 Duct Clamp (lower-volume, customised fitting)

Finance has grouped indirect factory costs into three operational streams and measured total quarterly spend as follows:

- Internal Logistics Transfers (forklift and pallet moves): £250,000
- Tooling Changeovers (machine set-up events): £350,000
- Kitting Requests (stores picks and issue notes): £125,000

Quarterly output and activity usage recorded by operations:

- NC-1 — 10,000 units produced; 25 internal logistics transfers; 40 tooling changeovers; 32 kitting requests.
- DC-2 — 5,000 units produced; 20 internal logistics transfers; 12 tooling changeovers; 15 kitting requests.

The board wants to understand whether list prices reflect the underlying activity burden and whether the lower-volume DC-2 is being subsidised by NC-1 under traditional costing.

Required

1. **Using the activity-driver data above, calculate the activity-based cost per unit for NC-1 and DC-2.**
(15 Marks)
2. **Analyse the pricing and profitability implications of your results for Sable Aero Components plc.**
(5 Marks)
3. **Explain how these insights could inform future pricing policy, product-mix decisions, and cost management (e.g., reducing changeovers, smoothing material kitting, or reconfiguring internal moves).**
(5 Marks)

[Total 25 Marks]

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Question 4

Orion Metalworks Ltd manufactures two precision-engineered products — the **Alpha Bracket** and the **Beta Frame**. Due to recent increases in customer demand, the company is seeking to determine the **optimal production mix** that will generate the **maximum possible profit**, while working within its existing capacity limits for labour and materials.

The following financial and resource data relate to the two products:

	Alpha Bracket	Beta Frame
Selling Price per Unit (£)	55	58
Variable Cost per Unit (£)	28	32
Material Required per Unit (kg)	4	2
Labour Required per Unit (hours)	2	3

The factory currently has the following **resource constraints** available for the upcoming production cycle:

- **Total available material:** 150 kg
- **Total available labour:** 200 hours
- **Fixed Cost per unit** £20

Required

- a) Using Linear Programming (LP) techniques, formulate and calculate the optimal production plan that will maximise total profit for Orion Metalworks Ltd. Clearly identify how many units of the Alpha Bracket and Beta Frame should be produced.

(15 Marks)

- b) Briefly discuss how an increase in the availability of the constrained resources (labour and/or materials) would affect the firm's overall profitability and production decisions.

(10 Marks)

[Total 25 Marks]

END OF QUESTIONS

END OF EXAM PAPER