

Written Exam at the Department of Economics summer 2021

Managerial Accounting

Retake Exam

2021

Solution notes

Exercise 1

Q1

According to the theory the fixed costs will not change as a result of the order, they are therefore not relevant to the decision. However the cost of the new machine is relevant, and this cost will have to be recovered by the current order since there is no assurance of future business from the retail chain.

	Unit	Total
Revenue from the order (EUR 200 x 90%)	180	900,000
Less costs associated with the order:		
Direct materials	60	300,000
Direct labour	32	160,000
Variable manufacturing overhead	12	60,000
Variable selling expense (EUR 16 x 20%)	3.2	16,000
Contribution margin		374,000
Special machine (EUR 40,000)		40,000
Net increase in profits		324,000

Q2

Revenue from the order:

Reimbursement for costs of production (variable production costs plus fixed manufacturing overhead cost:		
Direct materials (5000 x EUR 60)		300,000
Direct labour (5000 x EUR 32)		160,000
Variable Manufacturing Overhead (5000 x EUR 12)		60,000
Fixed manufacturing Overhead (5000 x EUR 36)*		180,000
Fixed fee (EUR 7.20 x 5,000 units)		36,000
Total revenue		736,000
Less variable production costs (EUR 104 x 5,000 units)		520,000
Net increase in profits		216,000

* They are relevant here as they are reimbursed proportionally by the Danish Defense.

Q3

Revenue:

From the Danish Defense (see Q3 above)	736,000
From regular channels (EUR 200 x 5,000 units)	1,000,000
Net decrease in revenue	(264,000)
Less variable selling expenses avoided if the Defense order is accepted (EUR 16 x 5,000 units)	80,000
Net decrease in profits if the Danish Defense order is accepted	(184,000)

Exercise 2

The questions in the exercise are closely tied to the teaching in especially chapter seven on consequences for the profit or loss statement of postponing costs in the statement of financial position (balance sheet). However, the general argument underpinned by measurement theory throughout the book is, that companies should manage the company in the best way and not try to “window dress” the accounting information by making uneconomical decisions and by doing things that might be considered as manipulation with accounting rules and procedures.

There are especially in question two room for elaboration on what you think is in the best interest of the company. You are in general assessed based on relevance, breadth and depths in your arguments.

Exercise 3

This relates to the theory and articles on Balanced Scorecard in the syllabus. You as a student are in this exercise evaluated on the relevance, breadth and depth in the answering each of the three questions.