AAT Management Accouting: Decision & Control
ERRATA SHEET

Course Book

First Edition June 2016

Chapter 4: Illustration 2 (p.87)

The direct labour rate variance to reconcile back to the total labour cost variance is incorrect. The reconciliation should read:

	£
Direct labour rate variance	2,600 (A)
Direct labour efficiency variance	100 (F)
Direct labour total cost variance	2,500 (A)

Chapter 6: Activity answers – Activity 3 (p.139)

The answer to a) and b) have been reversed. The correct answer should therefore be:

(a)

36,490 kg at revised standard price	182,450
But did cost	156,907
Price variance due to other reasons	£25,543 (F)

(b)

	£
36,490 kg at standard price (× £4.50)	164,205
36,490 kg at revised standard price (× £5.00)	182,450
Price variance due to difference in index value	18,245 (A)

Chapter 6: Activity answers – Activity 5 (p.140)

The decimal place for the index number to calculate the revised price for 20,800kg is in the wrong place and should read 123.2 instead of 1.23.

Chapter 7: Activity answers – Activity 2 (p.173 – 174)

The answer for both operating profit margin and return on capital employed does not take into account the change in the gross profit margin. This changes both the operating profit margin and ROCE calculations.

The operating profit margin, once it has been adjusted for the new gross profit, should read as follows:

Operating profit margin	Revised profit: 4,410 – 3,153 – 540 – 240 – 25 = £452 Revised operating profit margin: $\frac{452}{4410}$ x 100 = 10.2%

The return on capital employed calculation needs to be adjusted to take into account the increased gross profit. The revised net asset line needs to be removed because a decreasing receivables asset will translate into an increasing cash asset, causing no impact to net assets. The answer should read as follows:

ROCE	Revised ROCE: $\frac{452}{3600}$ x 100 = 12.5%

The result of these calculations now changes the written responses for both operating profit margin and return on capital employed, which should now read as follows:

Operating profit margin

Although the additional cost of the credit controller has added additional overhead for LNG, overall the operating profit margin has improved. This is as a direct consequence of the improvements made in LNG's gross profit. The changes have therefore resulted in improved performance, and demonstrates that LNG is performing equally as well as Ads.

Return on capital employed (ROCE)

The improvements to the gross profit margin and the lack of movement in net assets have improved LNG's ROCE to 12.5% from an original 5.5%. LNG is now generating more sufficient returns to its shareholders, but Ads are still utilising capital employed more effectively than LNG to provide stronger returns to their shareholders.

Chapter 7: Activity answers – Activity 3 (p.175)

The actual inventory turnover has not been rounded correctly. It should read 1.3 rather than 1.2. To arrive at the inventory turnover the following working then needs to be followed:

Actual: 240,000 / 2,289,600 x 12 = 1.3

Budget: 200,000 / 2,400,000 x 12 = 1.0

The written comments for gross profit margin and inventory turnover should read as follows:

Gross profit margin

An increase in the selling price of a chair will result in an increase in the gross margin. However it may be deemed that increasing the selling price of a chair would result in an uncompetitive price, resulting in reduced sales volumes. If this is the case, efforts should be made to reduce the cost of production.

Inventory turnover

The current inventory represents 1.3 months' production. An increase in sales volumes may lead to a reduction in the number of chairs held in inventory and will consequently improve this indicator.

Chapter 7: Test Your Learning – Q4 (p.183)

The data table needs additional information to correspond to the answer. The table should read as follows:

	Firmwell	**Hartfield**
Financial details	£	£
Revenue	540,000	370,000
Opening Inventory	51,000	45,000
Direct costs	210,000	165,000
Closing inventory	56,000	50,000
Expenses	270,000	175,000
Net assets	550,000	410,000
Payables	25,800	27,500
Non-financial details		
Floor area	2,400 sq m	1,700 sq m
Employees	28	13
Hours worked	30,500	14,100

Chapter 9: Activity answers – Activity 1 (p.217)

The ratio to calculate machining costs for each product in part d) is incorrect and should read as follows:

	A £	B £	C £	Total £
Machining costs (40:50:4)	23,404	29,255	2,341	55,000

Chapter 10: Activity 6: Chuck (p.226)

The breakeven point for Lob should read 17,500 instead of 175,000.

Chapter 10: Activity answers – Activity 10 (p.244)

The answer given is incorrect and should read as follows:

	Factory B £000	
Revenue (2,850 x 1.4)	3,990.0	
Materials (784 x 1.4 × 0.95)	1,042.7	
Direct labour (448 x 1.4)	627.2	
Fixed production overheads (420 + 100)	520.0	
Cost of sales	2,189.9	
Gross profit	1,800.1	45.1%
Sales and distribution costs (640 x 1.4)	896.0	
Administration costs (250 + 60)	310.0	
Profit from operations	594.1	14.8%

(b) Factory A **should** be closed down.

This is because the company will be more profitable:

Current profit = 150 + 308 = £458

New profit = £594.08

Test Your Learning answers: Chapter 4, Q2 (p.262)

The answer given refers to a table which has been removed from the Course Book. The correct answer should read as follows:

2 (a) Total labour cost variance

	£
Standard cost of actual production	
1,800 units should have cost (× £17)	30,600
But did cost	25,000

	5,600 (F)

(b) Labour rate variance

Actual hours at standard rate	
5,000 hrs should cost (× £6.80)	34,000
But did cost	25,000
	9,000 (F)

(c) Labour efficiency variance

Standard hours for actual production at standard rate	
1,800 units should have taken (× 2.5 hrs)	4,500
But did take	5,000
	500 (A)
× standard rate per hour	× £6.80
	£3,400 (A)

Test Your Learning answers: Chapter 5, Q2 b) (p.266)

The calculation for 'actual production should have taken' should have the £8.00 removed and should read as follows:

Actual production should have taken	Hours
2,400 × 3	7,200

Test Your Learning answers: Chapter 7, Q4 (p.275)

The calculation for payables' payment period should read as follows:

Firmwell: 25,000 / 205,000 x 365

Hartfield: 27,500 / 160,000 x 365

The written answer should read as below:

(b) REPORT

To:	Sales Director
From:	Accounts Assistant
Date:	xx.xx.xx
Subject:	Performance of stores

I have considered the performance figures for our two stores in Flimwell and Hartfield for the first six months of the year. The key factors that have appeared from these figures are addressed below.

Firmwell has a higher gross profit margin than Hartfield. This could be because sales volumes are not as high in Hartfield, as its inventory days are higher than that of Firmwell. This implies that revenue is not being generated as efficiently in Hartfield, having a negative impact on their gross profit revenue. Hartfield could try and emulate Firmwell's revenue per square metre by looking at their store layout. This should help to drive up the gross profit margin in the future.

Hartfield, however, does have the highest productivity as sales per employee and sales per hour worked are higher than Firmwell. This implies that the lower gross profit margin is not due to inefficient use of staff – indeed its direct costs are much lower than that of Firmwell.

Firmwell has a higher operating profit margin and return on net assets. Firmwell therefore has better control of its expenses than Hartfield. If Firmwell practices can be emulated in Hartfield, this could improve Hartfield's profitability.

Hartfield does have a better liquidity position as, despite having longer inventory days, it has a longer payables period, meaning its working capital cycle is lower. Both stores can learn from each other to improve their liquidity – Firmwell can emulate Hartfield's payables control, and Hartfield can emulate Firmwell's inventory control.