



KING'S OWN INSTITUTE*

Success in Higher Education



Assessment 3

Assessment Type: Case study – 1500 + 10% word report and analysis - Individual Assignment.

Purpose: This assessment is designed to allow students to demonstrate their ability to analyse given financial information relating to a management accounting problem, and present their findings and analyse the information as it applies to accounting concepts. It relates to learning outcomes a, b, c and d.

Value: 15%

Due Date: Week 10 Friday

Submission: Students must upload their submission to the Moodle Assignment Link and Turnitin on the KOI Moodle Subject Home Page no later than 9:00 am Friday of Week 10. This is the submission due date and time. A printed copy should also be handed to the Tutor during that Week's tutorial to assist with marking. All submissions must be accompanied by a signed KOI Assignment Coversheet.

Task details: Pride Electric Motor Corporation manufactures electric motors for commercial use. The company produces three models called standard, deluxe and heavy-duty. The company uses a job costing system with manufacturing overhead applied on the basis of direct labour hours. The system has been in place with little change for 25 years.

Product costs and annual sales data are as follows:

	Standard model	Deluxe model	Heavy-duty model
Annual sales (units)	20000	1000	10000
Product costs:			
Raw material	\$ 10	\$ 25	\$ 42
Direct labour	10 (0.5 hr @ \$20)	20 (1 hr @ \$20)	20 (1 hr @ \$20)

Manufacturing overhead budget:

Depreciation, machinery	\$1 480 000
Maintenance, machinery	120 000
Depreciation, taxes and insurance for factory	300 000
Engineering	350 000
Purchasing, receiving and shipping	250 000
Inspection and repair of defects	375 000
Material handling	400 000

Miscellaneous manufacturing overhead costs 295 000

Total \$3 570 000

Direct labour budget:

Standard model 10 000 hrs

Deluxe model 1 000 hrs

Heavy-duty model 10 000 hrs

Total 21 000 hrs

For the past 10 years, the company's pricing formula has been to set each product's budgeted price at 110 per cent of its full product cost. Recently, however, the standard model motor has come under increasing

price pressure from offshore competitors. As a result the price on the standard model has been lowered to \$110.

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The company CEO recently asked the financial controller, 'Why can't we compete with these other companies? They're selling motors just like our standard model for \$106. That's only a dollar more than our production cost. Are we really that inefficient?' The financial controller responded by saying, 'I think this is due to an outmoded product costing system. As you may remember, I raised a red flag about our system when I came on board last year. But the decision was to keep our current system in place. In my opinion, our product costing system is distorting our product costs. Let me run a few numbers to demonstrate what I mean'.

Getting the CEO's go-ahead, the financial controller compiled the basic data needed to implement an activitybased costing system.

The ABC applied overhead data are displayed in the following table.

Activity	Standard Model	Deluxe Model	Heavy Duty Model
Depreciation and Maintenance, Machinery	\$32.00	\$208.00	\$75.20
Engineering, Inspection, and repair of defects	17.04	43.50	34.08
Purchasing, Receiving, shipping and Material handling	15.28	52.00	29.25
Depreciation, taxes and insurance for factory and Miscellaneous manufacturing overhead	12.5	89.25	25.59

Required:

1. Calculate pre-determined overhead rate under the traditional costing system.
2. Calculate product costs for the three models under the traditional costing system.
3. Calculate the budgeted prices for the three models, based on the traditional product costing system.
4. Calculate new (ABC) product costs for the three products, based on the new data collected by the financial controller. Round to the nearest cent.
5. Calculate a new budgeted price for the three products, based on the activity-based costing system. Compare the new budgeted target price with the current actual selling price for the standard model electric motor.
6. Write a memo to the CEO explaining what has been happening as a result of using the firm's traditional product costing system.
7. What strategic options does Pride Electric Motor Corporation have? What do you recommend and why?
8. Refer to the product costs developed, prepare a table showing how Pride's traditional product costing system distorts the product costs of the standard, deluxe and heavy-duty models.

Research requirements: Students need to support their analyses with references from the text and a minimum of six (6) suitable, reliable and academically acceptable sources. Check with your tutor if you are unsure of the validity of sources. Students seeking Credit or above grades should support their analysis with increased number of reference sources comparable to the grade they are seeking.

Marking Guide:

Marks awarded will be based on the following criteria:

Analyses-relevant to task specification	25%
Costing techniques applied and evaluated	25%

Written presentation	25%	Research	25%
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Marks will be scaled to a mark out of 15.

Marking Rubric Assessment 3: (15%)

Criteria	Fail (0 – 49%)	Pass (50 – 64%)	Credit (65 – 74%)	Distinction (75 – 84%)	High Distinction (85 – 100%)
Analyse the links between management accounting and the business decision making implicit this case study. (SLO a) Value 25% Mark awarded	Poor evaluation. Significant gaps in the theory and a lack of understanding of the issues. No use of quantitative analysis to support discussion.	Simple evaluation / discussion of the issues. Analysis reflects limited understanding of the context of case study. Uses limited insights from the quantitative analysis conducted to develop and support discussion.	Provides some detailed evaluation / discussion of the issues. Analysis reflects some understanding of the context of case study. Uses some relevant insights from the quantitative analysis conducted to develop and support discussion.	Provides detailed and reasoned evaluation / discussion of the issues. Analysis reflects a good understanding of the context of the case study. Comprehensive use of quantitative insights to develop and support discussion.	Provides a comprehensive / critical evaluation / discussion of the issues. Analysis reflects a comprehensive / sophisticated understanding of the context of the case study. Sophisticated use of quantitative insights to develop and support discussion.
Costing techniques applied and evaluated. (SLO b) Value 25% Mark awarded	Poor evaluation and application of costing techniques. Significant gaps in knowledge of the theory that would demonstrate an understanding of the cost systems.	Basic evaluations and application of costing techniques. Some gaps in knowledge of the theory but only demonstrated a basic understanding of the cost systems.	Sound evaluations and application of costing techniques. Few gaps in knowledge of the theory and demonstrated a Sound understanding of the cost systems.	Displays elements of critical evaluations and application of costing techniques. Displays elements of knowledge of the theory and demonstrated implications of the cost systems.	In-depth critical evaluations and application of costing techniques. Displays an in-depth knowledge of the theory and demonstrates a high level of understanding of the cost systems.
Written presentation of case study requirements using appropriate formats. (SLO c) Value 25% Mark awarded	Minimal use of appropriate formats and presentation.	Satisfactory use of appropriate formats and presentation methods.	Sound use of appropriate formats and professional presentation methods.	Displays elements of critical review of the use of appropriate formats and developed professional presentation methods.	In-depth analysis and application of the use of appropriate formats and refined professional presentation methods.
Research-extent and application. Value 25% Mark awarded	Inaccurate, inappropriate or no use of research. Analyses not developed. Referencing/citations mostly absent. Limited effort has been made.	Satisfactory research but not all current or relevant. Paraphrasing used throughout but minimum original analyses. A minimum of 2 relevant references provided. Limited effort to incorporate relevant references/citations.	Sound research from a wide range of sources to build adequate argument. Paraphrasing used accompanied with original analyses. > 3 relevant references provided. Some effort to incorporate relevant references/citations. Referencing is mainly accurate.	Displays elements of critical analyses with a good range of current and relevant sources. Minimum paraphrasing.> 4 relevant references provided. Appropriate use of relevant references/citations.	Wide range of current and relevant sources integrated to make in-depth critical analyses. >5 relevant references provided. Appropriate use of relevant references/citations.
Total mark out of 100					
Assessment mark /15					

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