Management Accounting – Exam Techniques

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Date : 26th November 2025

Agenda

- Three inventory control levels
- Re-order levels
- Sales budget & purchase budget preparation
- Cost centre vs profit centre concepts
- Weighted average contribution
- Sales mix variance: favourable or adverse
- Examination time management
- Exam preparation: syllabus coverage, study, question selection

Learning Objectives

- By the end of this session, you will be able to:
  - **Describe** the three levels of inventory & control techniques
  - **Calculate** re-order level using the formula
  - **Prepare** a basic sales and purchase budget
  - **Distinguish** between cost centres and profit centres
  - **Compute** weighted average contribution for product mix
  - **Explain** when sales-mix variance is favourable or adverse
  - **Use** effective time-management strategies in exams
  - **Apply** exam preparation techniques: syllabus, study, question choice

Three Inventory Control Levels

- Inventory control levels

    - Reorder level
      Is the level of inventory at which a fresh order is placed with a supplier. This level avoids any risk of a stockout during the lead time.

    - Re-order level = Maximum usage x Maximum lead time

    - Re-order level = Safety stock + (Maximum usage x Maximum lead time)

Three Inventory Control Levels

- Inventory control levels

  - Minimum inventory control level
    Is a warning level to draw management attention to the fact that inventories are approaching a dangerously low level and that stockouts are possible.

  - Minimum level = re-order – (average usage x average lead time)

Three Inventory Control Levels

- Inventory control levels

  - Maximum inventory control level
    Acts as a warning level to signal to management that inventories are reaching a potentially wasteful level.

  - Maximum level = re-order + re-order quantity – (minimum usage x minimum lead time)

Three Inventory Control Levels

- Why manage inventory?

  - Avoid stock-outs

  - Minimize holding costs

  - Buffer against demand/supply variability

Calculation of reorder level

Example:
    Average demand = 200 units/day
    Lead time = 5 days
    Safety stock = 100 units (as buffer)

Solution:

    Re-order level = Maximum usage x Maximum lead time

ROL = (200 × 5) + 100 = **1,100 units**
Interpretation: Place order when inventory falls to 1,100 units

Sales budget

- **Purpose**: Forecast sales in units and value → basis for many other budgets

- **Process**:
  - Analyze past sales trends

  - Adjust for market conditions, seasonality, promotions

  - Estimate units by period (month / quarter)

  - Multiply by selling price to get sales revenue

Purchases budget

- Use sales budget → production plan → raw materials requirement

- Formula for required purchases:

- Material purchases = (Budgeted Usage + Closing Stock - Opening Stock) x budgeted purchase price

Responsibility centres

- **Cost Centre**: Only costs are controlled (no revenue); manager responsible for cost efficiency

- **Profit Centre**: Both costs and revenues are measured; manager accountable for profitability

- Other centres: Revenue centre, Investment centre

Examples: Cost Centre vs Profit Centre

- Cost centre: Manufacturing department, HR, IT support

- Profit centre: A regional sales division, product-line division

- Why use them?
  - Performance accountability; clearer budgeting; managerial motivation

Contribution concept

- Contribution margin = Sales price – Variable cost per unit

- Meaning: How much each unit contributes to fixed costs & profit

Weighted average contribution

- Definition: Average contribution margin across products, weighted by their sales mix

- Formula: WAC = SUM (Sales Mix % x Contribution Margin)

- Use: To compute break-even for a multi-product firm; assess effect of changing mix

Example: Weighted average contribution

- Product A: Contribution = K20, Mix = 40%
- Product B: Contribution = K10, Mix = 60%
- WAC = (0.4 × 20) + (0.6 × 10) = 8 + 6 = **K14 per unit**

Sales mix variance

- Sales-mix variance (SMV): Difference in profit / contribution due to a change in the actual sales mix vs budgeted mix .

- Formula (simplified): SMV = Actual Units x (Actual Mix % - Budgeted Mix %) x Budgeted Contribution per Unit

When Mix Variance is Favourable / Adverse

- **Favourable**: More of high-margin products sold than planned → increases profit

- **Adverse**: More of low-margin products than expected → reduces contribution

- Business implication: Need to monitor product mix, pricing, incentives

Worked example - Mix Variance

- Budgeted mix: Product A (40%), Product B (60%)

- Actual: Product A = 33.3%, Product B = 66.6% from 3,000 units sold

- Budgeted contribution: A = K12/unit, B = K18/unit

- Compute SMV for A and B:
  - A: Unfavourable; B: Favourable → net effect on profit

Question 3 – DA 9 September 2021

PRACTICE QUESTION

Exam time management – key principles

- Use a **study / exam time plan**

- Apply the "minutes per mark" rule (or similar)

- Use timed mock exams to practice pacing

- Techniques: Pomodoro, chunking, prioritization

Sample Time-Plan for a 3-Hour Exam

- Example:
- For a 40-mark question, 72 minutes (assuming 1.8 min per mark)

  - Allocate rest of time for other questions + review

  - Always leave 10–15 min at end for checking

Exam Preparation – Syllabus Coverage

- Break down syllabus into topics / sub-topics
- Use a checklist to track coverage
- Prioritize based on:
    - Weight of topics in exam
    - Your strengths / weaknesses
    - Past exam trends

Study Techniques

- **Active recall**: Use flashcards, self-testing

- **Spaced repetition**: Review over spaced intervals

- **Study groups**: Discuss, quiz each other

- **Mind maps / summary notes**: Visualize key topics

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Question Selection Strategy

- Read through all exam questions first

- Identify "familiar / high-yield" ones

- Do those first, then tackle tougher ones

- Manage risk: don't get stuck; flag and return to hard ones

Exam-Day Wellness Tips

- Sleep well & eat properly

- Take regular short breaks during study

- Practice under exam conditions

- Use stress-management techniques (breathing, positive self-talk)

Summary & Key Takeaways

- Inventory: control levels + reorder level
- Budgeting: sales & purchases
- Centres: cost vs profit
- Contribution: weighted average
- Variance: mix favourable/adverse
- Exam: plan time, study smart, choose questions wisely

QUESTIONS