KnowledgEquity – Strategic Management Accounting – FAQs

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Module 1 – FAQs

Where is the assumed knowledge exercise referred to on study guide page 9?

The assumed knowledge exercise can be found in Guided Learning as a PDF in the Module 1 Unit called 'Part B: Strategic Management' under Step 3. It is examinable in that it forms the foundation of key areas of knowledge (e.g. Module 3 budgets).

When should we attempt Business Simulation: Save or close the hotel?

(See MYOL Business Simulation resources)

There are two ways to approach this.

One way is to do this when you have completed all the modules and use it as a revision exercise so you can practice applying your knowledge.

Alternatively, follow the study guide guidance. In Module 1 on page 34 it says, 'For practice in value analysis, please access Stage 1 of the 'Save or close the hotel?' Business Simulation on My Online Learning.' (You can do a Ctrl + F search of the PDF of the study guide for the word 'simulation' and you will see where it appears in the study guide). The simulation cases are not examinable – they help you understand the materials.

Module 2 – FAQs

Where is the video on 'Stakeholder management' that should be on My Online Learning?

(See 'Stakeholder management', page 50)

All these videos are now hosted inside Guided Learning inside the relevant unit for that topic.

Module 3 – FAQs

What is BQ allowed for AQ.

This is the Budgeted Quantity of Raw Material you need for the Actual Quantity of units produced.

Often people try to memorise formulas. It is better to focus more on understanding the what the formula is doing. The underlying concept here is to flex the budget.

If you use the original budgeted quantity your analysis will be inappropriate, because the actual amount is different to the budgeted amount.

So, you need to adjust your budget to figure out the 'budgeted quantity' (BQ) that should have been used given the actual quantity (AQ) that you used.

Example of flexing the budget:

I was going to produce 100 units each with 2kg of material. Static budget = 200kg.

I produced 110 units. So, BQ allowed is 2kg x AQ of 110 units = 220 units.

If I used 215 units, I have a favourable 5kg variance.

Why is the sales volume variance based on profit instead of sales price?

(See 'Example 3.14' pages 120, 121)

Why is the sales volume variance based on profit (or contribution margin) when the sales price variance is only based on revenue? Should it be based on the sales price?

It seems unusual to incorporate a profit measure when we are focusing on sales. It would be possible to measure this variance in a few ways. Based on Example 3.14 we can see that the first relevant number is the difference between AQ and BQ. This is 500 units. So, the underlying sales volume variance is 500 units. To work out the financial impact you could measure the total revenue that was missed as a result of this by doing the following:

Sales volume variance for revenue:
Sales-volume variance for revenue = (Actual quantity sold - budgeted quantity sold) × budgeted price per unit

Example 3.14 could also include the following:
The sales volume variance for revenue is calculated as follows:

> (AQ – BQ) × Budged price per unit
> = (4500 – 5000) × \$120
> = 500 × \$120
> = \$60 000 unfavourable

This is clear and accurate, but if we want to see the real impact on the organisation, we do not end up losing that whole amount. This is because for every sale that is 'lost' there is also a variable cost that will also not be 'incurred'. So, by adjusting the total revenue for the variable cost you are looking at only the 'contribution' lost by the sales volume variance. With Excel spreadsheets you would most likely calculate both - total revenue difference and the contribution margin difference.

Please explain Question 3.4 provided in the study guide?

(See 'Question 3.4', pages 130 - 132, 410 - 414)

Given the number of queries in relation to question 3.4, we have recorded a special webinar which can be found in the Webinars unit under Week 4. You can also download the applicable slides.

If labour hours increase won't this cause an unfavourable direct labour price variance?

(See 'Module 3 Variance Quiz')

If a company uses low-efficiency workers and more unskilled workers, the labour hours will increase so won't this cause an unfavourable direct labour price variance as well as an unfavourable direct labour volume variance?

No, this is not a likely outcome. If labour hours increase this is a volume variance issue, not a price variance issue. If the normal salary is $25 per hour and you pay $15 per hour for low efficiency workers, then the only relevant number is $10 per hour. So, this is a favourable price variance. It cannot be unfavourable. If they work 10,000 hours over budget, the extra dollars spent is not a 'price variance' but a volume variance.

Module 4 – FAQs

Is depreciation included in discounted cash flow analysis?

(See 'NPV', page 172 - 175)

We must consider depreciation when we do NPV and discounted cash flow analysis.

BUT – we MUST NEVER include depreciation expense in cash flow analysis.

The ***effect of depreciation on taxes*** (paying less tax) IS included in cash flow analysis.

These are two different things.

Depreciation and amortisation are non-cash items, so they are not directly included in DCF analysis.

However, they are expenses, and expenses reduce profit. With reduced profit you pay less tax, so there is a 'tax' impact that is relevant to cash flow analysis. So, we need to include this 'impact' in our DCF analysis, not depreciation/amortisation itself. We discuss this concept further in the Module 4 recorded webinars and short video tutorials on NPV.

Should I use Future Value or Present value to calculate NPV?

(See 'Example 4.10', page 176)

The study guide first gives you the NPV formula, but uses a future value approach to work out the answers in Example 4.10. Both approaches are valid and reach the same answer.

The NPV formula is the reciprocal of the FV formula. So, with NPV you multiply the cash flow by the discount factor to get the PV. With FV you just divide the cash flow by the discount factor to get the PV.

In Example 4.10 on page 303 we see a FV table is used to work out the discount factor of 15% in 1 year as 1.1500. So, if you take the cash flow of $300 000 in Year 1 and divide it by 1.15 you get a PV of $260 870.

If we used the PV table instead, the discount factor would be: 0.8695. Here, you take the cash flow of $300 000 x 0.8695 = $260 850. The difference is rounding, because the PV table goes to 4 decimal places.

In Question 4.8 which project is right? Do we choose the highest NPV or higher IRR?

(See 'Question 4.8', pages 178 – 179, 420)

There is no simple answer here. Please note that in the specific example given Project 2 has the highest NPV, but this is not a perfect rule to apply at all times. As you see in the final part of this solution it says: A range of tools should be used.

One of the key factors I discuss in one of my videos is that a smaller investment of only $100 000 is able to generate a return of $100 000. This is compared to Project 2 requiring $1 million to generate $200 000. This is significantly more money and creates more risk (and it may be harder to find $1m). So, even though the NPV may be higher, as part of the 'broader evaluation' it may be suitable to risk less money ($100 000 versus $1m) to get a $100 000 return instead of a $200 000 return.

Module 5 – FAQs

Is there a real difference between performance indicators and performance measures?

(See Module 5 Part A)

At the start of the module, it describes a 'strict' difference between indicators and measures, with indicators only pointing a general trend while measures are specific and against a scale. (We discuss this is the webinar recording).

For example, hot or getting hotter is a general 'indicator', whereas 38 degrees centigrade is a specific measurement.

After that part of the module however, the terms are used interchangeably, because in business they are seen to mean the same thing. We talk about KPIs, and these are also called performance measures.

Is the link provided in Question 5.2 (page 229) working?

(See 'Question 5.2, page 229)

No. Companies often change their internal links so this is probably what has caused this.

The easiest thing to do if this happens is to do a web search on JB Hi Fi Annual Report.

This brings up the following link, where you can choose the PDF you need:

http://www.annualreports.com/Company/JB-Hi-Fi-Limited

Is revenue only a lagging measure?

(see 'Leading and lagging measures, page 251)

No. It is a lagging measure in terms of measuring income from sales from customers and will depend on how well the people and systems in the organisation generate revenue. However, it is also a 'leading' measure into shareholder value. Normally, it will be a lagging measure.

Module 6 – FAQs

What are standard and complex activities and how are the numbers calculated?

(See 'Adjusting TDABC for more complex activities, page 317)

Every 'activity' includes a standard component. But some activities have an 'additional' complex part.

For example, in the study guide the requisition activity has a total of 4,200 transactions. All of these take at least 10 minutes each (the standard time). However, 760 of them take an additional 5 minutes (complex activities).

This means that 3,440 only required the standard amount of time.

So, there are two ways of approaching this:

We can say that there are 3,440 standard activities and 760 complex activities for a total of 4,200 transactions.

or we can say:

There are 4,200 transactions that all require the standard amount of time, of which 760 are complex, and these have an extra 5 minutes.

This can be confusing – so please review this page in the study guide carefully.

I also discuss this in detail in the webinar recording.

Case study 6.9 Task(b): Why is "Relative supplier invoice cost index[+]" $135,780?

(See 'Task (b)', page 359)

In the solution to Case study 6.9 on page 456 - 457 you can see it is the sum of the total supplier-related costs.

The number is given to you so that when you fill in the gaps for the 3 suppliers you can cross check it all adds up. When you find a number like this that you are unsure of, one thing that helps is do get the PDF of the study guide and do a Ctrl + F search of the number. That way you will see where else it appears, and cross reference it.

Case Study

What are Load Factors, and what is the Load Factors trend line?

(See 'Case Study: Figure CS3, page 391)

Load factor is looking at our capacity utilisation. (How full the aircraft is). So, the trend line is showing how well this is going. The fuller the aircraft is, the better. This link may be a useful starting point:

https://www.investopedia.com/ask/answers/041515/how-can-i-use-load-factor-indicator-profitability-airline-industry.asp

What happens if RPK increase and ASK stays the same?

(See 'Case Study: Figure CS3, page 391)

If the RPK increases from one period to the next but the ASK stays the same, then should the RPK trend line should move diagonally up, along with the Load Factor Line?

Yes. In the study guide example on page 694 it the example is 55 134 RPK / 71 470 ASK to give a load factor (capacity utilisation) of 77.14%.

If RPK goes up to 60 000 but ASK stays at 71 470 then 60 000 / 71 470 = 84% load factor, which is an improvement.

The RPK trend link will go up if RPK goes up. But this is different to the load factor going up. The load factor will go up if you can increase RPK and keep ASK constant.

So, in Figure CS3 we can see large growth in available kilometres (ASK, yellow line). This means more planes are flying with more seats than ever before. From Figure CS2 we see many more passengers have flown, which seems to have moved in line with the growth in ASK. So, the load factor (capacity utilisation) has hovered around the 80% mark.

Task 4: How do you calculate the worst-case and the best-case NPV figures?

(See 'Case Study: Task 4, pages 398, 468 -471)

The figures are based on Table CS6 on page 703. For example, Year 1 'worst' case will be the lowest number in Table CS6 for Year 1. This is $45 300. There is also $75 000 spent in year 1. So, total cash flow worst case in year 1 = $45 300 - $75 000 = ($29 700). The discount rate is 14%. So, in Year 1 we need to do the following: ($29 700) / (1.14) = ($26 052). The same happens for each of the other items to calculate the NPV.

So, Year 2 worst case is $111 800 cost savings, which discounted at 14% is $111 800 / (1.14^2) = $86 026.