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SAMPLE QUESTION ANSWER

MANAGEMENT ACCOUNTING

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Executive summary

The study has identified the importance of value chain analysis in the context of ANZ banking group limited. Its benefits have also been discussed in detail. Mission and objectives of the bank has been evaluated. In addition to this mission and objectives as well as competitive strategy of the company have been outlined. The study has analysed the value chain concept in the context of ANZ banking group limited. In this study, overhead allocation costs as well as rates for different jobs of Prime Personal Trainers have been determined. On the other hand the activity based costing in regards to Malekula council has been undertaken.

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Introduction

Value chain concept and model helps in understanding the effectiveness with which each and every activities help in adding value to the final product offered by an organisation. The study has analysed the value chain concept in the context of ANZ banking group limited. In this study, overhead allocation costs as well as rates for different jobs of Prime Personal Trainers have been determined. On the other hand the activity based costing in regards to Malekula council has been undertaken. The problem statement of the study is to provide an understanding of value chain concept and activity based costing.

Question 1

a) Value chain concept and its benefits

Value chain concept helps in understanding the different activities and its effectiveness with which it helps in adding value to the product. It has been defined by Brewer, Garrison and Noreen(2015), as a strategic tool used by an organisation to identify the most value adding activities as well as the least valuable activities undertaken within an organisation. It helps in eliminating the least valuable activities so that the costs can be controlled effectively. It has been seen that it also helps in adoption of differentiation (Laguna and Marklund, 2018).

The two ways in which the value chain concepts have proved to be advantageous for the organisations on an overall basis are found to be as follows;

Costs reduction

Value chain analysis helps in the processes to become more cost effective this is due to the fact that cost consuming activities are identified with the help of value chain analysis. Since an organisation has to undertake different forms of activities such as inbound, outbound, marketing and sales as well as post sales service hence it has to evaluate their value (Donovan *et al.* 2015). Evaluation of value that these activities create to make the final product of the firm is able to achieve the needs of the customers. Therefore value chain analysis recognises the loss making activities and thus removes them so that the cost can be reduced in relation to the activities.

Differentiation



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Value chain analysis also helps in differentiation of the products or services. In the opinion of Simatupang, Piboonrungraj and Williams(2017), it has been seen that value chain analysis helps in identifying those activities that help in creating or procuring a unique form of material. With the help of this, a company can achieve competitive advantage on a long term basis. It has been seen that value chain analysis offers the firm an opportunity to recognise uniqueness in the activities. On the other hand these unique activities might be found to be inimitable by the large numbers of competitors. Thus it offers a wide range of benefits to the companies to be able to achieve long term profitability.

b) i) Mission and objectives

The chosen organisation is ANZ banking group limited that is listed on the Australian stock exchange. The mission of the firm has been found out to be creating value led transformation in the sector of banking and financial services (anz.com.au, 2019).

The objectives of the company have been outlined to be various and as follows;

- It aims to achieve a customer centred approach while delivering services.
- It also aims to learn on a constant basis so that it is able to meet their needs as per the dynamic business environment (anz.com.au, 2019).
- It aims to achieve the advantage of being able to create simple and less time consuming services as well as facilities.
- It also aims to instil within the organisational; culture sense of winning behaviours and always be driven by the sense to achieve high growth rate (anz.com.au, 2019).

ii) Competitive strategy

The competitive strategy of ANZ Banking Group Limited has been found out to be differentiation. As per the opinion of Donovan *et al.* (2015), it has been seen that differentiation helps in achieving innovation in its products. It also helps in creating value and making its products or services highly competent in the industry wide market. In case of ANZ banking group limited it has been observed that differentiation in various financial products as well as its services have been undertaken. As its mission is to adopt a customer centred approach while offering services to a large base of customers, hence it becomes necessary to innovate new products. Innovating products helps in meeting the new requirements of the customers as well as it also helps in staying upgraded as per the market. In the recent years ANZ banking group has taken research and development programmes and thus has become capable of offering financial products both on online as well as offline mode. This has helped



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the bank to satisfy customers effectively. This has also been possible because of the fact that time has been reduced to avail services of the bank as well as customers are exposed to wide varieties of financial schemes.

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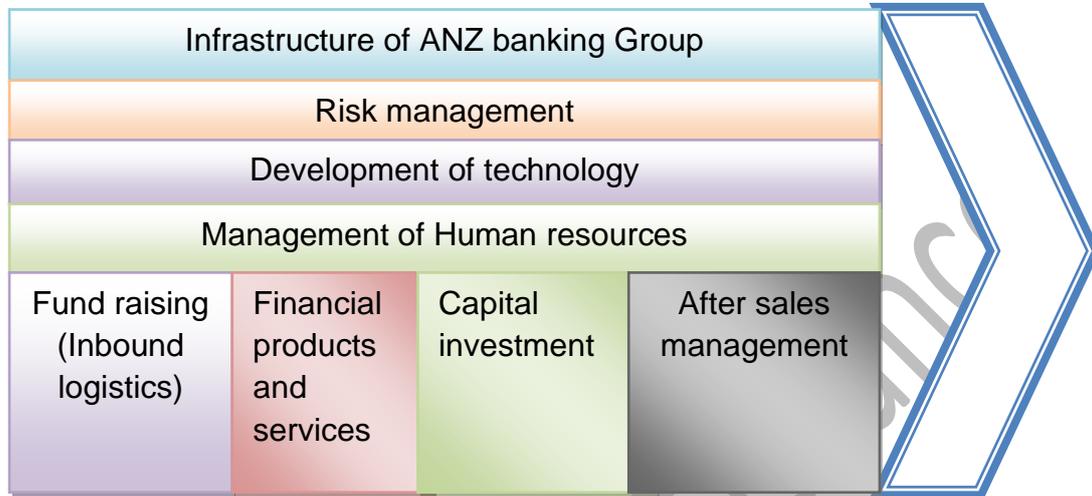
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iii) Value chain model



iv) Value adding processes

The two valueadding services that have been identified for the firm ANZ banking group limited have been described below;

Fund raising activity [Refer to Appendix 1]

It has been seen that the fund raising activity of ANZ banking group has been found to be valuable. On the other hand it is mostly related to collection of donations from its large number of customers to be able to contribute towards community development activities. It has been seen that ANZ banking group as a part of this activity collects donations from its staffs, customers and large number of shareholders. These funds that are collected as part of the community development programme are then distributed to the community development organisations or other voluntary form of organisations. For example ANZ banking group limited collects an amount of \$5000 from each of its employees in every financial year (anz.com.au, 2019). This process of fund raising activities has been able to make the company achieve high level of reputation in the market as well as in the society. This is because it has helped the firm to undertake corporate social responsibility efficiently (anz.com.au, 2019). On the other hand due to its sensitive approach to address the issues of community and other societal issues, it has achieved the confidence of its shareholders.

Financial products and services [Refer to Appendix 2]

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Financial products and services are other activities that have been observed to be valuable in the context of value chain analysis. It is the main activity of the organisation as it is concentrated around the financial services and products offered to its customers. It has been seen that ANZ banking group limited has been able to offer large number of financial services such as transaction services, risk management and foreign exchange facilities. On the other hand in regards to the products its offers insurance and superannuation as well as different schemes of financial services to its customers. It has been seen that innovation and improvement in these activities have helped it to attract new customers. In relation to innovation it has been found out that the company offers high rates of interest or fixed deposit as well as other savings facilities to the customers (anz.com.au, 2019). This activity of offering financial products and services by the ANZ group limited has helped it achieve competitive advantage in the market of Australia. On the other hand, it has also increased the profitability of the firm as well as earnings per share in the recent years to \$2.72 (anz.com.au, 2019). Innovation and improvements have been found to be core element of the financial services provided the bank.

v) Relevance and usefulness

Value chain analysis has been observed to be relevant as well as useful. It has helped in understanding the importance of each and every activity undertaken in an organisation. The information related to the ANZ banking group limited has been found out to be useful as it has helped in understanding the real life scenario and importance of value chain analysis. On the other hand it has also offered a detailed knowledge of the way an activity is recognised to be valuable or invaluable. The large number of benefits it provides as well as its use to achieve mission and objectives of an organisation.



Question 2

a) Allocation rates

	A	B	C	D	E	F	G	H	I	J	K
1	Estimated allocation rates for fixed and variable overhead for the current period										
2											
3	Variable overhead :		Amt in \$								
4	Direct labour costs		75000								
5	Variable overhead		150000								
6											
7	cost allocation base		Direct labour costs			75000					
8	Variable overhead allocation rate		Total variable overhead/Direct labour costs						2 or 200%		
9											
10	Fixed overhead :		Amt in \$								
11	Total Fixed overhead		120000								
12	cost allocation base		Direct labour Hours			3000					
13	Fixed overhead allocation rate		Total Fixed overhead/Direct labour hours						40		

Figure 1: Determination of variable and fixed overhead allocation rates

(Source: learner)

It has been found out that the variable overhead is allocated on the base of direct labour costs. In the context of Prime Personal Trainers it has been seen that the total labour costs have been found out to be \$75000. On the other hand, variable overhead cost has been calculated by considering only Variable overhead which is merely fringe benefits. The total variable overhead cost has been observed to be \$150000. Therefore the estimate for variable overhead allocation rate in terms of the current period has been determined to be 2 or 200% of the direct labour costs.

In case of fixed overhead allocation rate it has been seen that the total costs have been found out to be \$120000. It has been calculated by Prime Personal Trainers on the basis of direct labour hours. Therefore the allocation rate has been determined by dividing the total fixed overhead with that of the direct labour hours as the base rate (Rojko, 2017). Hence the fixed overhead allocation rate has been calculated to be \$40 per direct labour hours.



b) Total overhead cost

	A	B	C	D		
13	Fixed overhead allocation rate					T
14						
15	Total overhead cost allocated to Job 20 in October					
16						Amt in \$
17	Variable overhead costs		\$250 x 200%		500	
18	Fixed overhead		10Hrs x \$40		400	
19	Total overhead copsts for job 20				900	

Figure 2: Determination of Total overhead allocation rate for Job 20

(Source: learner)

The total overhead costs for Job 20 have been allocated on the basis of the fixed and variable overhead allocation rates (Haroun, 2015). It has been seen that Job 20 involves a contribution of 10 hours for the job to get completed and a costs of \$250. On the other hand it has been identified that the total direct labourhour would be used to get the fixed overhead rates for Job 20. Therefore 10 hours have been multiplied with that of the \$40 per direct labour costs. This has resulted in a total fixed overhead rate of \$400. In addition to this, it has been seen that Variable overhead has been derived with the help of 200% of direct labour costs. This has helped in determining the total variable overhead rate at \$500. Hence the total overhead rate has been derived to be \$900.

c) Job 20's total cost

20						
21	Total cost of Job 20					
22	Costs					Amt in \$
23	Direct raw material: Equipment and supplies				1000	
24	Direct labour Costs				250	
25	Variable Overhead				500	
26	Fixed overhead				400	
27	Opening Work in process				3500	
28	Total costs				5650	

Figure 3: Determination of Total overhead cost for Job 20

(Source: learner)



In relation to Job 20's total costs the total overhead allocation rates have been used. In the opinion of Newcomer, Hatry and Wholey(2015), total overhead costs comprises of Direct raw material, direct labour costs, variable overhead along with fixed costs and work in progress. In case of Prime Personal trainers it has been found out that the total cost has included equipment and supplies as raw material. It has also taken into consideration labour costs, fixed overhead of \$400 and opening work in progress of \$3500. Therefore the total costs have been determined to be \$5650.

d) Variable and fixed overhead

29			
30	Amounts of fixed and variable overhead allocated to jobs in October		
31			Amt in \$
32	Total Fixed overhead costs	229 hrs x \$40	9160
33	Total Variable overhead costs	\$5725 x 200%	11450
34			

Figure 4: Determination of Variable and fixed overhead for all Jobs

(Source: learner)

Variable and fixed overhead have been assessed with the help of the overhead allocation rates that have been determined earlier in the study. This means in order to calculate the total fixed overhead for the jobs, a total of direct labour hours allocation rate has been taken that is \$40 per direct labour hours. This means 229 hours that have been determined to be in total for the jobs has been multiplied with that of the \$40. This has given a sum of \$9160. On the other hand in order to determine the total variable overhead costs, allocation rate of percentage on direct labour costs have been taken. This means 200% has been multiplied with that of the total direct labour costs for all jobs that is \$5725. It has helped in determining total variable costs of \$11450. Hence it can be said that variable overhead cost for all jobs in case of Prime Personal Trainers is \$11450 and on the other hand fixed overhead costs is \$9160.

e) Choice of cost pools

The accountant should always choose tow cost pools instead of one because each and every activity are affected by the increase or decrease in their respective cost drivers. On the other hand the allocation of overhead rates also differ and use of different allocation rates as per costs pools help in determining accurate costs



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(Kannaiah, 2015). Job costing method would reflect accurate determination of costs that have been presented in the bills to the client. This is because fixed costs that are determined by direct labour hours would be reduced and the variable cost would be as per the units ordered (Weygandt *et al.* 2018).

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Question 3

a) Cost pools

There are in total three types of cost pools that have been identified to be in relation to three types of facilities offered by Malekula council. The three types of cost pools are housing animals, offering classes for pet training to people and the last activity or cost pool is providing veterinarian services.

Costs have been assigned to the cost pools identified are shown below;

Cost pools	Costs assigned
Housing of pet animals	$\$125000 + \$50000 + \$200000 \times 5000 / 10000 = \275000
Offering classes for pet training	$\$40000 + \$ 60000 + \$200000 \times 3000 / 10000 = \$ 160000$
Veterinarian services	$\$ 150000 + \$ 75000 + \$ 200000 \times 2000 / 10000 = \$ 265000$

Table 1: Cost pools and costs assigned

(Source: Influenced by Johansson and Kriström, 2018)

It has been seen that the total costs related to housing of animals involves the cost of salaries made to the animal shelter employees. It also includes the costs of food and supplies of \$50000. It has been determined with the help of deduction of food and supplies accruing to veterinarian services that accounts for \$75000 from the total costs of \$125000. On the other hand \$200000 that relates to building expenses has been apportioned on the basis of square feet area occupied by the facility (Johansson and Kriström, 2018). In case of the second activity of offering classes for pet training the total cost that has been assigned is \$ 160000. It includes salaries of the trainers and building costs that has been apportioned on the square feet basis. In addition to this it has been seen that the total of directors and staffs salaries have also been included. In case of the third activity or cost pool that is found to be veterinarian services a total costs of \$ 265000 have been assigned. This has been determined by adding \$ 150000 that is the salary of the veterinarians and technicians with that of the food & supplies expenses of \$75000. On the other hand a total of \$40000 has been included as a part of the building costs.

b) Cost driver

Cost pools	Cost drivers
-------------------	---------------------



Housing of pet animals	Square feet area, number of animals housed and number of animals housed per day basis.
Offering classes for pet training	Percentage of trainer's time consumed, number of classes offered and number of families attending the classes.
Veterinarian services	Number of animal visits and supplies offered for the veterinarian services.

Table 2: Cost pools and cost drivers

(Source: Influenced by Horng, Chang and Chen, 2016)

Explanation for choice of costs drivers

Costs driver for the activity housing of pet animals has been chosen to be the square feet area, number of animals housed and number of animal housed on a per day basis. These have been chosen because the housing facilities of animals are affected by the number of animal that stay there. On the other hand the area where they would reside as well as the cost would be affected by the number of animals staying there (Namazi, 2016). In case of second facility, it has been seen that number of families have been seen to be affect the costs to conduct such classes on a regular basis. On the other hand it is also seen to be impacted by the time offered by the trainers to conduct such classes. In relation to veterinarian services, numbers of animals that visit the facility have been chosen to be the costs driver (Bragg, 2016). This is because the amount of cost incurred would be decided on the basis of animals arriving for check-up.

c) Allocation rates

<i>Cost pools</i>	<i>Cost drivers</i>	<i>Cost allocation rate</i>
Housing of pet animals	number of animals housed	$\$275000 / 4500 = \61.11 per animal
Offering classes for pet training	number of families attending the classes	$\$ 160000 / 10 = \16000 per family
Veterinarian services	Number of animal visits	$\$ 265000 / 5000 = \53 per animal visits

Table 3: Cost pools and cost drivers

(Source: Influenced by Weygandt *et al.* 2018)



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The allocation rate has been calculated by dividing the total costs assigned to each of the costs pools with that of the costs drivers. In case of Housing of pet animals, it has been seen that the costs allocation rate is \$61.11 per animal. In case of the Offering classes for pet training, the allocation rate is \$16000 on a per family basis. On the contrary, total allocation rate for third cost pools that is Veterinarian services is \$53 on a per animal visit.

Conclusion

The study has identified the importance of value chain analysis in the context of ANZ banking group limited. Its benefits have also been discussed in detail. Mission and objectives of the bank has been evaluated. In addition to this mission and objectives as well as competitive strategy of the company have been outlined. The study has also provided a brief overview of the value chain model that ANZ banking group limited follows. On the other hand use of job costing method as well as activity based costing method also has helped in determining costs accurately related to a business activity.

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Appendices

Appendix 1: Fund raising activities

ANZ Personal Business Corporate Search Log on

Sustainability framework Fair and responsible banking Environmental sustainability Housing Financial wellbeing

About us / Sustainability framework / Fair and responsible banking / Culture and conduct Find ANZ Contact

CULTURE AND CONDUCT

One of our strategic priorities is to deliver a purpose and values-led transformation of the bank.

Our values

Our values mean whatever situation we're in, we care about our customers, our colleagues and how our actions contribute to the community. We care about:

- Integrity
- Collaboration
- Accountability
- Respect
- Excellence

Our culture

Our aspirational culture incorporates our purpose, values, Code of Conduct and 'winning behaviours' to ensure we are continuously improving and adapting for our customers. We strive to be:

View the 2018 Sustainability Review (PDF, 7.48MB)

(Source: anz.com.au, 2019)



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Appendix 2: Financial services

The screenshot shows the ANZ Australia website homepage. At the top, there is a navigation bar with the ANZ logo, a search bar, and links for 'Australia', 'Find a branch / ATM', 'Help', and 'Contact us'. Below the navigation bar are dropdown menus for 'Personal', 'Business', 'Corporate', and 'About us'. The main content area is titled 'Products and services' and features a large banner with the text 'Do more than bank across Asia Pacific. Do business.' and a 'Find out more' button. To the left of the banner is a list of service categories with dropdown arrows: Financing, Transaction services, Investing, International services and FX, Risk management, Insurance and superannuation, anz@work program, Specialist services for financial institutions, and Online security. To the right of the banner is a section for 'Internet Banking' with a 'Log in' button and a 'Demo > Security' link. Below the banner, there are three columns of service highlights: 'Financing' (Cash flow, loans, trade, and complex finance solutions for your business.), 'Transaction services' (Electronic solutions, account structuring, credit cards, merchant services, and EFTPOS products.), and 'Investing' (Investment accounts, managed funds and structured investment products.). On the far right, there are sections for 'Interest rates, fees and charges' (with links to Fees, taxes and terms, Market rates, and Interest rates), 'News and publications' (with a link to Client publications), and 'Quicklinks' (with links to Based outside Australia?, Businesses - turnover \$5M to \$40M, Corporate - turnover \$40M to \$400M, Large Corporates - turnover more than \$400M, Other financial institutions, and Commonly used forms).

(Source: anz.com.au, 2019)