# UNIVERSITY OF SWAZILAND

## DEPARTMENT OF ACCOUNTING

## SUPPLEMENTARY EXAMINATION PAPER, 2012

| | | |
|---|---|---|
| DEGREE/DIPLOMA AND YEAR OF STUDY | : | B.COM IV |
| TITLE OF PAPER | : | Management Accounting I |
| COURSE CODE | : | AC 402/IDE AC 402 |
| TIME ALLOWED | : | THREE HOURS |

INSTRUCTIONS:

1. THE TOTAL NUMBER OF QUESTIONS ON THIS PAPER ARE FIVE(5)
2. ANSWER QUESTION ONE AND ANY OTHER THREE QUESTIONS.
3. THE MARKS AWARDED FOR A QUESTION / PART ARE INDICATED AT THE END OF EACH QUESTION / PART OF QUESTION.
4. WHERE APPLICABLE, SUBMIT ALL WORKINGS AND CALCULATIONS.

NOTE: YOU ARE REMINDED THAT IN ASSESSING YOUR WORK, ACCOUNT WILL BE TAKEN OF ACCURACY OF THE LANGUAGE AND THE GENERAL QUALITY OF EXPRESSION, TOGETHER WITH THE LAYOUT AND PRESENTATION OF YOUR FINAL ANSWER.

SPECIAL REQUIREMENTS: NONE

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR.

**Question 1**

At denominator activity, the standard cost per unit is as follows:

| | |
|---|---|
| Direct materials, 3 kgs EE5.00 | E15.00 |
| Direct labour, 2 hours @ E4.00 | 8.00 |
| Variable indirect costs, 2 hours @ E1.20 | 2.40 |
| Fixed indirect costs, 2 hours @ E0.80 | 1.60 |
| Total | E27.00 |

For the month of Octover, 2011 the performance report included the following information in (Emalangeni):

| | Incurred At actual Price | Standard costs applied | Total Variance | Variance Analysis: Price or rate | Usage or efficiency | Volume |
|---|---|---|---|---|---|---|
| Direct materials used | E134,400 | E135,000 | E600 F | E5,600 F | E5,000 U | - |
| Direct labour | 77,900 | 72,000 | 5,900U | 1,900 U | 4,000 U | - |
| Variable indirect costs | 21,500 | 21,600 | 100F | 1,300 F | 1,200 U | - |
| Fixed indirect costs | 15,800 | 14,400 | 1,400 U | 200 F | - | E1,600 U |
| | E249,600 | E243,000 | E6,600 U | E5,200 F | E10,200 U | E1,600 U |

Direct materials were quoted at E5.50 per pound throughout September and October by all suppliers. There was no purchase –price variance for materials in October, the price variance shown relates solely to the materials used during October.
Wage standards were set in accordance with an annual union contract, but a shortage of workers in the local area has resulted in rates higher than standard. There were no beginning or ending inventories of work in process.

**Required:** for the month of October.

| | |
|---|---|
| 1. Number of units produced | **(4 Marks)** |
| 2. actual number of direct labour hours | **(3 ½ Marks)** |
| 3. Actual wage rate | **(3 ½ Marks)** |
| 4. Budget for fixed indirect costs | **(3 ½ Marks)** |
| 5 .Denominator activity expressed in direct –labour hours | **(3 ½ Marks)** |
| 6. Kilogramms of direct materials used | **(3 ½ Marks)** |
| 7. Kilogrammes of direct materials used | **(3 ½ Marks)** |

**(Total 25 Marks)**

**Question 2**

Falakhe Gardens manufactures a single product, a toy garden fork which he sells for E10. At 75% capacity, which is normal level of activity for the factory, sales are E600,000.

The cost of these sales is:
Prime cost per unit E3
Production overhead E150,000 (including variable costs of E30,000).
Sales costs E80,000
Distribution costs E60,000 (including variable costs of E15,000).
Administration costs E40,000 (including variable costs of E9,000).

The sales costs are fixed with the exception of sales commission which is 5% of sales value.

**Required:**

a) Calculate the break-even point in units (7 Marks)

b) Prepare statements to show the revenues, contribution and profit:

i) at the normal level of activity (3 Marks)

ii) if the sales price is reduced by 5% and the sales volume thereby increased by 16% above the normal level of activity (3 Marks)

iii) If the sale price reduced by 7% and the sales volume thereby increased by 20% above normal level of activity (3 Marks)

c) Calculate the c/s ratio in each instance in (b) above (6 Marks)

d) What would sales volume need to be under the sales price arrangement in (b) iii for profit to be the same as in (b) (ii) (3 Marks)

(Total 25 Marks)

**Question 3**

Zamani Ltd is presently operating at 50 per cent of practical capacity, producing about 50,000 units annually of a component. Zamanai Ltd recently received an offer from a company in Zambia to purchase 30,000 components at E6.00 per unit, Zamani has not previously sold components in Zambia.

Budgeted product ion costs for 50,000 and 80,000 units are as follows:

| | | |
|---|---|---|
| Number of units | 50,000 | 80,000 |
| **Costs:** | | |
| Direct material | E75,000 | E120,000 |
| Variable direct labour | 75,000 | 120,000 |
| Factory overhead | 200,000 | 260,000 |
| | E350,000 | E500,000 |
| Cost per unit | E7,00 | E6.25 |

**Required:**

a) Explain what apparently caused the drop from E7.00 per unit to E6.25 per unit when production increased from 50,000 to 80,000 units. Show supporting computation. **( 7 Marks)**

b) Determine the effect on profit if the order is accepted **(6 Marks)**

c) Explain why each of the following may affect a decision to accept or reject the special order:
i) the likelihood of repeat sales and/or all sales to be made at E6.00 per unit.
ii) whether the sales are made to customers operating in two separate isolated markets or whether sales are made to customers competing in the same market **(12 Marks)**

**(Total 25 Marks)**

**Question 4**

The following data have been taken from the records of Sebenele Ltd:

| | | |
|---|---|---|
| Standard capacity per year in units | | 200,000 |
| Production in units druing yer 2011 | | 180,000 |
| Units sold durin ghte yer 2011 | | 190,000 |
| Units in finished goods inventory of Jan 1, 2011 | | 30,000 |
| Selling price per unit | | E15,00 |
| **Standard variable cost per unit:** | | |
| Material and labour | E8,00 | |
| Indirect manufacturing costs | 2,00 | |
| Selling and àdministrative expenses | 1,00 | E11,00 |
| **Non variable costs budgeted for year:** | | |
| Indirect manufacturing costs | | E400,000 |
| Selling and administrative expenses | | 300,000 |

**Required:**

**a)** Determine the net profit (loss) for the year 2011 under (1) absorption costing and (2) direct costing. Inventories of finished goods are carried at standard cost and the indirect manufacturing cost volume variance is closed to the income (profit and loss) accounts. It may be assumed that the variances other than volume were reported. **(20 Marks)**

**b)** Prepare a reconciliation of the difference between the net profit reported under the two concepts. **(5 Marks)**

**(Total 25 Marks)**

**Question 5**

The following information relates to GZ Ltd.

a) The company's only product, a skirt, sells at E40 and has variable cost of E26 made up as follows:
Material E20; labour E4; overhead E2.

b) Fixed costs of E6000 per month are paid on the 28th of each month.

c) Quantities sold/to be sold on credit are:

| May | June | July | Aug | Sept | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|
| 1000 | 1200 | 1 400 | 1600 | 1800 | 2000 | 2200 | 2600 |

d) Production quantities:

| May | June | July | Aug | Sept | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|
| 1200 | 1400 | 1600 | 2000 | 2400 | 2600 | 2400 | 2200 |

e) Cash sales, at a discount of 5% are expected to average 100 units per month.

f) Customers are expected to settle their accounts by the end of the second month following sale:

g) Suppliers of material are paid two months after the material has been bought.

h) Wages are paid in the same month as they are incurred

i) 70% of the variable overhead is paid in the month of production and the remainder in the following month.

j) Corporation Tax of E18000 is to be paid in October.

k) A new delivery vehicle was bought in June, the cost of which, E8000 is to be paid in August. The old vehicle was sold for E600, the buyer undertaking to pay in July.

l) The company is expected to be E3000 overdrawn at the bank at 30 June 2010.

m) The opening and closing stocks of raw materials, work in progress and finished goods are budgeted to be the same.

**Required:**

Prepare a month by month cash budget for July to December 2010 and to append such brief comments as you consider might be helpful to management.

**(Total 25 Marks)**