UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION PAPER , 2013

DEGREE/DIPLOMA AND YEAR OF STUDY	:	**B.COM IV**
TITLE OF PAPER	:	**INTERMEDIATE MANAGEMENT ACCOUNTING**
COURSE CODE	:	**AC 414**
TIME ALLOWED	:	**THREE (3) HOURS**

INSTRUCTIONS:

1. **THE TOTAL NUMBER OF QUESTIONS ON THIS PAPER ARE FIVE (5)**
2. **ANSWER ANY FOUR (4) QUESTIONS.**
3. **THE MARKS AWARDED FOR A QUESTION / PART ARE INDICATED AT THE END OF EACH QUESTION / PART OF QUESTION.**
4. **ALL WORKING NOTES AND CALCULATIONS MUST BE SHOWN ON THE ANSWER SHEET.**

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: **GRAPH PAPER**

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

QUESTION 1

Makmor Corporation is a producer of a single product that sells for E10 per unit. It uses an absorption cost system. Indirect manufacturing costs are applied on a standard capacity of 10,000 units per month. The standard cost per unit of product is as follows:

Material	E1.00
Direct labour	E2.50
Indirect manufacturing costs	E2.50
Total	E6.00

The following income statement was prepared for the month of January, 2013 when 9,000 units were produced and 8,000 units were sold.

MAKMOR CORPORATION

Income Statement

Month ended January, 2013

Sales revenue		E80,000
Cost of sales (standard)		E48,000
Gross margin on sales		E632,00
Selling and administrative expenses		E24,000
Net income (standard)		E8,000
Less unfavourable variances from standard costs:		
Labour efficiency	500	
Indirect manufacturing costs volume	1,000	
Indirect manufacturing costs budget	300	E1,800
Net income (actual)		E6,200

Required:

a) Revise the income statement for January applying the direct cost concept. Material and direct labour are controlled as variable costs; the selling and administrative expenses are corded for the month were made up as follows: non-variable E16,000, variable E8,000.

b) Account for the difference between the net income reported under the two concepts.

c) What net income would have been reported under the two concepts if during January, 7,000 units had been produced and 8,000 units sold?

Total (25 Marks)

QUESTION 2

A. ABC Ltd manufactures and sells dresses at a variable cost of E3 each and a fixed cost of X. It can sell 6000 dresses at E5 and net E2000 profit , or it can sell 3500 at E6 and another 2000 at E4 each.

Required: Which alternative should the company choose? **(5 Marks)**

B. Muzi Ltd manufactures and sells a consumer item. It can produce and sell up to 3000 units at a variable cost of E1.50 per unit and fixed costs of E5000; from 3000 to 6000 units at a variable cost of E1 per unit and fixed costs of E7000; and from 6001 to 10,000 units at a variable cost of E0.50 per unit and fixed costs of E15,000.

The managing director of the company has discovered that 2500 units can be sold at a price of E6 each, or 5000 at a price of E4 each. 8000 units probably could be sold at E3,50 per unit if advertising were increased by E1000 and selling costs by E0.10 per unit. The latter costs are in addition to those already stated for 6001 – 10 000 unit range.

Required:

How many units should the company plan to produce and sell – 2,500, 5,000 or 8,000?

(25 Marks)

QUESTION 3

A company has been making a machine to order for a customer, but the customer has since gone into liquidation, and there is no prospect that any money will be obtained from the winding up of the company.

Costs incurred to date in manufacturing the machine are E50,000 and progress payments of E15,000 had been received from the customer prior to the liquidation.

The sales department has found another company willing to buy the machine for E34,000 once it has been completed.

To complete the work, the following costs would be incurred:

a) Material – these have been bought at a cost of E6,000. They have no other use, and if the machine is not finished, they would be sold for scrap for E2,000.

b) Further labour costs would be E8,000. The labour is in short supply, and if the machine is not finished, the work force would be switched to another job, which would earn E30,000 in revenue, and incur direct costs of E12,000 and absorbed (fixed) overhead of E8,000.

c) Consultancy fees was E4,000. If the work is not completed, the consultant's contract would be cancelled at a cost of E1,500.

d) General overheads of E8,000 would be added to the cost of the additional work.

Required:

Should the new customer's offer be accepted? **Total (25 Marks)**

QUESTION 4

A. Xabiso Ltd manufactures and sells two products, X and Y. Each product is processed through two phases, cutting and finishing. The following unit information is given per product.

	Product X	**Product X**
Selling price	E15.00	E10.00
Direct materials	2.80	1.00
Variable labour	6.00	5.00
Variable overhead	1.20	1.00
Fixed overhead applied	0.72	0.60
Labour requirements in hours		
Cutting	½	½
Finishing	2/5	1/5

The cutting department has 200 hours available each week. The finishing department has 120 hours available each week. Sales constraints are product X , 400 units per week, product Y, 300 units per week.

Required:

1. Using a graph approach, determine the product mix that maximizes profits **(7 Marks)**
2. Determine the maximum contribution margine **(6 Marks)**

C. Welile Ltd manufactures two types of coils, a Pipi (A) and a Popi (B). Marginal contributions are: E4 on a Pipi (A) and E5 on Popi (B). Production involves two processes, moulding and winding. The company must produce at least 20 Pipi(A) a day, and can make any additional combination of coils subject to the following constraints.

	Hours required		**Total hours**
Process	**Pipi (A)**	**Popil (B)**	**Available per day**
Moulding	1	2	900
Winding	2	3	1500

Required: Using the graphic approach:

i) Determine the product mix that maximizes daily profit. **(6 Marks)**

ii) What is the maximum profit? **(6 Marks)**

Total (25 Marks)

QUESTION 5

Mbambo Ltd produces three products, A, B and C which have the following standard costs:

	Product	A	B	C
		E	E	E
Materials		11.50	0.60	13.75
Direct labour:	Grade X	3.75	2.75	1.25
	Grade Y	0.75	2.25	6.75

Budgeted fixed overheads are E300,000 for the forth coming year. Grade X labour is paid E2.50 per hour and Grade Y labour is E1.50 per hour. The Budgeted sales, as estimated by the marketing department are:

A 16 000 at a sales price per unit of E28

B 28 000 at a sales price per unit of E15.50

C 15 000 at a sales price per unit of E25.50

On being informed of the draft sales budget, the production and engineering manager pointed out that:

a) There would only be 50,000 hours of Grade X labour available in the next year, and overtime working was not possible. A recruitment and training programme was planned, however, and it was expected that the available Grade X labour in the year after next would be 62 500 hours:

b) The available Grade Y labour was up to 120,000 hours in the coming year

Required:

i) Advise the board of directors how many of each product should be produced so as to enable Mbambo Ltd to maximize profits. Show full details of the calculations on which you base your advice. **(15 Marks)**

ii) Prepare a budgeted statement on the assumption that your advice is acceptable. **(5 Marks)**

iii) Briefly explain the reasoning you have applied in making your recommendations.

(5 Marks)

Total (25 Marks)