Course Code: AC502/IDE AC-502 (S) 2013

UNIVERSITY OF SWAZILAND

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION – JULY 2013

DEGREE AND YEAR OF STUDY	:	B.COM. V
TITLE OF PAPER	:	MANAGEMENT ACCOUNTING II
TIME ALLOWED	:	TWO (2) HOURS

INSTRUCTIONS:

1. TOTAL NUMBER OF QUESTIONS ON THIS PAPER: FOUR (4)
2. ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS.
3. THE MARKS AWARDED FOR A QUESTION/PART ARE INIDCATED AT THE END OF EACH QUESTION/PART OF QUESTION.
4. ALL CALCULATIONS ARE TO BE MADE TO THE NEAREST LILANGENI.
5. 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 PRESENTAION OF YOUR FINAL ANSWER.

SPECIAL REQUIREMENTS: NONE

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

QUESTION 1

A.

	Red Company	White Company	Blue Company
Average total assets	?	?	E 600,000
Net operation income	E 100,000	?	120,000
Sales	1,400,000	E 440,000	1,400,000
Return on investment	5%	?	?
Margin on sales	?	10%	?
Asset turnover	?	1.8	?

Required:

a) Fill in the missing information **(2 Marks each)**

B.

Cali Mining Equipment Inc. manufactures various pieces of equipment used in the extraction industry. For 2013, the company's Conveyor System Division had the following performance targets:

Asset turnover	1.6
Profit margin	8%

The actual 2013 results for the division are summarized below:

Total assets at year end 2012	E 4,800,000
Total assets at year end 2012	6,400,000
Sales	7,200,000
Operating expenses	6,400.000

Required:

a) For 2013, did the Conveyor Systems Division achieve its target objectives for ROI, asset turnover, and profit margin ? **(11 Marks)**

b) If Cali Mining Equipment, Inc. has an overall target return of 12.8%, what was the Conveyor System Division's residual income for 2013? **(11 Marks)**

Total (40 Marks)

QUESTION 2

A. i) Under what instances or circumstances would the PERT technique be used **(5 Marks)**

ii) Write short notes on the following terms used in PERT:

- Slack
- Critical path
- Net work
- Events
- Activity time/duration **(5 Marks)**

B. The following schedule for Phangisa Ltd contains activities and variable time estimates necessary to produce Bikes.

Activity	**Activity Representation**	**Weeks** a	m	b
A	1-2	4	6	7
B	1-3	2	3	5
C	1-4	5	6	7
D	1-4	1	2	3
E	1-5	1	2	4
F	1-5	2	4	6
G	1-5	1	3	4
H	1-6	7	8	9
I	1-6	1	2	3

Required: Using the above information,

i) Draw a presentation of PERT network **(8 Marks)**

ii) Compute the time(te) necessary to complete an activity **(8 Marks)**

iii) Identify the critical path **(4 Marks)**

Total (30 Marks)

QUESTION 3

Manqoba Ltd purchased a special machine a year ago at a cost of E12500. At that time, the machine was estimated to have a useful life of six years and a E500 disposal value. The annual cash operating cost is approximately E20,000.

A new machine that has just come on the market will do the same job but with an annual cash operating cost of only E17,000. This new machine costs E16,000 and has an estimated life of five years with a E1000 disposal value. The old machine could be used as a trade-in at an allowance of E5,000. Straight line depreciation is used and the company's income tax rate is 50 percent.

Required:

Compute the internal rate of return on the new investment. **Total (30 Marks)**

QUESTION 4

A. From an organizational point of view, two approaches to transfer pricing are: (a) to let managers of profit centres bargain with one another and arrive at their own transfer prices and (b) to use the prevailing market price as a transfer price.

Required: Identify the advantages and disadvantages of each approach. **(15 Marks)**

B. Dumako Ltd has two decentralized divisions, A and B. Divison A has always purchased certain units from Division B at E75 per unit. Because Division B plans to raise prices to E100 per unit, Division A considering purchasing these units from outside suppliers at E75 per unit. Division B's costs are as follows:

B's variable cost per unit	E70
B's annual fixed costs	E15,000
A's purchase	1000 units

If Division A buys from an outside supplier, the facilities Division B uses to manufacture these units will remain idle.

Required:

Would it be more profitable for the company to enforce the E100 transfer price than to allow A to buy from outside suppliers at E75 per unit **(15 Marks)**

Total (30 Marks)