UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING & FINANCE

MAIN EXAMINATION PAPER

DECEMBER 2015

DEGREE/YEAR OF STUDY:		IDE BCOMM LEVEL 5
TITLE OF PAPER	:	MANAGEMENT ACCOUNTING I
COURSE CODE	:	IDE AC 413 (M) DECEMBER 2015
TOTAL MARKS	:	100 MARKS
TIME ALLOWED	:	THREE (3) HOURS
INSTRUCTIONS	1	There are **three (3)** questions. Answer all.
	2	Begin the solution to each question on a new page.
	3	The marks awarded for each question are indicated at the end of the question.
	4	Show all your workings.
	5	Calculations are to be made to zero decimal places of accuracy, unless otherwise instructed.
RECOMMENDATION	1	Reading time should not exceed fifteen minutes

Note: You are reminded that in assessing your work, account will be taken of accuracy of the language and general quality of expression, together with layout and presentation of your answer.

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

SPECIAL REQUIREMENTS: NON PROGRAMMABLE CALCULATOR

Question 1

Mr Mazibuko has recently developed a new improved video cassette and shown below is a summary of a report by a firm of management consultants on the sales potential and production costs of the new cassette.

Sales potential: The sales volume is difficult to predict and will vary with the price, but it is reasonable to assume that at a selling price of E 10 per cassette, sales would between 7 500 and 10 000 units per month. Alternatively, if the selling price was reduced to E 9 per cassette, sales would be between 12 000 and 18 000 units per month.

Production costs: If production is maintained at or below 10 000 units per month, then variable manufacturing costs would be approximately E 8.25 per cassette and fixed costs E 12 125 per month. However, if production is planned to exceed 10 000 units per month, then the variable costs would be reduced to E 7.75 per cassette, but the fixed costs would increase to E 6 125 per month.

Mr Mazibuko has been charged E 2 000 for the report by the management consultants and, in addition, has incurred E 3 000 development cost on the new cassette.

If Mr Mazibuko decides to produce and sell the new cassette it will be necessary for him to use factory premises which he owns, but are leased to a colleague for a rental of E 400 per month. Also he will resign from his current position in an electronics' firm where he is earning a salary of E 1 000 per month.

Required:

a) Identify in the question an example of
   i) An opportunity cost
   ii) A sunk cost
b) Making whatever calculations you consider appropriate, analyze the report from the consultants and advise Mr Mazibuko of the potential profitability of the alternatives shown in the report. Any assumptions considered necessary or matters which may require further investigation or comment should be clearly stated.

[30 Marks]

Question 2

The management of Smile (Pty) Ltd has been informed that the union representing the direct production workers at one of their factories, where a standard product is produced, intends to call a strike. The accountant has been asked to advise the management of the effect of the strike. The accountant has been asked to advise management of the effect the strike will have on cash flow.

The following data has been made available:

	Week 1	Week 2	Week 3
Budgeted sales	400 Units	500 units	400 units
Budgeted production	600 Units	400 units	Nil

The strike will commence at the beginning of week 3 and it should be assumed that it will continue for at least 4 weeks. Sales at 400 units per week will continue to be made during the period of the strike until stocks of finished goods are exhausted. Production will stop at the end of week 2. The current stock level of finished goods is 600 units. Stocks of work in progress are not carried.

The selling price of the products is E 60 and the budgeted manufacturing cost is made up as follows:

	E
Direct materials	15
Direct wages	7
Variable overheads	8
Fixed overheads	18
Total	48

Direct wages are regarded as a variable cost. The company operates a full absorption costing system and the fixed overheads absorption rate is based upon a budgeted fixed overhead of E 9 000 per week. Included in the total fixed overheads is E 700 per week for depreciation of equipment. During the period of the strike, direct wages and variable overheads would not be incurred and the cash expended on fixed overheads would be reduced by E 1 500 per week.

The current stock of raw materials are worth E 7 500; it is intended that these stocks should increase to E 11 000 by the end of week 1 and then remain at this level during the period of the strike. All direct materials are paid for one week after they have been received. Direct wages are paid one week in arrears. It should be assumed that all relevant overheads are paid for immediately the expense is incurred. All sales are on credit, 70% of the sales value is received from the debtors at the end of the first week after the sales have been made and the balance at the end of the second week.

The current amount outstanding to material suppliers is E 8 000 and direct wage accruals amount to E 3 200. Both of these will be paid in week 1. The current balance owing from debtors is E 31 200, of which E 24 000 will be received during week 1 and the remainder during week 2. The current balance of cash at bank and in hand is E 1 000.

Required:

a)

i) Prepare a cash budget for week 1 to 6 showing the balance of cash at the end of each week together with a suitable analysis of the receipts and payments during each week.

ii) Comment upon matters arising from the cash budge which you consider should be brought to management's attention

b) Explain why the reported figure for a period does not normally represent the amount of cash generated during that period.

[40 Marks]

Question 3

River stone (Pty) Ltd operates a chain of fast-food restaurants. The company uses a standard marginal costing system to monitor the costs incurred on its outlets. The standard cost of one of its most popular meals is as follows:

		E per meal
Ingredients	1.08 units	1.18
Labour	1.5 minutes	0.15
Variable conversion costs	1.5 minutes	0.06
Standard selling price per meal		1.99

In one of its outlets, which has budgeted sales and production activity level of 50 000 such meals, the number of such meals that were produced and sold during April 2015 was 49 700. The actual cost data was as follows:

		E
Ingredients	55 000 units	58,450
Labour	1 200 hrs	6,800
Variable conversion costs	1 200 hrs	3,250
Actual revenue from the sale of meals		96,480

Required:

a) Calculate
   i) The total budgeted contribution for April 2015
   ii) The total actual contribution for April 2015
b) Present a statement that reconciles the budgeted and actual contribution for April 2015. Show all variances to the nearest E 1 and in as much detail as possible.
c) Explain why a marginal costing approach to variance analysis is more appropriate in environments such as River stone (Pty) Ltd, where there are a number of different items being produced and sold.

[30 Marks]