

University of Eswatini
Department of Accounting
Supplementary / Re-sit Exam Paper - Semester - I

Programme of Study	:	Bachelor of Commerce
Year of Study	:	Year Four / Level Five
Title of Paper	:	Advanced Management Accounting I
Course Code	:	ACF413/AC424
Time Allowed	:	3 Hours.

- Instructions:
- 1. Total number of questions on this paper is four (4).**
 - 2. Answer all the questions.**
 - 3. The marks awarded for a question / part is indicated at the end of each question / part of question.**
 - 4. Where applicable, submit all workings and calculations on the answer sheet alongside the case.**
 - 5. Calculations are to be made to two decimal places of accuracy unless otherwise instructed.**

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 requirement : **Calculator**

This paper is not to be opened until permission has been granted by the invigilator.

QUESTION 1:

Mabonakudze Ltd is a large company which for many years, operated solely as a pay-tv broadcaster. Five years ago, however, it started product bundling offering broadband and telephone services to its pay-tv customers. Customers taking up the offer were then known as “bundle customers” and they had to take up both the broadband and telephone services together with the pay-tv service. All contracts to customers of Mabonakudze are for a minimum three month period. The pay-tv box is sold to the customer at the beginning of the contract; however, the broadband and telephone equipment is only rented to them.

In the first few years after the product bundling was introduced, the company saw a steady increase in profits. However, revenues and operating profits started to decline. This resulted in staff bonuses not being paid. Several reasons were identified for the deterioration of results:

- i) In the economy as a whole, discretionary spending had been severely hit by rising unemployment and inflation. In a bid to save cash, many pay-tv customers were cancelling their contracts after the minimum three month period as they were then able to keep the pay-tv box. The box comes with a number of free channels, which the customer can still continue to receive free of charge, even after the cancellation of their contract.
- ii) The company’s customer service call centre, which is situated in another country, had been the cause of lots of complaints from customers about poor service, and in particular, the number of calls it sometimes took to resolve an issue.
- iii) Some bundle customers found that the broadband service they had subscribed to did not work. As a result, they were immediately cancelling their contracts for all services within the 14 day cancellation period permitted under the contracts.

In response to the above problems and in an attempt to increase revenues and profits, Mabonakudze made the following changes to the business:

- 1) It made a strategic decision to withdraw the pay-tv broadband-telephone package from the market and, instead, offer each service as a stand-alone product.
- 2) It guaranteed not to increase prices for a 12 month period for each of its three services.
- 3) It transferred its call centre back to its home country and increased the level of staff training given to call centre workers.
- 4) It investigated and resolved the problem with customer’s broadband service.

It is now one year since the changes were made and the finance director wants to use a balanced scorecard to assess the extent to which the changes have been successful in improving the performance of the business.

Required:

- i) For each perspective of the balanced scorecard, identify two goals (objectives) together with a corresponding performance measure for each goal which could be used by the company to assess whether the changes have been successful.

[20 Marks]

- ii) Discuss how the company could reduce the problem of customers terminating their pay-tv service only after 3 months **[10 Marks]**

Total:

30 Marks

QUESTION 2:

Swazi Industries, which manufactures and sells a highly successful line of summer lotions and insect repellents, has decided to diversify in order to stabilize sales throughout the year. A natural area for the company to consider is the production of winter creams to prevent dry chapped skin.

After considerable research, a winter products line has been developed. However, Swazi Industries' president has decided to introduce only one of the new products for this coming winter. If the product is a success, further expansion in future years will be initiated.

The product is lip balm that will be sold in a lipstick—type tube. The product will be sold to wholesalers in boxes of 24 tubes for E80 per box. Because of excess capacity, no additional fixed overhead costs will be incurred to produce the product. However, a E90,000 charge for fixed overhead will be absorbed by the product under the company's absorption costing system. Using the estimated sales and production of 100,000 boxes of lip balm, the accounting department has developed the following cost per box:

Direct material	E36.00
Direct labour	20.00
Manufacturing overhead	14.00
Total cost	E70.00

The costs above include costs for producing both the lip balm and the tube into which the lip balm to be placed.

As an alternative to making tubes, Swazi Industries has approached a supplier to discuss the possibilities of outsourcing the tubes for the lip balm. The purchase price of the empty tubes from the supplier would be E13.5 per box of 24 tubes. If Swazi Industries accepts the purchase proposal, it is predicted that direct labour and variable manufacturing overhead costs per box of lip balm would be reduced by 10% and that direct materials costs would be reduced by 25%

Required:

- i) Should Swazi Industries make or buy the tubes? Show calculations to support your answer. **(15 marks)**
- ii) What would be the maximum purchase price acceptable to Swazi Industries? Support your answer with an appropriate explanation **(5 marks)**
- iii) Instead of sales of 100,000 boxes, revised estimates show sales volume at 120,000 boxes. At this new volume, additional equipment at an annual rental of E200,000 must be acquired to manufacture the tubes. Assuming that the outside supplier will not accept an order for less than 100,000 boxes, should Swazi Industries make or buy the tubes? Show computations to support your answer. **(10 marks)**

- iv) What qualitative factors should Swazi Industries consider in determining whether they should make or buy? **(5 marks)**
- Total (35 marks)**

QUESTION 3:

The chief administrator of Koorg Hospital, John Shongwe, is concerned about costs for tests in the hospital lab. Charges for the lab tests are consistently higher at Koorg Hospital than at other hospitals and have resulted in many complaints. Also, because of strict regulations on amounts reimbursed for lab tests, payments received from insurance companies haven't been high enough to provide an acceptable level of profit for the lab.

John Shongwe has asked you to evaluate costs in the hospital's lab for the past month. The following information is available:

1. Basically two types of tests are performed in the lab – blood tests and smears. During the past month 1,500 blood tests and 2,100 smears were performed in the lab.
2. Small glass plates are used in both types of tests. During the past month, the hospital purchased 12,000 plates at a cost of E28,200. This cost is net of a 5% quantity discount. Some 1,600 of these plates were still on hand unused at the end of the month, there were no plates on hand at the beginning of the month.
3. During the past month, 1,200 hours of labour time were recorded in the lab. The cost of this labour time was E14,000.
4. Variable overhead cost last month in the lab for utilities and supplies totalled E7,120.

Koorg Hospital has never used standard costs. By searching industrial literature, however, you have determined the following nation-wide averages for hospital labs:

Plates	Two plates are required per lab test. These plates cost E3.00 each and are disposed of after the test is completed
Labour	Each blood test should require 0.3 hours to complete, and each smear should require 0.15 hours to complete. The average cost of this lab time is E14 per hour.
Overhead	Overhead cost is based on direct labour hours. The average rate for variable overhead is E

John Shongwe would like a complete analysis of the cost of plates, labour and overhead in the lab for the last month so that he can get to the root of the cost problem.

Required:

- i) Compute a materials price variance for the plates purchased last month and a materials quantity variance for the plates used last month. **(5 Marks)**
- ii) For labour cost in the lab:
 - a. Compute a labour rate variance and a labour efficiency variance. **(5 Marks)**
 - b. In most hospitals, one-half of the workers in the lab are senior technicians and one-half are assistants. In an effort to reduce costs, Koorg Hospital employs only one-quarter senior technicians and three-quarters assistants. Would you recommend that this policy be continued? Explain. **(2.5 Marks)**

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- iii) Compute the variable overhead spending and efficiency variances. Is there any relationship between the variable overhead efficiency variance and the labour efficiency variance? Explain. **(12.5 Marks)**

Total:

25 Marks

QUESTION 4

‘Responsibility accounting is based on the application of the controllability principle’
Explain the controllability principle and why its application is difficult in practice.

[10 Marks]