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UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
FINAL EXAMINATION PAPER 2005

DEGREE/DIPLOMA AND YEAR OF STUDY : B.COM 1V

TITLE OF PAPER : MANAGEMENT ACCOUNTNG 1

TIME ALLOWED : THREE (3) HOURS

INSTRUCTIONS :

1. TOTAL NUMBER OF QUESTIONS ON THIS PAPER: FIVE (5)
2. ANSWER ANY FOUR QUESTIONS
3. THE MARKS AWARDED FOR A QUESTION/PART ARE INDICATED 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 PRESENTATION OF YOUR FINAL ANSWER.

SPECIAL REQUIREMENTS : NONE

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

QUESTION ONE

Senzo Ltd makes two products, the Vikings and the Norman, and is preparing an annual budget for 2005.

You are required: using the information given below, to prepare:

a) production budget; (5 Marks)
b) direct materials cost budget; (5 Marks)
c) purchases budget; (5 Marks)
d) direct wages budget; (5 Marks)
e) budget profit and loss account (an analysis by division is not required)
Standard data per unit of product. (5 Marks)

Direct Material	Standard Price Per Kilo E	Vikings Kilos	Norman Kilos
Athelston	1.5	8	4
Hafdan	4.0	5	10

Direct Wages	Standard rate Per Hour E	Hours	Hours
Thanes	3.5	6	12
Serfs	1.0	1.0	6

Fixed production overhead is absorbed on a direct hour basis. There is no variable overhead. Administration, selling and distribution costs are absorbed on a budgeted basis of 16 1/6% of a factory cost.
Gross profit on factory cost is budgeted at 1/3 or 331/3 % of selling price.

Budgeted data:

		Viking	**Norman**
Sales, for year		E'000	E'000
Division:	Hhohho	1,808	1,280
	Hlatsi	600	1,600
	Manzini	900	2,600
	Hluthi	500	800

Finished Goods stock, valued at standard factory cost:

1 January	2005	238	628
31 December	2005	595	1,413

QUESTION ONE CONTINUED

	Athelston E'000	Halfdan E'000
Direct material stocks valued at standard prices:		
1 January 2005	120	160
31 December 2005	40	180
Fixed production overhead, per annum	E3,717,000	
Direct labour hours, per annum	1,062,000	

It is expected that there will be no work-in-progress at the beginning or end of the year.

QUESTION TWO

A. Loyola Ltd sells product A at a selling price of E21 per unit. Loyola's cost per unit based on full capacity of 200,000 units is as follows:

Direct materials	E4
Direct labour	5
Overhead (two-thirds of which is fixed)	6
	E15

Loyola Ltd is currently producing and selling 180,000 units. A one-time only special order offering to buy 20,000 units was received from a foreign customer. The only selling costs that would be incurred on this order would be E3 per unit for shipping. Set up costs for the special order would be E40,000.

Required:

i) in negotiating a price for the special order, what should Loyola charge as a minimum price per unit for the order? (4 Marks)

ii) What should be Loyola's maximum price if it was operating in a perfect market? (2 Marks)

B. Jojo Ltd is using 10,000 units of part number 120 as a component to assembly one of its products. It would cost E18 per unit to produce it internally, computed as follows:

Direct materials	E45,000
Direct labour	50,000
Variable overhead	40,000
Fixed overhead	45,000
Total cost	E180,000

An outside vendor has just offered to supply the part for E16 per unit. If the company stops producing this part, one-third of the fixed overhead will be avoided.

Required: Should the company make or buy the part? (4 Marks)

C. Write short notes on the following terms:

i) sunk cost (5 Marks)

ii) relevant cost (5 Marks)

iii) opportunity cost (5 Marks)

(Total: 25 Marks)

QUESTION THREE

A. Delta Enterprizes Ltd manufactures three products Alpha, Beta and Gamma and the standard cost per unit of each product is as follows:

	Alpha	Beta	Gamma
	E	E	E
Materials	40,250	2,100	48,125
Direct labour: Grade A	13,125	9,625	4,375
Grade B	2,625	7,875	23,625

For the year ending 30 June 2004 budgeted fixed overheads are E1,050,000. Grade A labour is paid at E8,75 per hour and Grade B labour is paid at E5,25 per hour.

The sales department has produced the following sales budget for the year ending 30 June 2004:

	Units	Sales price per unit
Alpha	16,000	E98,00
Beta	28,000	E54,25
Gamma	15,000	E89,25

Upon seeing the draft sales budget the works manager draws attention to the fact that a maximum of 50,000 hours of Grade A labour and 120,000 of Grade B labour will be available and overtime will not be possible.

Required to:

a) calculate how many units of each product should be produced to enable Delta Enterprises Ltd to maximise profits; (10 Marks)

b) prepare a budgeted profit statement for the year ending 30 June 2004 based on your answer to (a) above. (5 Marks)

B. The directors decide that the sales targets set in the draft sales budget should be accepted provided that it is profitable to do so. To achieve this, the company will where necessary subcontract work to maximise profits. The following quotations were obtained from an outside supplier who is prepared to subcontract the manufacture of completed units: Alpha E61,25 per unit; Beta E27,30 per unit; and Gamma E81,375 per unit.

QUESTION THREE CONTINUED

Required to:

i) calculate how many units of each product should be produced and sub-contracted to enable the company to maximise profits and; (5 Marks)

ii) calculate the budgeted profit which would result for the year ending 30 June 2004. (5 Marks)

(Total: 25 Marks)

QUESTION FOUR

Sikhalo Ltd which uses standard direct costing for internal reporting, is converting to absorption costing at the end of the fiscal year, December 31, 2004.

The marginal contribution per unit at standard is E30:

Selling price		E50,00
Variable costs:		
Manufacturing	E15,00	
Selling & Admin.	5,00	20,00
		30,00

During 2004, 5,500 units were manufactured and 4,000 units were sold. Income for the year under direct costing was computed as follows:

Sales revenue – 4,000 units @ E50		E200,000
Variable costs:		
Manufacturing at standard	E60,000	
Selling & Administrative at actual	22,000	82,000
Marginal contribution		E118,000
Non-variable costs:		
Manufacturing at budgeted allowance	E60,000	
Selling & Administrative at actual	41,000	101,000
Net income before variances from standard costs		E17,000
Unfavourable variances from standard costs:		
Material usage	E 500	
Labour efficiency	800	
Indirect manufacturing costs budgeted	1200	2,500
Net income		E14,500

A standard capacity of 5,000 units is used in applying indirect manufacturing costs for absorption costing. There were no beginning or ending inventories of work in progress. There were 1,000 units of finished product on hand on January 1, 2004. Inventories are carried at standard cost.

Required:

a) Determine the net income for 2004 under absorption costing. (10 Marks)

b) Determine the beginning and ending inventories of finished goods under (1) direct costing and (2) absorption costing, (10 Marks)

c) Account for the difference in income reported under the two concepts. (5 Marks)

(Total:25 Marks)

QUESTIO FIVE

A. Ekudzeni Led is a retailer of blank-radio cassettes. The projected after-tax net profit for the coming year is E120,000 based on sales volume of 200,000 cassettes. The company has been selling each cassette for E16. The variable costs consist of the E10 unit purchase price of the cassette and a handling cost of E2 per cassette. The company's annual fixed costs are E600,000 and the company is subject to a 40% income tax rate.

Required: Compute the answers to the following independent questions:

i) break even point in units (4 Marks)

ii) increase in after-tax profit assuming unit sales volume increases 10% (4 Marks)

iii) contribution –margin ratio C/S) ratio (4 Marks)

iv) Sales in Emalangeni (money) needed to achieve a target after-tax profit of E120,000, assuming the unit purchase price of the cassette will increase 30% (4 Marks)

v) Selling price needed to maintain the Contribution-margin ratio in (iii) above Assuming the unit purchase price of the Cassette will increase 30% (4 Marks)

B. Write brief notes on any five of the uses of the cost-volume-profit analysis (C.V.P) technique. (5 Marks)

(Total:25 Marks)