

UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION PAPER , 2006

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

TITLE OF PAPER :

COURSE CODE : AC 502

TIME ALLOWED :

- INSTRUCTIONS:
1. THE TOTAL NUMBER OF QUESTIONS ON THIS PAPER ARE FOUR (4)
  2. ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS.
  3. THE MARKS AWARDED FOR A QUESTION / PART ARE INDICATED AT THE END OF EACH QUESTION / PART OF QUESTION.
  4. 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 TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR.

**QUESTION 1**

The Largo Manufacturing Company makes and sells a single product, Vostex, through normal, marketing channels. You have been asked by its president to assist in determining the proper bid to submit for a special manufacturing job for the Aztec Sales Company. Below is the information you have collected.

The special job is for Mofac, a product unlike Vostex even though the manufacturing processes are similar. Additional sales of Mofac to the Aztec Sales Company are not expected.

The bid is for 20,000 kgs of Mofac. Each 1,000 kgs of Mofac requires 500 kgs of Material A, 250 kgs of Material B, and 250 kgs of Material C. **Largo's materials inventory data follow:**

Material	Kilogramms in inventory	Acquisition cost per kgs	Current replacement cost per
A	24,000	E .40	E0.50
B	4,000	.25	E0.29
C	17,500	.99	E0.98
X	7,000	.80	E0.86

Material X may be substituted for Material A in Mofac. Material X, made especially for Largo under a patent owned by Largo, is left over from the manufacture of a discontinued product, is not usable in Vostex, and has a current salvage value of E180.

Each 1,000 kgs of Mofac requires 190 direct labor hours at E4.00 per hour (Overtime is charged at time and a half). However, Largo is working near its two-shift capacity and has only 1,600 hours of regular time available. The production manager states that he can keep the special job on regular time by shifting the production of Vostex to overtime if necessary. Payroll taxes and fringe benefits average 20 percent of wages paid. Largo's cost clerk informs you that the hourly burden rate at normal capacity is as follows:

Fixed element	E.60 per DHL
Variable element	<u>E.40 per DHL</u>
Total hourly rate	E1.00 per DHL

The bid invitation states that a performance bond must be submitted with the bid. A local agent will bond Largo's performance for 2 percent of the total bid.

**REQUIRED:**

Prepare a schedule to compute the minimum bid (that is, the bid that would neither increase nor decrease total profits) that Largo Manufacturing Company may submit.

Total (40 Marks)

**QUESTION 2**

- a) What, in brief, is the difference between a PERT - Time and PERT Cost network? (5 Marks)
- (b) What does it mean to crash an activity? (5 Marks)
- c) What is meant by the incremental crash cost of an activity (5 Marks)
- d) What is meant by the term slack in a PERT network (5 Marks)
- e) Best constructors is experiencing difficulties in constructing fort on the Black Mbuluzi River. Musa, a management accountant proposes that a PERT network be used to organise the construction activities for the fort. Each activity, together with its immediate predecessor activity and completion time for the activity is given below:

Activity	Type of Activity	Predecessor Activity	Completion Time (Duration) (In Weeks)
1	Clear trees	0	8
2	sort trees by size	Clear trees	4
3	Strip trees into logs	clear trees	6
4	Construct gate	strip trees into logs	8
5	construct walls	strip trees into logs	2
6	Build small tower	sort trees by size	4
7	Build captain's house	strip trees into logs	5
8	Build officer's houses	construct walls	6
9	Build enlisted personnel's barracks	Build officer's houses	4
10	hold completion ceremony	all others	1

**REQUIRED:**

Construct a PERT network to represent the above activities. Show the completion time above each path. Identify the critical path. (10 Marks)

Total (30 Marks)

**QUESTION 3**

- A. Zolani Ltd has two divisions, A and B. Total sales for the year were E1200,000. It is estimated that Division B will account for 60% of the total sales. Zolani Ltd wishes to earn 14% on its investment.

The following data is available:

	<b>Division A</b>	<b>Division B</b>
Cost of goods sold	E300,000	E500,000
Selling & Admin expenses	150,000	E150,000
Plant investment	200,000	E300,000

**REQUIRED:**

- i) compute the investment turnover of each division (4 Marks)
  - ii) compute the earnings ratio for each division (4 Marks)
  - iii) compute the return on investment of each division (4 Marks)
  - iv) compute the residual income for each division (2 Marks)
- B. What are the advantages and disadvantages of decentralizing an organization (12 Marks)
- C. What are the disadvantages of using the return on investment (ROI) as a measure of performance? (4 Marks)
- Total (30 Marks)

**QUESTION 4**

- a) Zakhele Ltd is considering purchasing a new computer network for E72,000. It will require additional working capital of E8,000. Its anticipated seven-year life will generate additional client revenue of E31,000 annually with operating costs, excluding depreciation, of E14,000. At the end of seven years, it will have a salvage value of E9760 and return E800 in working capital.

**REQUIRED:**

- a) If the company has a required rate of return of 12 per cent, what is the net present value of the proposed investment? (6 Marks)
- b) Supply the missing data for each of the following proposals.

	<b>Proposal A</b>	<b>Proposal B</b>	<b>Proposal C</b>
Initial investment	(a)	E62,900	E226,000
Annual net cash inflow	E60,000	(c)	(e)
Life, in years	10	6	10
Salvage value	E0	E10,000	E0
Payback period in years	(b)	(d)	5.65
Internal rate of return	12%	24%	(f)

(4 Marks each)

Total (30 Marks)