UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION PAPER , 2008

DEGREE/DIPLOMA AND YEAR OF STUDY	:	B.COM IV
TITLE OF PAPER	:	MANAGEMENT ACCOUNTING 1
COURSE CODE	:	AC 402/IDE AC 402
TIME ALLOWED	:	THREE HOURS

INSTRUCTIONS:

1. THE TOTAL NUMBER OF QUESTIONS ON THIS PAPER ARE FIVE (5)
2. ANSWER QUESTION ONE AND ANY OTHER THREE 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: GRAPH PAPER

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

QUESTION 1

Zonke Ltd produces and sells two kitchen appliances: Mixers and Dough makers. In July 2006, Zonke's budget department gathered the following data to meet budget requirements for 2007.

	2007 Projected Sales	
Product	**Units**	**Price**
Mixers	60,000	E50
Dough makers	40,000	120

	2007 Inventories (Units)	
	Expected	**Desired**
Product	**1/1/2007**	**31/12/2007**
Mixers	15,000	20,000
Dough makers	4,000	5,000

To produce one unit of each product, the following major internal components are used:

Component	**Mixer**	**Dough maker**
Motor	1	1
Beaker	2	4
Fuse	2	3

Projected data for 2007 with respect to components are as follows:

Component	**Anticipated Purchase Price**	**Expected Inventory (1/1/2007)**	**Desired Inventory (31/12/2007)**
Motor	E15.00	2 000	3 600KGS
Beaker	1.25	21 000	24 000 KGS
Fuse	2.00	6 000	7 500UNITS

Projected direct labour requirements for 2007 and rates are as follows:

	Hours per unit	Rate per hour
Mixers	2	E7
Dough makers	3	E9

Overhead is applied at the rate of E5 per direct labour hour.

REQUIRED:

a) Sales budget (in Emalangeni) (2 Marks)
b) Production budget (in Units) (5 Marks)
c) Direct materials usage budget (4 Marks)
d) Direct materials purchases budget (in money) (5 Marks)
e) Direct labour budget (in money) (5 Marks)
f) Factory overhead budget (4 Marks)

(Total:25 Marks)

QUESTION 2

A) In a decision making situation distinguish between a relevant cost and irrelevant cost (Marks)

B) Kunjalo Ltd is considering discontinuing department B, one of the three departments which it currently maintains. The following information has been gathered for the three departments:

	Department A	**Department B**	**Department C**
Sales	E60,000	E50,000	E80,000
Cost of sales	40,000	42,000	60,000
Gross profit	20,000	8,000	20,000
Operating expenses:			
Salaries	8,000	6,400	12,000
Rent	2,000	2,000	3,000
Utilities	1,000	2,700	2,000
Total costs	11,000	11,100	17,000
Net profit (loss)	E9,000	(E 3,100)	E3,000

The company is considering to eliminate Department B because on the face of it, it appears to be making a loss. If Department B is eliminated, the space it occupies will be divided equally between departments A and C. Utilities are allocated on the basis of floor space occupied. 70% of the salaries in Department B would be eliminated; the other 30% would be split equally between departments A and C.

REQUIRED:

i) Advise management of Kunjalo as to whether department B should be discontinued. (21 Marks)

ii) What qualitative factors should Kunjalo Ltd consider in making the decision whether or not department B should be discontinued? (4 Marks)

(Total: 25 Marks)

QUESTION 3

Zidumo Ltd which uses standard direct costing for internal reporting, is converting to absorption costing at the end of a fiscal year, December 31 2006:

The marginal contribution per unit at standard is E30:

Selling price		E50,00
Variable costs:		
Manufacturing	E15,00	
Selling & Admin	5,00	20,00
		E30,00

During 2006 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	E22,000	82,000
Marginal contribution		E118,000
Non variable costs:		
Manufacturing at budgeted allowance	E60,000	
Selling & administrative at actual	E41,000	E101,000
Net income before variances from standard costs		E17,000
Unfavourable variances from standard costs:		
Material usage	E 500	
Labour efficiency	800	
Indirect manufacturing costs budget	1,200	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 process. There were 1,000 units of finished product on hand on January 1 2006. Inventories are carried at standard cost.

REQUIRED:

a) Determine the net income for 2006 under absorption costing. (15 Marks)

b) Determine the beginning and ending inventories of finished goods under (1) direct costing and (2) absorption costing. (8 Marks)

c) Account for the difference in income reported under the two concepts. (2 Marks)

(Total:25 Marks)

QUESTION 4

A. A and B, each product passing through two departments, Department I and Department II.

Each unit of Product A requires 2 hours in Department I and 1 hour in Department II. Each unit of Product B requires 1 hour in Department I and 2 hours in Department II. There arc 30 hours available in Department I and 24 hours available in Department .II.

Marginal conlributions per unit are as follows: Product A, E4; Product B, E3.

A maximum of 10 units of Product B can be sold; there is no marketing constraint on Product A.

REQUIRED:
i) Using a graphic approach, determine the product mix that maximizes profits. (8 Marks)
ii) Determine the maximum marginal contribution. (4 Marks)

B. Graphic linear programming The Outer space Company manufactures an electronic listening device in two models, Super and Deluxe. Marginal contributions per unit are: Super, E30; Deluxe, E40. Sales forecasts indicate that no more than seven of the Deluxe models can be sold in any one period; all of the Super models which can he produced can be sold.

The manufacturing process; involves three opera lions: basic unit, assembly, and finishing. 1'he hours required for each model and the total hours available for each operation are as follows:

	Hours required		
Operation	**Super**	**Deluxe**	**Total hours available**
Basic unit	4	5	60
Assembly	1	2	16
Finishing	1	1	13

REQUIRED:
a) Using a graphic approach, determine the product mix that maximizes profits. (8Marks)
b) Determine the maximum marginal contribution. (5 Marks)

(Total:25 Marks)

QUESTION 5

Dlanokwakhe Ltd adopted a standard cost system some few years ago. The standard costs for the prime costs of its single product are as follows:

Direct material 8 kgs @ E5.00 per kg; E40.00

Direct labour 6 hours @ E8.20 per hour; E49.20

The following operating data were taken from the records for August 2007:

Units completed	6,300 units
Budgeted output	6,000 units
Purchases of materials	50,000 kilogrammes
Total actual labour costs	E300,760
Actual hours of labour	36,500
Material usage variance	E1,500 unfavourable
Material price variance	E750 favourable

REQUIRED:

Compute the following variances for August 2007:

a) Labour price /rate variance (3 $^1/_2$ Marks)

b) Labour efficiency variance (3 $^1/_2$ Marks)

c) Actual kilogrammes of materials used in the production process (3 $^1/_2$ Marks)

d) Actual price paid per kilogramme of material, assuming the material price variance is isolated at the time of purchase (3$^1/_2$ Marks)

e) Total amount of material cost transferred to finished goods (3 $^1/_2$ Marks)

f) Total amount of labour cost transferred to finished goods (3 $^1/_2$ Marks)

g) What is a standard cost? (4 Marks)

(Total: 25 Marks)