UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
SUPPLEMENTARY EXAMINATION PAPER 2008

DEGREE/DIPLOMA AND YEAR OF STUDY	:	B.COM 1V
TITLE OF PAPER	:	MANAGEMENT ACCOUNTNG 1
COURSE CODE	:	AC 402/IDE AC 402
TIME ALLOWED	:	THREE (3) HOURS
INSTRUCTIONS	:	1. TOTAL NUMBER OF QUESTIONS ON THIS PAPER: FIVE (5)
		2. ANSWER QUESTION ONE AND A OTHER THREE QUESTIONS
		3. THE MARKS AWARDED FOR A QUESTION/PART ARE INDICATEI AT THE END OF EACH QUESTIOI / 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 QUALITYOF EXPRESSION, TOGETHER WITH THE LAYOUT AND PRESENTATION OFYOUR FINAL ANSWER.

SPECIAL REQUIREMENTS : GRAPH PAPER

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

QUESTION ONE

a) Zamazama Ltd has an annual plant capacity of 25 000 units. Predicted data on sales and costs are given below:

Sales (20,000 units @ E50)	E1,000,000
Manufacturing cots:	
Variable (Material, labour and overhead	E40 per unit
Fixed overhead	E40,000
Selling and Admin expenses:	
Variable (Sales commission - E1 per unit)	E2 per unit
Fixed	E9,000

A special order has been received from outside for 4000 units at a selling price of E42 each. This order will have no effect on regular sales. The usual sales commission on this order will be reduced by 60%.

REQUIRED:
Should the company accept the order? (5 Marks)

b) ABC Ltd has capacity to produce 16000 units per month. However, it currently producing only 10 000 units and selling each unit at E15 each. Cost per unit are as follows:

Direct materials	E5.10
Direct Labour	E2.90
Variable factory overhead	E0.75
Fixed factory overhead	E1.65
Variable selling expense	E0.25
Fixed admin expense	E0.90
	E11.55

REQUIRED:

i) Should the company accept the special order for 4000 units at E10? (5 Marks)

ii) What is the maximum price ABC should be willing to pay on outside supplier who is interested in manufacturing this product? (15 Marks)

iii) What would be the effect on the monthly contribution margin if the selling price per unit was reduced to E14 resulting in a 10% increase in sales volume? (5 Marks)

(Total:25 Marks)

QUESTION TWO

A). ABC Ltd manufactures two drills; one for the trade (Alpha), the other for the public (Omega). Each unit of Alpha takes 30 hours of production time and each unit of Omega, 5 hours. All told, 120 hours of production time are available per day. All the units of Omega that are produced can be sold; but, because of limited demand, at most 3 units of Alpha can be marketed per day.

An Alpha sells for E30, on Omega for El 5. The variable cots per unit, including the costs of production and selling, are E20 for Alpha and E9 for Omega.

REQUIRED:

i) Using a graphic approach, determine the production schedule that maximizes daily profit. . (Marks)

ii) What is that maximum profit? (Marks)

B). A candy maker makes a box of chocolates consisting of creams and caramels. Marginal contributions are; five cents (E.05) on a caramel and three cents (E0.03) on a cream. No more than 20 chocolates can be put in a box and their net weight can be at most 16 ounces. A caramel weighs an ounce and a cream a half an ounce.

REQUIRED:

i) Using a graphic approach, determine the number of each type of chocolate that should be put in a box in order to maximize the profit per box. (Marks)

ii) What is that maximum marginal contribution? (Marks)

(Total: Marks)

QUESTION THREE

Bayshore Company is starting operations on January 2, 200X (no beginning inventories). Practical capacity of 10,000 units per year will be used in setting the factory overhead application rate. A sales forecast indicates that 8,500 units will be sold in 200X. In anticipation of a need for an inventory build-up, production will be scheduled at 9,000 units. Computed under direct costing, income for 2004 is budgeted as follows:

Sales revenue – 8,500 units @ E20		E170,000
Variable costs:		
Manufacturing – 8,500 units @ E8	E68,000	
Selling & Admin. – 8,500 units @ E2	17,000	85,000
Marginal contribution		E85,000
Non-variable costs and expenses:		
Manufacturing	E30,000	
Selling & Administration	40,000	70,000
Net income		E15,000

Required:
Determine the following:

a) application rate to apply the non-variable indirect manufacturing costs under absorption costing; (5 Marks)

b) income (loss) that would be budgeted for 200x under absorption costing; (10 Marks)

c) cost attached to the inventory of finished goods on December 31, 200x under (1) direct costing and (2) absorption costing, assuming inventories are carried at standard cost. (5 Marks)

d) Account for the difference between the net profits reported under the two concepts. (5 Marks)

(Total:25 Marks)

QUESTION FOUR

a) Distinguish between a flexible budget and a static budget (5 Marks)

b) You are given the following data:

Level of activity (units)	8000	6000	16000	12000

Standard overhead rate per unit is E7.

REQUIRED: Compute

i) The variable cost per unit (5 Marks)

ii) The total fixed overhead costs (5 Marks)

iii) The standard level of capacity or denominator activity level (5 Marks)

iv) Prepare flexible budgets for the following levels of out put: 50 units, 2 units, 17000 units (5 Marks)

(Total:25 Marks)

QUESTION FIVE

The Vanguard Company manufactures one product. Us standard-cost system incorporates flexible budgets and assigns indirect costs on the basis of standard direct-labour hours. At denominator activity, the standard cost per unit is as follows:

Direct material,	3kg @ E 5.00	El 5.00
Direct labour,	0.4hrs @ E20.00	8.00
Variable indirect costs,	0.4 hr @.E 6.00	2.40
Fixed indirect costs,	0.4hr @ E 4.00	1.60
Total		E27.00

For the month of October 1995 the performance report included the following information.

	INCURRED AT ACTUAL PRICE	STANDARD COST APPLIED	TOTAL VARIANCE	PRICE FOR SPENDING VARIANCE	EFFICIENCY VARIANCE	PRODUCTION VOLUME VARIANCE
Direct materials	E134,400	E135,00	E,600F	E5,600F	E5,000U	-
Direct labour	77,900	72,000	5,900U	1,900U	4,000U	-
Variable indirect costs	21,500	21,600	,100F	1,300F	1,299U	-
Fixed indirect costs	15,800	14,400	1,400U	200F	-	E1,600U
	E249,600	E243,000	E6,600U	E5,200F	E10,200	E1,600U

* Budget variance

Direct materials were quoted at E5.50 per kilogram throughout September and October by all suppliers. There was no purchase price variance for materials in October; the price variance shown relates solely to Hire materials used during October. Wage standards were set in accordance with an annual union contract, but a shortage of workers in the local area has resulted in rates higher than standard.
There were no beginning or ending inventories of work in process.

REQUIRED: For the month of October calculate the:

a). Number of units produced. (4 Marks)
b). Actual number of direct-labour hours (3 $^{1}/_{2}$ Marks)
c). Actual wage rate (3 $^{1}/_{2}$ Marks)
d). Budget for fixed indirect costs. (3 $^{1}/_{2}$ Marks)
e). Denominator activity expressed in direct-labour hours. (3 $^{1}/_{2}$ Marks)
f). Kilograms of materials used. (3 $^{1}/_{2}$ Marks)
g). Kilograms of direct materials purchased. (3 $^{1}/_{2}$ Marks)
(Total:25 Marks)