UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION PAPER, 2009

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 (3) 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: NONE

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

QUESTION 1

A. What are the differences between Absorption costing and marginal costing? (5 Marks)

B. ABC Ltd produces and sells product X that sells for E13 per unit. The capacity used to determine the fixed overhead rate was 300,000 units per year. During 2008, 260,000 units were produced and 240,000 units were sold. Manufacturing, selling and administrative costs were as follows during 2008:

	Variable	Fixed
Direct material	E3 per unit	
Direct labour	E2 per unit	
Variable factory overhead	E1 per unit	
Fixed factory overhead		E600,000
Selling and admin expenses	E1 per unit plus	E150,000

There were no variances from standard variable costs. Under - or over-applied fixed factory overhead is written off as an adjustment to cost of goods sold.

REQUIRED

i) What is the absorption unit cost for 2008 for balance sheet purposes? (4 Marks)

ii) What is the inventoriable unit cost using variable costing for 2008 balance sheet purposes?. (4 Marks)

iii) What is income/profit before taxes under variable costing? (4 Marks)

iv) What is income/profit before taxes under absorption costing? (4 Marks)

v) Reconcile the difference in incomes/profit from parts (iii) and (iv) above (4 Marks)

(Total:25 Marks)

QUESTION 2

Zakhele Ltd operates a standard cost accounting system. Information relating to product ZK, which is made in one of the company's departments is given below:

Cost Card/Sheet for Product ZK

			Unit cost
Direct material	5kg@E4	=	E20
Direct labour	4@E3	=	12
Variable production overhead		=	14
Fixed production overhead		=	8
			E54

Budgeted sales are 10,000 units at E60 each.

Actual Results

Sales totaled 80% of budget totalling E520,000

Materials bought - 45000 kgs costing. E135,000

Materials used - 42, 000 kgs

Direct labour hours paid for - 35 000 costing E70,000

Actual active hours - 31 000

Variable overhead costs were E113,000

Fixed overhead cost were E65,000

REQUIRED:

i) Prepare all the relevant variances (20 Marks)

ii) Reconcile the actual profit with the budgeted profit (5 Marks)

(Total: 25 Marks)

QUESTION 3

A. The following static budget is available for Eyakho Ltd:

Normal production	20,000 units
	E
Direct material	60,000
Direct labour	300,000
Variable overheads	40,000
Fixed overheads	45,000

REQUIRED:

Prepare a flexible budget at 8500 and 16500 units (10 Marks)

B. Luyanda Ltd has prepared the following flexible budget for their manufacturing overheads:

Output	5000 units	7500 units
	E	E
Depreciation	14000	14000
Insurance	16,750	24250
Water and electricity	12750	19000
Supervision	50000	50000
Maintenance	21250	31875
Cleaning	12500	17500

REQUIRED:

Prepare a flexible budget for Luyanda Ltd at 700 and 14000 units. (15 Marks)

(Total:25 Marks)

NB: (Use the high-low method of cost separation to determine the variable cost per unit and fixed cost component of each cost item)

QUESTION 4

Amandla Esilo Ltd manufactures two products - Bee and Tee. The following data are projected for the coming year.

	Bee		Tee		Total
	Units	Amount	Units	Amount	Amount
		E		E	E
Sales	10,000	10,000	8000	10,000	20,000
Variable costs		6,000		3,000	9,000
Fixed costs		2,000		5,600	7,600
Total cost		8,000		8,600	16,600
Operating profit		2,000		1,400	3,400

REQUIRED:

a) determine the break-even point of Bee in units assuming the facilities are not jointly used (4 Marks)

b) Determine the break-even point for Tee in money (Emalangeni) assuming that facilities are not jointly used (4 Marks)

c) Calculate the composite unit contribution margin, assuming, that consumers purchase composite units of six (6) Bees and four (4) Tees. (4 Marks)

d) Determine the break-even point in units for both products, assuming that customers purchase composite units of six (6) Bees and four (4) Tees(4 Marks)

e) Calculate the composite contribution margin ration assuming that a composite unit is defined as one Bee and one Tee (4 Marks)

f) Determine the break-even point in money (Emalangeni) assuming that Bees and Tees become one-to-one complements and that there is no change in the company's costs. (5 Marks)

(Total:25 Marks)

QUESTION 5

A Company wants guidance on the advisability of dropping Product C, one of the company's several products, since it showed a loss during the past year. The loss on Product C was determined as follows:

	E	E
Sales revenue		350,000
Cost of sales:		
Raw material	80,000	
Variable direct labor	150,000	
Factory overhead	61,000	291,500
Gross margin on sales		58,500
Selling & admin. expenses:		
Commissions on sales	15,000	
Salaries & wages (nonvariable)	15,800	
Fringe benefits	4,620	
Direct advertising	26,000	
Other expenses (nonvariable)	20,630	82,050
Loss		E23,550

Factory overhead is made up of the following:

Indirect labour (nonvariable)	E18,000
Royalties—1% of sales	3,500
Fringe benefits	25,200
Depreciation [straight line];	7,100
Other costs:	
Nonvariable	2,000
Variable	5,700
	E61,500

Nonvariable costs not traceable to products have been allocated to the products. The only change expected on the elimination of Product C is a reduction of E4,000 in indirect labour. Fringe benefits average 15 percent of payrolls.

REQUIRED:

Revise the statement given above to give the company a better evaluation of the profitability of Product C. (25 Marks)