

**UNIVERSITY OF SWAZILAND**

**DEPARTMENT OF ACCOUNTING**

**SUPPLEMENTARY EXAMINATION PAPER, 2010**

**DEGREE/DIPLOMA AND YEAR OF STUDY : B.COM IV**  
**TITLE OF PAPER : MANAGEMENT ACCOUNTING I**  
**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: NONE**

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

**QUESTION 1**

Bayshore Company is starting operations on January 2, 2009 (no beginning inventory). 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 2009. In anticipation of a need for an inventory build up, production will be scheduled at 9,000 units. Computed under direct costing, income for 2009 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	<u>E17,000</u>	<u>E85,000</u>
Marginal Contribution		E85,000
Non variable costs and expenses:		
Manufacturing	E30,000	
Selling & admin	<u>E40,000</u>	<u>E70,000</u>
Net income		<u>E15,000</u>

**REQUIRED:** Determine the following areas:

- a) Application rate to apply the non- variable indirect manufacturing costs under absorption costing ( 3 Marks)
- b) Income (loss) that would be budgeted for 2009 under absorption costing ( 10 Marks)
- c) Cost attached to the inventory of finished goods on December 31, 2009 under (1) direct co-sting and (2) absorption costing, assuming Inventories are carried at standard cost. ( 9 Marks)
- d) Prepare a reconciliation of the difference between the net profit reported under the two concepts ( 3 Marks)

**Total (25 Marks)**

**QUESTION 2**

Western Company wants guidance on the advisability of dropping Product C: Information relating to the product is provided as follows:

	E	E
Sales revenue		350,000
Cost of sales:		
Raw material	80,000	
Variable direct labour	150,000	
Factory overhead	<u>61,500</u>	<u>291,500</u>
Gross margin on sales		58,500
Selling & admin. Expenses:		
Commission on sales	15,000	
Salaries & wages (non variable)	15,800	
Fringe benefits	4,620	
Direct advertising	26,000	
Other expenses (nonvariable)	<u>20,630</u>	<u>82,050</u>
Loss		23,550
Factory overhead made up of the following:		
Indirect labour (non variable)	18,000	
Royalties – 1% of sales	3,500	
Fringe benefits	25,200	
Depreciation (straightline)	7,100	
Other costs:		
Nonvariable	2,000	
Variable	<u>5,700</u>	
	<u>61,500</u>	

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% of payroll.

**REQUIRED**

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

**Total (25 Marks)**

**QUESTION 3**

A. Fulton Corporation wants to set up a flexible budget for its Marketing Department. The static budget, based on sales of E50,000, is:

**Marketing Department**

**Variable**

Insurance	750
Advertising	2,500
Salaries	10,000
Supplies	500
Total	E13,750

**Fixed**

Depreciation	3,000
Rent	1,500
Miscellaneous	800
Total	E5,300

**REQUIRED:**

Prepare a flexible budget for sales of E25,000, E50,000, and E75,000 for the Marketing Department at Fulton Corporation. **(15 Marks)**

**QUESTION 3**

B. The X company has prepared a sales budget of 42,000 finished units for a three-month period. The company has an inventory of finished goods on hand at December, 31 and desires a finished –goods inventory at the end of the succeeding quarter as follows:

**UNITS**

	<b>Dec 31</b>	<b>March 31</b>
Finished product	22,000	24,000

It takes three units of direct materials to make one unit of finished product. The company has an inventory of units of raw material at December 31 and desires an ending raw-material inventory as follows:

**UNITS**

	<b>Dec 31</b>	<b>March 31</b>
Direct materials	100, 000	110,000

**REQUIRED:**

How many units of direct materials should be purchased during the three months ending March 31?  
( 10 Marks)

**Total (25 Marks)**

**QUESTION 4**

Child Safety Products, Inc manufactures a rugged child safety seat for cars. For 2009, the firm projects sales of 20,000 units; variable manufacturing costs are E35 per unit and variable selling, general, and administrative costs are E10 per unit. Fixed costs will be incurred uniformly throughout the fiscal period and amount to E950,000. Each unit is to be sold for E60.

**REQUIRED:**

- a. Compute the breakeven point in dollars and units of product **(6 Marks)**
  
- b. Compute the number of units to be sold to earn income before taxes of E90,000 for the year. **(6 Marks)**
  
- c. If the income tax rate is 60%, compute the number of units that must be sold to earn an after-tax profit of E150,000. **(6 Marks)**
  
- d. If labor costs are 60% of the variable manufacturing costs and 40% of the total fixed costs, by how much would a 10% decrease in fixed labor cost and a 10% decrease in variable labor costs per unit decrease the fixed labour cost and 10% decrease in variable labour costs per unit decrease the breakeven point in monetary values? **(7 Marks)**

**Total (25 Marks)**

**QUESTION 5**

The management accountant of Zerox Manufacturers prepared the following standard cost sheet for Component XX:

	Per Unit
Materials (7 kg @ E2)	E14,00
Labour (Grade P - 6 hrs @ E8)	48,00
(Grade Q - 3 hrs @ E12)	36,00
Standard cost of production	98,00
Standard cost of production	

Details of actual performance for 2009 are as follows:

- a) Direct labour:      Grade P - 145 000 hrs @ E7,95  
                                  Grade Q - 76500 hrs @ E12,10

b) Production volume for Component XX equalled 25 000 units.

c) Materials purchased for the year amounted to 197000 kg @ E2,05 per kg.

d) Materials issued to production amounted to 175 450 kg.

**REQUIRED**

Compute all applicable material and labour variances for 2009, based on the information given above.

**Total****(25 Marks)**