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UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION PAPER, 2012

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)

3. 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

Buyani Ltd is considering dropping Product A on the basis of the following analysis, which was prepared under full-cost/Absorption costing approach:

	Product A	**Product B**
Sales revenue	E110,000	E300,000
Cost of Sales:		
Direct material	E10,000	E20,000
Direct labour	30,000	60,000
Variable overhead	15,000	30,000
Non variable overhead	45,000	90,000
	E100,000	E200,000
Selling and admin expenses	20,000	60,000
	E120,000	E260,000
Net profit (loss)	(E 10,000)	E 40,000

Overhead is applied on a direct labour cost basis. Included in the non- variable component is a depreciation of E2000 recorded on equipment used exclusively in manufacturing Product A. The equipment has no resale value and cannot be used for any purpose other than producing Product A. A loss of E6000 will be recorded when the equipment is scrapped. Insurance on this equipment amounts to E500 per period. Elimination of Product A will bring no other changes in the non variable overhead.

Except for commissions of 5 percent of sales, selling and administrative expenses are non variable. The only non variable expense traceable to Product A is advertising of E3000.

Elimination of Product A will bring no other change in the non variable component.

Required:

Prepare an analysis that will better present the data for making a decision whether to discontinue Product A.

(Total 25 Marks)

Question 2

A. Khweza Ltd manufactures and sells two products A and B. Each product is processed through two phases, cutting and finishing. The following information per unit is given:

	Product A	Product B
Selling price	E30,00	E20,00
Direct materials	5.60	2.00
Variable labour	12.00	10.00
Variable overhead	2.40	2.00
Fixed overhead	1.44	1.20
Labour requirements in hours:		
Cutting	$^2/_4$	$^2/_4$
Finishing	$^4/_{10}$	$^2/_{10}$

The cutting department has 400 hours available each week. The finishing department has 240 hours available each week. Sales constraints are: Product A, 800 units per week, Product B, 600 units per week.

Required:

i) Using a graphic approach, determine the product mix that maximizes profits **(20 Marks)**

ii) Setermine the maximum marginal contribution **(5 Marks)**

(Total 25 Marks)

Question 3

A. ABC Ltd is using absorption costing for external reporting. It applies indirect manufacturing costs at the following rates per unit: non-variable E5, variable, E2. Computed under direct costing, an income of E20,000 is expected on sales of 10,000 units. Production and sales for three periods were as follows:

	Units Produced	Units Sold
Period 1	10,000	10,000
Period 2	11,000	10,000
Period 3	9,000	10,000

Required:

a) determine the profit (loss) that would be reported for each period under
i) direct costing **(7 ½ Marks)**
ii) absorption costing **(7 ½ Marks)**
iii) reconcile the profit statements for the three periods **(7 ½ Marks)**
iv) what observations can you make regarding the reported statements in the three periods? **(2 ½ Marks)**

(Total 25 Marks)

Question 4

Nana Ltd manufactures a single product the NN. The Standard cost card for this item is as follows:

Direct materials:

	E	E
K – 8 kgs at E0.40 per kg	3.20	
L - 4 kgs at E0.70 per kg	2.80	6.00
Direct labour - 3 hours at E2.50		7.50
Variable production overhead		1.50
Fixed production overhead		6.00
		E21.00

The standard sales price per unit is E25. The budgeted production and sales for January 2011 were 3000 units, and the budgeted fixed production overhead (from which the fixed cost per unit was derived) was E18000.

Actual results for January 2011 were;

Sales and production	2800 units
Sales revenue	E71,200

Direct material purchased:
K 19000 kgs costing E7500 material used 24100 kg
L 14 000 kgs costing E10250 material used 10,100 kg
Direct labour 8600 hours : Cost E24100.

It is known that 300 hours of this labour costs were recorded as idle time.

Variable production overhead	E4100
Fixed production overhead	E18,450

All stocks are valued at standard cost.

Required:

Prepare an operating statement reconciling the budgeted profit in January 2011 with the actual profit.

(25 Marks)

Question 5

Hambanathi Ltd makes two products, the VK and NN and is preparing annual budget for 2011. The following information regarding Hambanathi is given below:

Standard data per unit of Product:

Direct material	**Standard price Per Kg**	**VK Kgs**	**NN kgs**
A	E1.50	8	4
H	4.00	5	10
Direct wages:	**Standard rate Per hour**	**hours**	**hours**
Grade A	E3.50	6	12
Grade B	1.00	10	6

Fixed production overhead is absorbed on a direct hour basis. There is no variable overhead. Gross profit on factory cost is budgeted at 25% of selling price.

Budgeted data:

	VK	**NN**
Sales, for the year	E'000	E'000
Division:		
Siteki	1,808	1,280
Nhlangano	600	1,600
Manzini	900	2,600
Mbabane	500	800
Fixed goods stock, valued at standard factory cost:		
I Jan 2011	238	628
31 Dec 2011	595	1413
Direct material stock:	**A**	**H**
	E'000	E'000
Valued at standard prices:		
I January 2011	120	160
31 December 2011	40	180

Fixed production overhead per annum	E3,717,000
Direct labour hours per annum	1,062,000

It is expected that there will be no work-in-progress at the beginning or end of the year.

Required:

Using the information given above, prepare the following:

a) Production buget in units **(6 ½ Marks)**
b) Direct materials usage and cost budget **(6 ½ Marks)**
c) Direct materials purchases budget **(6 ½ Marks)**
d) Direct labour wages budget **(5 ½ Marks)**

(Total 25 Marks)