UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION PAPER MAY 2014

==

YEAR OF STUDY	:	IDE LEVEL V
TITLE OF PAPER	:	MANAGEMENT ACCOUNTING I
COURSE CODES	:	IDE-AC 414
TIME ALLOWED	:	THREE HOURS

==

INSTRUCTIONS

1. THE TOTAL NUMBER OF QUESTIONS ON THIS PAPER ARE 4
2. ANSWER ALL QUESTIONS
3. THE MARKS AWARDED FOR A QUESTION/PART ARE INDICATED AT THE END OF EACH
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

J.J. Ltd is selling a product with a contribution margin of 40 percent on sales of E500 000 per year.(50 000 at E10)

The fixed costs are E80 000 per year.

REQUIRED:

a. How much increase in net profit is expressed in the coming year if sales increase by 10 000 units, assuming that the selling price per unit will remain constant?. (5 marks)

b. How much increase in the net profit is expected in the coming year if sales are increased by E70 000? (5 marks)

c. The sales manager feels that a E20 000 increase in the yearly advertising budget be increased by E60 000. Should the advertising budget be increased? (6 marks)

d. The sales manager suggests cutting the selling price per unit by 10 percent and increasing the advertising budget by E25 000. If these two decisions are made, it is projected that unit sales will go up by 40 percent. Should this policy be approved? (9 marks)

Total 25 marks

QUESTION 2

Although Moshe Ltd has the capacity to produce 16 000 units per month, currently plans call for monthly production and sales of only E15 each. Costs per unit are as follows:

Direct materials	E5.00
Direct labour	3.00
Variable factory overhead	0.75
Fixed factory overhead	1.50
Variable selling expense	0.25
Fixed admin. Expense	1.00
	11.50

Assume that the selling and administration expenses would be the responsibility of the customer making the special order.

REQUIRED:

1. Should the company accept a special order for E10? (10 marks)

2. What is the maximum price the Moshe Ltd should be willing to pay in manufacturing their product? (5 marks)

3. What would be the effect on the monthly contribution margin if the sales price was reduced to E14, resulting in a 10 percent increase in sales volume? (10 marks)

Total 25 Marks

QUESTION 3

Nkema Ltd managerment provided you with the following information: Standard Capacity per year: 10 000 units

	For 2010	2011	2012
Units produced	11 000	9 000	10 000
Unit sold	9 000	10 000	10 000

The standard selling price and standard cost per unit remained the same for the three years.

Standard Selling price per unit was E20

	E
Standard Cost per unit	
Direct materials	6
Direct labour	5
Variable cost	4
Fixed Factory overhead cost	2
Total full cost	E17

The selling and administrative expenses were as follows:

	2010	2011	2012
Variable cost per unit	E2	E2	E2
Total Fixed Costs	E6 000	E7000	E8000

REQUIRED:

a. Prepare income/profit statements for the three years under
   (i) Absorption costing (71/2 marks)
   (ii) Direct costing (71/2 marks)

b. Reconcile the profit statements reported under absorption costing and direct costing in the three year period. (5 marks)

c. What observation did you make in the profit statements in the three year period? (5 marks)

Total 25 marks