UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION PAPER 2014

YEAR OF STUDY	:	B.COM 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 FOUR 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: GRAPH PAPER

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

QUESTION 1

Following are income statements prepared for a company over a three month period under absorption costing :

	First Month	Second Month	Third Month
Production in units	100	104	98
Sales in units	100	100	100
Sales revenue	E100.000	E100,000	E100,000
Cost of sales (standard)	80.000	E 80,000	80,000
Cross margin (standard)	E 20,000	E 20,000	E 20,000
Selling & Admin. Exp.	11,000	11,000	11,000
Net income (standard)	E 9,000	E 9,00	E 9,000
Volume variance	0	1000	500
Net income	E 9,000	E 10,000	E 8500

REQUIRED :

a. Revise the monthly statement using the direct cost concept (7 marks)

b. There was one unit in the inventory at the beginning of the first month, determine the inventory value at the end of each month under: (1) absorption costing and (2) direct costing (6 marks)

c. Explain the difference between the net profit reported under the two concepts (6 marks)

d. What observations can you make in requirement (c) above? (6 marks)

Total marks 25

QUESTION 2

The following information pertains to the budget of PQR Ltd for the next year :

Sales	E50,000,00
Variable expenses	45,000,00
Fixed costs	3,000,000

The company feels that the current profit is not satisfactory , hence seeks your advice as a Management Accountant on the advisability of the following courses of action :

a. 10 percent increase in sales volume (5 marks)

b. 10 percent increase in fixed costs (5 marks)

c. 10 percent decrease in sales volume (5 marks)

d. 10 percent increase in variable expenses (5 marks)

e. 15 percent increase in fixed costs and 15 percent decrease in variable expenses (5 marks)

Total 25 marks

QUESTION 3

ABC Ltd manufacturers and sells two products, A and B. Each product is processed through three departments, machining, assembling and marketing departments. The following information per unit is given :

	Product A	Product B
Selling price	E20.00	E15.00
Direct materials	4.00	2.00
Direct Labor	5.00	3.00
Variable overhead	1.00	4.00
Fixed Overhead applied	0.62	0.54
Labour requirements in hours :		
Machining	2 hrs	1.5 hrs
Assembling	6 hrs	2 hrs

Any number of units of product A can be sold, but no more than 2.50 units of B can be sold. The total number of available machining hours are 600 and available hours in the assembling department are 1200.

REQUIRED :

a. Using the graphic and trial and error approach, determine the product mix that maximizes profits (20 marks)

b. Determine the maximum marginal contribution (5 marks)

Total 25 marks

QUESTION 4

A. Distinguish between relevant, costs and irrelevant costs in decision making (10 marks)

B. Sibahle Ltd has an annual plant capacity of 25000 units. Predicted data on sales and costs are given below:

Sales (20,00 units at E50 each)	E1000,000
Manufacturing costs	
Variable (materials, labour and overheads)	E40 per unit
Fixed overhead	E30,000
Selling and admin. Expenses :	
Variable	
(Sales commission – E1 per unit)	E2 per unit
Fixed	E7000

A special order has been received from outside for 4000 units at a selling price of E45 each. This order will have no effect on regular sales. The usual sales commission on this order will be reduced by one half.

REQUIRED :

Should the company accept the order ? Show supporting computations. (10 marks)

Total 25 marks