Course Code: AC 424 (S) 2014

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
SUPPLEMENTARY EXAMINATION PAPER 2014

DEGREE/DIPLOMA AND YEAR OF STUDY	:	B.COM IV
TITLE OF PAPER	:	ADVANCED MANAGEMENT ACCOUNTING I
COURSE CODE	:	AC 424
TIME ALLOWED	:	THREE (3) HOURS
INSTRUCTIONS	:1.	TOTAL NUMBER OF QUESTIONS ON THIS PAPER: FOUR (4)
	2.	ANSWER ALL QUESTIONS
	3.	THE MARKS AWARDED FOR A QUESTION/PART ARE INDICATED AT THE END OF EACH QUESTION / PART OF QUESTION.
	4.	ALL WORKING NOTES AND CALCULATIONS MUST BE SHOWN ON THE ANSWER SHEET.
	5.	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 BE TO OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR.

QUESTION 1

A company that began operations in January, 2013, set up the following flexible budget for its single product:

	150,000 units	200,000 units
Sales revenue	E1,200,000	E1,600,000
Manufacturing costs:		
Nonvariable	E 200,000	E 200,000
Variable	E 450	E 600
Selling and other expenses:		
Nonvariable	E 160,000	E 160,000
Variable	E 300	E 400
	E 1,110,000	E 1,360,000
Net income	E 90,000	E 240,000

Standard capacity of 200,000 units is used in allocating non-variable manufacturing costs. During the first yea, it is expected that 180,000 units will be manufactured and that 160,000 units will be sold.

Required:

a) Determine the net income (loss) budgeted for the year under
   1) Absorption costing and
   2) Direct costing
b) Determine the value of the inventory expected at the end of the year under
   1) Absorption costing and
   2) Direct costing

Variances are closed to the income account at year end.

Total (25 Marks)

QUESTION 2

Fair Winds Company manufactures portable hair dryers. The president, Red Murphy, is planning some changes and has enlisted your assistance to predict the potential effects. "Skinhead Red", as he is known around the plant, provides you with the following information:

Variable costs to produce each dryer:	
Direct materials	E4.60
Direct labour	3.25
Variable production overhead	2.15
Total variable production cost	E10,00
Annual fixed production overhead	E300,000
Annual fixed selling costs	240,000
Annual fixed general and admin costs	120,000

Other variable costs are as follows:

Average variable selling costs per unit	E1.15
Average variable general & admin cost per unit	E0.75

The selling price is E23.50 per hair dryer and sales volume for the current year is expected to be 150,000 units.

Following are three independent charges that Red has been thinking of adopting:
1. The engineers tell Red that if a radio headset were added to each unit at a cost of E3.60 the company's product would be superior to the competitor's that business would increase 20%.
2. The sales manager tells Red that a E130, 000 increase in a advertising will increase sales by 15%
3. Red's sales force believes that lowering the price by 5% will increase demand (in units) by 10%

REQUIRED:

a) Compute the break-even point in units and Emalangeni **(5 Marks)**

b) Compute the margin of safety in

   i) monetary values and

   ii) units **(8 Marks)**

c) Compute the effects on profit and Emalangeni breakeven point of each of the independent propositions (ignore tax implications). For each, advise the President about the effects of the proposal **(12 Marks)**

Total (25 Marks)

QUESTION 3

A. Zenzele Ltd manufactures an electronic device in two models: Super and Deluxe. Marginal contributions per unit are: Super E30; Deluxe E40. Sales forecasts indicate that no more than seven (7) of the Deluxe models can be sold in any one period; all of the Super models which can be produced can be sold. The manufacturing process involves three operations: basic unit, assembly and finishing. The hours required for each model and the total hours available for each operation are as follows:

Operation	**Hours required** **Super**	**Deluxe**	**Total hours available**
Basic unit	4	5	60
Assembly	1	2	16
Finishing	1	1	13

Required:

i) Using the graphic approach, determine the product mix that maximizes profits. **(7 Marks)**

ii) Determine the maximum contribution **(6 Marks)**

B. Thabile and Deli Ltd manufactures two drills: Alpha and Omega. Each unit of Alpha takes 30 hours of production time and each unit of Omega takes 5 hours. All told, 120 hours of production time are available per day. All the units of Omega that are produced can be sold; but, because of limited demand, at most 3 units of Alpha can be sold a day. Alpha sells for E30 per unit and Omega sells for E15 per unit. The variable cost per unit, including the cost of production and selling, are E20 for Alpha and E9 for Omega.

Required:

i) Using the graphic approach, determine the production schedule that maximizes daily profit **(6 Marks)**

ii) What is the maximum profit? **(6 Marks)**

Total (25 Marks)

QUESTION 4

Western Company wants guidance on the advisability of dropping Product C, one of the company's several products, since it showed a lost 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 labour	150,000	
Factory overhead	61,500	291.500
Gross margin on sales		E58,500
Selling and 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)	18,000
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

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

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

Total (25 Marks)