

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION MAY PAPER 2015

DEGREE/DIPLOMA AND YEAR OF STUDY: B.COM IV/ IDE LEVEL 7

COURSE CODE : AC 425 / IDE AC 505
TITLE : MANAGEMENT ACCOUNTING II
TIME : THREE (3) HOURS
TOTAL MARKS : 100 MARKS

INSTRUCTIONS:

- 1. THERE ARE FOUR (4) QUESTIONS ON THIS PAPER**
- 2. BEGIN THE SOLUTION TO EACH QUESTION ON A NEW PAGE**
- 3. THE MARKS AWARDED FOR A QUESTION ARE INDICATED AT THE END OF EACH QUESTION**
- 4. SHOW ALL YOUR WORKINGS**
- 5. CALCULATIONS ARE TO BE MADE TO ZERO DECIMAL PLACES OF ACCURACY, UNLESS OTHERWISE INSTRUCTED**

NOTE: YOU ARE REMINDED THAT IN ASSESSING YOUR WORK, ACCOUNT WILL BE TAKEN OF ACCURACY OF THE LANGUAGE TOGETHER WITH THE LAYOUT AND PRESENTATION OF YOUR FINAL ANSWER.

SPECIAL REQUIREMENTS: CALCULATOR

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

QUESTION 1

Nash Wholesale is a growing business that is presently considering adding a new product line. The firm could be required by the manufacturer to incur setup costs of E400,000 to handle the new product line. Nashville Wholesale has estimated that the product line would have an expected life of 8 years. Following is a schedule of revenues and annual fixed operating expenses (including E50,000 of annual depreciation on the investment) associated with the new product line. Variable costs are estimated to average 65% of revenues. All revenues are collected as earned. All expenses down, except for the included amount of straight-line depreciation, are paid in cash when incurred.

Year	Revenues	Fixed Expenses
1	E180,000	E90,000
2	200,000	E80,000
3	240,000	E80,000
4	320,000	E90,000
5	400,000	E80,000
6	400,000	E80,000
7	280,000	E80,000
8	170,000	E70,000

The company has a cost of capital of 12%. Management uses this rate in discounting cash flows when evaluating capital projects.

- Calculate the accounting rate of return (9 marks)
- Calculate the payback period (8 marks)
- Calculate the net present value (8 marks)

Total (25 marks)

QUESTION 2

Fill in the missing numbers in the following three independent cases.

	Case # 1	Case # 2	Case # 3
Revenue	a	E450,000	k
Expenses	100,000	f	l
Segment income	b	g	20,000
Average total assets	300,000	h	m
Asset turnover	c	4	2.5
Profit margin	d	8%	n
Achieved ROI	e	i	12%
Residual income	15,000	5,000	O
Target ROI	12%	j	14%

2 marks each

Total (25 marks)

QUESTION 3

Two investment centers of Sacramento Household Technology Company are the Home Security Division and the Appliances Division. The Home Security Division manufactures an electronic heat sensor that can be sold externally and is also used by the Appliances Division in making microwave ovens. The following information is available about the heat sensor.

Total production annually- 200,000 units; internal requirements are 150,000

Units; all others are sold externally

List selling price –E25.60

Variable production costs-E12

Fixed overhead-E300,000;allocated on the basis of units of production

Variable selling costs-E3; includes E1 per unit in advertising cost

Fixed selling costs-E400,000

REQUIRED: Determine the transfer price under each of the following methods

- a. Total variable cost (7marks)
- b. Full production cost (6marks)
- c. Total variable production cost plus necessary selling costs (6 marks)
- d. Market price (6 marks)

Total (25 marks)

QUESTION 4

REQUIRED:

A) Define the term; decentralization (5 marks)

B) What are the advantages and disadvantages of decentralization ? (20 marks)

Total (25 marks)

Table 10-1 Present Value of \$1

Years	5%	6%	8%	10%	12%	14%	16%	18%	20%	22%	24%	25%
1	0.952	0.943	0.926	0.909	0.893	0.877	0.862	0.847	0.833	0.820	0.806	0.800
2	0.907	0.890	0.857	0.826	0.797	0.769	0.743	0.718	0.694	0.672	0.650	0.640
3	0.864	0.840	0.794	0.751	0.712	0.675	0.641	0.609	0.579	0.551	0.524	0.512
4	0.823	0.792	0.735	0.683	0.636	0.592	0.552	0.516	0.482	0.451	0.423	0.410
5	0.784	0.747	0.681	0.621	0.567	0.519	0.476	0.437	0.402	0.370	0.341	0.328
6	0.746	0.705	0.630	0.564	0.507	0.456	0.410	0.370	0.335	0.303	0.275	0.262
7	0.711	0.665	0.583	0.513	0.452	0.400	0.354	0.314	0.279	0.249	0.222	0.210
8	0.677	0.627	0.540	0.467	0.404	0.351	0.305	0.266	0.233	0.204	0.179	0.168
9	0.645	0.592	0.500	0.424	0.361	0.308	0.263	0.225	0.194	0.167	0.144	0.134
10	0.614	0.558	0.463	0.386	0.322	0.270	0.227	0.191	0.162	0.137	0.116	0.107
11	0.585	0.527	0.429	0.350	0.287	0.237	0.195	0.162	0.135	0.112	0.094	0.086
12	0.557	0.497	0.397	0.319	0.257	0.208	0.168	0.137	0.112	0.092	0.076	0.069
13	0.530	0.469	0.368	0.290	0.229	0.182	0.145	0.116	0.093	0.075	0.061	0.055
14	0.505	0.442	0.340	0.263	0.205	0.160	0.125	0.099	0.078	0.062	0.049	0.044
15	0.481	0.417	0.315	0.239	0.183	0.140	0.108	0.084	0.065	0.051	0.040	0.035
16	0.458	0.394	0.292	0.218	0.163	0.123	0.093	0.071	0.054	0.042	0.032	0.028
17	0.436	0.371	0.270	0.198	0.146	0.108	0.080	0.060	0.045	0.034	0.026	0.023
18	0.416	0.350	0.250	0.180	0.130	0.095	0.069	0.051	0.038	0.028	0.021	0.018
19	0.396	0.331	0.232	0.164	0.116	0.083	0.060	0.043	0.031	0.023	0.017	0.014
20	0.377	0.312	0.215	0.149	0.104	0.073	0.051	0.037	0.026	0.019	0.014	0.012

Table 10-2 Present Value of \$1 Received Annually for N Years

Years	5%	6%	8%	10%	12%	14%	16%	18%	20%	22%	24%	25%
1	0.952	0.943	0.926	0.909	0.893	0.877	0.862	0.847	0.833	0.820	0.806	0.800
2	1.859	1.833	1.783	1.736	1.690	1.647	1.605	1.566	1.528	1.492	1.457	1.440
3	2.723	2.673	2.577	2.487	2.402	2.322	2.246	2.174	2.106	2.042	1.981	1.952
4	3.546	3.465	3.312	3.169	3.037	2.914	2.798	2.690	2.589	2.494	2.404	2.362
5	4.330	4.212	3.993	3.791	3.605	3.433	3.274	3.127	2.991	2.864	2.745	2.689
6	5.076	4.917	4.623	4.355	4.111	3.889	3.685	3.498	3.326	3.167	3.020	2.951
7	5.786	5.582	5.206	4.868	4.564	4.288	4.039	3.812	3.605	3.416	3.242	3.161
8	6.463	6.210	5.747	5.335	4.968	4.639	4.344	4.078	3.837	3.619	3.421	3.329
9	7.108	6.802	6.247	5.759	5.328	4.946	4.607	4.303	4.031	3.786	3.566	3.463
10	7.722	7.360	6.710	6.145	5.650	5.216	4.833	4.494	4.192	3.923	3.682	3.571
11	8.306	7.887	7.139	6.495	5.937	5.453	5.029	4.656	4.327	4.035	3.776	3.656
12	8.863	8.384	7.536	6.814	6.194	5.660	5.197	4.793	4.439	4.127	3.851	3.725
13	9.394	8.853	7.904	7.103	6.424	5.842	5.342	4.910	4.533	4.203	3.912	3.780
14	9.899	9.295	8.244	7.367	6.628	6.002	5.468	5.008	4.611	4.265	3.962	3.824
15	10.380	9.712	8.559	7.606	6.811	6.142	5.575	5.092	4.675	4.315	4.001	3.859
16	10.838	10.106	8.851	7.824	6.974	6.265	5.669	5.162	4.730	4.357	4.033	3.887
17	11.274	10.477	9.122	8.022	7.120	6.373	5.749	5.222	4.775	4.391	4.059	3.910
18	11.690	10.828	9.372	8.201	7.250	6.467	5.818	5.273	4.812	4.419	4.080	3.928
19	12.085	11.158	9.604	8.365	7.366	6.550	5.877	5.316	4.844	4.442	4.097	3.942
20	12.462	11.470	9.818	8.514	7.469	6.623	5.929	5.353	4.870	4.460	4.110	3.954