

UNIVERSITY OF SWAZILAND
FACULTY OF COMMERCE
DEPARTMENT OF BUSINESS ADMINISTRATION
MAIN EXAMINATION
ACADEMIC YEAR 2015/16- MAY 2016

TITLE OF THE PAPER : INTERMEDIATE MANAGEMENT ACCOUNTING 2

DEGREE : BACHELOR OF COMMERCE

COURSE : AC 324 / AC 414

TIME ALLOWED : THREE (3 HOURS)

Instructions:

1. THIS PAPER CONSIST OF SECTION A AND SECTION B)
2. SECTION A IS CASE STUDY AND IT IS COMPULSORY QUESTION
3. ANSWER ANY TWO QUESTIONS FROM SECTION B

Note: You are reminded that in assessing your work, account will be given of accuracy of language and the general quality of expression, together with layout and presentation of your final answer.

THIS PAPER MUST NOT BE OPENED UNTIL THE INVIGILATOR HAS GRANTED THE PERMISSION

SECTION A: COMPULSORY ANSWER ALL QUESTIONS

Woodmaster Swaziland produces and sells a single product, a wooden hand loom for weaving small items such as scarves. Selected costs and operating data relating to the product for two years are given below:

Selling price per unit		E 50
Manufacturing costs:		
Variable per unit produced:		
Direct materials.....		11
Direct labour.....		6
Variable overhead.....		3
Fixed per year.....		120,000
Selling and administrative costs:		
Variable per unit sold.....		5
Fixed per year.....		70,000
	Year 1	Year 2
Unit in beginning inventory.....	0	2,000
Units produced during the year.....	10,000	6,000
Unit sold during the year.....	8,000	8,000
Units in ending inventory.....	2,000	0

Question 1

1. Assume the company uses absorption costing.
 - a. Compute the unit product cost in each year **(5 marks)**.
 - b. Prepare an income statement for each year. **(15marks)**
2. Assume the company uses variable costing
 - a. Compute the unit product cost in each year **(5marks)**.
 - b. Prepare income statement for each year **(15marks)**.
3. Reconcile the variable costing and absorption costing net operating incomes? **(10 marks)**

Total Marks (50)

SECTION: ANSWER ANY TWO QUESTIONS IN THIS SECTION.

Question 2

Logico Company distributes a lightweight lawn chair that sells E15 per unit. Variable costs are E6 per unit and fixed costs total E180, 000 annually.

Required

Answer the following independent questions:

1. What is the product's CM ratio? **3 marks**
2. Use the CM ratio to determine the breakeven point in sales dollars. **5 marks**
3. The company estimates that sales will increase by E45, 000 during the coming year due to increased demand. By how much should net operating income increase? **7 marks**
4. Assume that the operating results for last year were as follows:

Sales	E360, 000
Less variable expenses.....	<u>E144, 000</u>
Contribution margin.....	E216, 000
Less fixed expenses.....	<u>E180, 000</u>
Net operating income.....	<u>E36, 000</u>

- a. Compute the degree of operating leverage at the current level **5 marks.**
- b. The President expects sales to increase by 15% next year. By how much should net income increase (**5 Marks**).

Total 25 Marks

Question 3

Matsapha Steel Company makes a single product – a fire resistance filing cabinet – that it sells to office furniture distributors. The company has a single ABC system that is used for internal decision making. The company has two overhead departments whose costs are listed below.

Manufacturing overhead..... E500, 000

Selling and administrative overhead..... E300, 000

The company’s ABC system has the following activity cost pools and activity measures:

Activity Cost Pool	Activity measure
Assembling units.....	Number of units
Processing units	Number of orders
Supporting customers.....	Number of customers
Other	Not applicable

Costs assigned to the “Other” activity measure: they consist of the costs of unused capacity and organization sustainability costs – neither of which are assigned to products, orders or customers.

Matsapha Steel Company distributes the costs of manufacturing overhead and of selling and administrative overhead to the activity cost pools based on employee interviews, the results of which are reported below:

Distribution of Resource Consumption across Activity Costs Pools

Activity	Assembling Units	Processing Orders	Supporting Customers	Others	Total
Manufacturing	50%	35%	5%	10%	100%

overhead					
Selling and administrative Overhead	10%	45%	25%	20%	100%
Total activity	1,000 units	250 orders	100 customers		

1. Perform the first –stage allocation of overhead costs to the activity cost pools (**8 marks**).
2. Compute activity rates for the activity costs pool (**6 marks**).
3. Office Smart is one of Matsapha Steel company’s customers. Last year , Office Smart ordered filing cabinets four times. Office Smart ordered a total of 80 filing cabinets during the year. Construct a table showing the overhead costs of 80 units and four orders (**5 marks**).
4. The selling price of filing cabinet is E595. The cost of direct materials is E180 per filing cabinet, and direct labour is E50 per filing cabinet. What is the product mrgin on the 80 filing cabinets ordered by Office Smart? How profitable is Office Smart as a customer. (**6 marks**)

Total 25 marks

Question 4

SUB produces a single product. Variable manufacturing overhead is applied to products on the basis of direct labor –hours. The standard costs for one unit of product are as follows:

Direct material: 6 ounces at E0.50 per ounce.....	E3
Direct labour:1.8 hours at E10 per hour.....	18
Variable manufacturing overhead: 1.8 hours at E5 per hour.....	9
Total standard variable cost per unit	<u>E30</u>

During June, 2000 units were produced. The costs associated with June’s operations were as follows:

- Material purchased: 18,000 ounces at \$0.60 per ounce.....\$10,800
- Material used in production:14,000 ounces..... –
- Direct labour:4,000 hours at E9.75 per hour..... 39,000
- Variable manufacturing overhead costs incurred..... 20,800

Required:

- a. Compute the materials, labour and variable manufacturing overhead variances (21 marks).
- b. Discuss any two advantages of standard costing system (4 marks)

Total 25 Marks

End of the paper, be blessed.....