

UNIVERSITY OF SWAZILAND
FACULTY OF COMMERCE
DEPARTMENT OF BUSINESS ADMINISTRATION
SUPPLEMENTARY 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 Question

Question 1.

City Office machine manufactures and sells a photo copying machines. The company's contribution format income statement for the most recent year are given below:

| | Total | Per unit | Percent of Sales |
|----------------------------|-----------------|-----------------|-------------------------|
| Sales (20,000 Units)..... | E1, 200,000 | E60 | 100% |
| Less variable cost..... | <u>900,000</u> | <u>E45</u> | <u>?</u> |
| Contribution margin | <u>300,000</u> | <u>E15</u> | <u>?</u> |
| Less fixed cost..... | <u>240,000</u> | | |
| Net operating income | <u>E 60,000</u> | | |

Management is anxious to improve the company's profit performance and has asked for analysis of number of items:-

Required

1. Compute the company's CM ratio and variable expense ratio (4 marks)
2. Compute the breakeven point in units and sales dollars. Using equation method (4 marks)
3. Assume that sales increase by E400, 000 next year. If cost behavior patterns remain unchanged, how much will the company's net operating income increase? Use the CM ratio to determine the answer (4 Marks).
4. **Refer to the origin data.** Assume that the next year management wants the company to earn a minimum profit of E90, 000. How many unit will have to be sold to meet this target profit figure? (4 Marks)
5. Refer to original data. Compute the company's margin of safety in both Emalangeni and percentage form.(5 marks)

6. thereafter compute the following:

- a. Compute the company's degree of operating leverage at the present level of sales. (4 marks)
- b. Assume that through a more intensive effort by the sales staff the company's sales increase by 8% next year. By what percentage would you expect net operating profit income to increase? Use the operating leverage concept to obtain your answer. (5 marks)
- c. Verify your answer (b) by preparing a new income statement showing an 8% increase in sales (5 Marks)

7. In an effort to increase sales and profits, management is considering the use of higher quality speaker. The lighter – quality speaker would increase variable cost by E3 per unit, but management could eliminate one inspector who is paid a salary of E30, 000 per year. The sales Manager estimates that lighter quality speaker would increase annual sales by at least 20%.

- a. Assume that changes are made as described above, prepare a projected income statement for the next year. Show data on total, per unit and percentage basis (6 Marks).
- b. Compute the company's new break – even point in both units and dollars of sales. Use the contribution margin method (5 marks).
- c. Would you recommend that the changes be made? (4 Marks)

Total marks 50

SECTION: ANSWER ANY TWO QUESTIONS IN THIS SECTION.

Question 2

Swaziland Enterprises manufactures and sells a single product. The following costs were incurred during the company's first year of operations:

Variable cost per unit:

PRODUCTION:

| | |
|--|-----|
| Direct materials | E18 |
| Direct Labour | 7 |
| Variable Manufacturing Overhead..... | 2 |
| Variable selling and administrative expenses.. | 5 |

Fixed cost per year:

| | |
|--|-----------|
| Fixed manufacturing Overhead..... | E160, 000 |
| Fixed selling and administrative expenses..... | E110, 000 |

During the year, the company produced 20,000 units and sold 16,000 units. The selling price of the company's product is E50 per unit.

Required:

1. Assume the company uses absorption costing method:
 - a. Compute the unit product cost. (2 marks)
 - b. Prepare an income statement for the year (8 marks)
2. Assume that the company uses the variable costing method:
 - a. Compute the unit product cost. (2 marks)
 - b. Prepare an income statement for the year (8 marks)
3. Reconcile the variable costing an absorption costing net operating income (5 marks)

Total marks 25

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 filling 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 marks 25

Question 4

1. What is a self-imposed budget? Discuss the major advantages of self-imposed budgets (**5 marks**)
2. Explain the principal purpose of cash budget? (**5marks**)
3. Explain how the Zero budget differ from traditional budgeting? (**5 Marks**)
4. MTN has budgeted the sales of innovative mobile phone over the next four months as follows:

| | |
|------------------------|-----------------------|
| | Sales in units |
| July | 30,000 |
| August | 45,000 |
| September | 60,000 |
| October | 50,000 |

The company is in the process of preparing a production budget for the third quarter. Past experience has shown that end-of-month inventories of finished

goods must be equal 10% of the next month's sales. The inventory at the end of June was 3,000 units.

Required:

Prepare the production budget for the third quarter showing the number of units to be produced each month and for the quarter in total. **(10 marks)**

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