

**AC424 (M) DECEMBER 2016**

**UNIVERSITY OF SWAZILAND**

**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING**

**MAIN EXAMINATION PAPER DECEMBER 2016**

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DEGREE/ YEAR OF STUDY	:	BACHELOR OF COMMERCE
TITLE	:	ADVANCED MANAGEMENT ACCOUNTING 1
COURSE	:	AC 424 DECEMBER 2016 (FULLTIME STUDENTS ONLY)
TOTAL MARKS	:	100 MARKS
TIME ALLOWED	:	THREE (3) HOURS

**INSTRUCTIONS:**

1. TOTAL NUMBER OF QUESTIONS IN THIS PAPER (4)
2. ANSWER ALL QUESTIONS
3. THE MARKS AWARDED FOR A QUESTION / PART ARE INDICATED AT THE END OF THE QUESTION.
4. WHERE APPLICABLE, SUBMIT ALL WORKING AND CALCULATIONS.

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

SPECIAL REQUIREMENTS: NONE

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

## AC424 (M) DECEMBER 2016

## QUESTION 1

(Convert variables to absorption) Jenny Low started a new business in 2015 to produce portable, climate- control shelters. The shelters have many applications in special events sporting activities. Jenny`s accounting prepared the following variables costing income statement after the first year to her in making decisions.

Jenny Lowe Enterprises

Income Statement

For the year ended December 31, 2015

Sales (1,500 shelter @ E2, 500)		E3, 750, 000
Variable cost of goods sold:		
Beginning inventory	E 0	
Cost of goods manufactured (1,750@ E1, 300)	<u>2, 275,000</u>	
Cost of goods available for sale	E2, 275, 000	
Less ending inventory (250@ E 1, 300)	<u>325, 000</u>	<u>1, 950, 000</u>
Total contribution		E 1, 800, 000
Less variable selling and administrative		
Expenses (1, 500 @ E180)		<u>270, 000</u>
Total contribution margin		E1, 530, 000
Less expenses:		
Fixed factory overhead	E1, 500, 000	
Fixed selling and administrative expenses	<u>190, 000</u>	<u>1, 690,000</u>
Net loss		<u>E (160, 000)</u>

During the year, the following variable production costs per units were recorded: direct materials, E800; direct labour, E300; and overhead, E200. Ms Lowe was upset about the net loss because she had wanted to borrow funds to expand capacity. Her friend who teaches accounting at the local university suggested that the use of absorption costing could change the picture.

AC424 (M) DECEMBER 2016

**REQUIRED:**

- a) Prepare an absorption costing income statement (5 Marks)
- b) Explain the sources of the difference between the net income (loss) figures under the two costing systems. (5 Marks)
- c. Would it be appropriate to present an absorption costing income statement to the local banker in light of Ms Lowe's knowledge of the net determined under variable costing? (5 Marks)
- d. Assume that during the second year of operations, Ms Lowe's company produced 1,750 shelters, sold 1,850, and experienced the same total the same total fixed cost.
1. Prepare a variable costing income statement (5 Marks)
2. Prepare an absorption costing income statement (5 Marks)
- Total (25 Marks)

## AC424 (M) DECEMBER 2016

## Question 2

Child safety products, company manufactures rugged child safety seat automobiles, for 1995, the firm projects sales of 20, 000 units; variable manufacturing costs are E35 per unit are variable selling, general and administrative costs are E10 per unit. Fixed costs will be incurred uniformly throughout the fiscal period and amount to E950, 000. Each unit is sold for E60.

- a) Compute the breakeven point in emalangeneni and units of product (10 Marks)
- b) Compute the number of units to be sold to earn income before taxes of E90, 000 for the year (5 Marks)
- c) If the income tax rate is 60% of the variable manufacturing costs and 60%, compute the number of units that must be sold to earn an after tax profit of E150, 000 (5 Marks)
- d) If the labour costs are 60% of the variable manufacturing cost and 40% of the total fixed costs, by how much would a 10% decrease in fixed labour cost and a 10% decrease in variable labour costs per unit decrease the broken even point in emalangeneni (5 Mark)

Total (25 Marks)

## AC424 (M) DECEMBER 2016

**Question 3**

Avon (Pty) Ltd manufactures two products Exe and Ouse. The relevant data, per units are:

	EXE	OUSE
Selling Price	E10, 00	E10, 00
Material @ E0, 50 per kg	2, 00	3, 00
Process B @ E0, 50 per hour	2, 00	1, 50
Other variable costs	2, 50	2, 75
Fixed costs	3, 28	2, 00

The fixed costs per unit are based on current budgeted production of 825 units of Exe and 500 units of Ouse.

The capacity of process B is 4 800 hours per month.

**REQUIRED:**

Calculate how the available capacity should be used to maximize profits and to calculate what the maximum profit will be if it is possible to sell everything produced

Total (25 Marks)

## AC424 (M) DECEMBER 2016

**Question 4**

A company has been making a machine to order for a customer, but the customer has since gone into liquidation, and there is no prospect that any money will be obtained from the winding up of the company.

Costs incurred to date in manufacturing the machine are E50,000 and progress payments of E15,000 had been received from the customer prior to liquidation.

The sales department has found another company willing to buy the machine for E34,000 once it has been completed. To complete the work the following costs would be incurred:

- a) Materials – these have been bought at a cost of E6,000. They have no other use, and if the machine is not finished, they would be sold for scrap for E2,000.
- b) Further labour costs would be E8,000. Labour is in short supply, and if the machine is not finished, the work force would be switched to another job, which would earn E30,000 in revenue, and incur direct costs of E12,000 and absorbed (fixed) overhead of E8,000.
- c) Consultancy fees E4,000. If the work is not completed, the consultant's contract would be cancelled at a cost of E1,500.
- d) General overheads of E8,000 would be added to the cost of the additional work, should the new customer's offer be accepted.

Total (25 Marks)