129

University of Eswatini
Department of Accounting and Finance
Supplementary/Re-sit Exam Paper - Semester - II

Programme of Study	:	Bachelor of Commerce and BEd.
Year of Study	:	Year Three / Level Four
Title of Paper	:	Intermediate Management Accounting
Course Code	:	ACF314/AC324
Time Allowed	:	**3 Hours.**

Instructions:

1. **Total number of questions on this paper is four (4).**
2. **Answer all the questions.**
3. **The marks awarded for a question / part is indicated at the end of each question / part of question.**
4. **Where applicable, submit all workings and calculations on the answer sheet alongside the case.**
5. **Calculations are to be made to two 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 and the general quality of expression, together with the layout and presentation of your final answer.

Special requirement : **Calculator**

This paper is not to be opened until permission has been granted by the invigilator.

130

QUESTION 1:

Rama Ltd is a company engaged solely in the manufacture of Jerkins which are bought mainly for sporting activities. Present sales are direct to retailers, but in recent years there has been a steady decline in output because of increasing foreign competition. In the last trading year the accounting report indicated that the company generated the lowest profit for 10 years. The forecast for the next year indicates that the present deterioration in profit is likely to continue. The company considers that a profit of E 90,000 should be achieved to provide an adequate return on capital. The marketing director has completed his review and passes the proposals on to you for recommendation, together with the income statement for the year ending 31 December last year.

	E	E	E
Sales revenue			1,200,000
(100,000 jerkins at E12 each)			
Factory cost of goods sold:			
Direct material	140,000		
Direct labour	380,000		
Variable factory overheads	90,000		
Fixed factory overheads	260,000	870,000	
Administration overheads		170,000	
Selling & distribution overheads			
Sales commi (3% of sales)	36,000		
Delivery costs (variable per units sold)	50,000		
Fixed costs	50,000	136,000	
			1,176,000
Profit			E24,000

The information to be submitted to the Managing Director includes the following two proposals:

1. To proceed on the basis of analyses of market research studies which indicate that the demand for the Jerkins is such that a 10 percent reduction in selling price would increase demand by 40 percent.
2. To proceed on the basis of a view by the marketing director that a 10 percent price reduction, together with a national advertising campaign costing E 70,000 may increase sales to the maximum capacity of 180,000 Jerkins.

Required:

i) Calculate the break-even sales value based on the accounts for last year **(8 marks)**

ii) A financial evaluation of proposal 1) and a calculation of the number of units Rama Ltd would need to sell at E10.80 each to earn the target profit of E 90,000. **(8 marks)**

iii) A financial evaluation of proposal 2) **(5 marks)**

iv) Your evaluation of the two proposals and recommendation **(4 marks)**

Total (25 marks)

Required:

i) Prepare a trading statement to identify the manufacturing profit for period 2 using the existing absorption costing method. **(8 marks)**

ii) Determine the manufacturing profit that would be reported in period 2 if marginal costing was used **(6 marks)**

iii) Explain with supporting calculations:

a. The reasons for the change in manufacturing profit between period 1 and 2 where absorption costing is used in each period. **(6 marks)**

b. Why the manufacturing profit in i) and ii) differs **(5 marks)**

Total (25 marks)

QUESTION 4:

Answer the following questions:

i) Describe activity based budgeting in detail. **(8 marks)**

ii) Identify and describe the various stages in the budget process **(8 marks)**

iii) Explain the arguments for and against variable and absorption costing **(9 marks)**

Total (25 marks)

End of exam question paper

132

QUESTION 2:

One of Siyabonga Company's products go through an etching process. The company has observed etching costs as follows over the last 6 quarters.

Quarter	Units	Total Etching Cost in (E)
1	4	18
2	3	17
3	8	25
4	6	20
5	7	24
6	2	16

For planning purposes, Siyabonga Company's management would like to know the amount of variable etching cost per unit and the total etching cost per quarter.

Required:

i) Using the Least Squares Method, determine the variable and fixed elements of etching cost as desired by management. **(17.5 marks)**
ii) Express the cost data in (i) above in the form Y = a + bX. **(2.5 marks)**
iii) If the company processes 5 units next quarter, what would be the expected total etching cost? **(5 marks)**

Total (25 marks)

QUESTION 3:

A company sells a single product at a price of E14 per unit. Variable manufacturing costs of the product are E6.40 per unit. Fixed manufacturing overheads, which are absorbed into the cost of production at a unit rate (base on normal activity of 20,000 units per period), are E92,000 per period. Any over or under-absorbed fixed manufacturing overhead balances are transferred to the income statement at the end of each period, in order to establish the manufacturing profit. Sales and production in units for two periods are given below.

	Period 1	Period 2
Sales	15,000	22,000
Production	20,000	21,000

The manufacturing profit in period 1 was reported as E35,800