University of Eswatini
Department of Accounting
Main Exam Paper - Semester - I

Programme of Study	:	Bachelor of Commerce
Year of Study	:	Year Four / Level Five
Title of Paper	:	Advanced Management Accounting I
Course Code	:	ACF413/AC424
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.

QUESTION 1:

VW Constructions had received a tender for a job in Tubungu, accepted at E 690,000 and work is due to begin in January. However the company has also been asked to undertake a contract in Shidwashini at a price of E 740,000. Both of the contracts can't be undertaken simultaneously because of constraints with regards to personnel, and plant availability. The company can withdraw from Tubungu contract provided a three month notice is given in advance and an agreed penalty of E 32,000 is paid.

The following estimates have been submitted by the company's quantity surveyor:

Cost estimates	Tubungu (E)	Shidwashini (E)
Materials:		
In stock at original cost, Material X	44,600	
In stock at original cost, Material Y		48,600
Firm orders placed at original cost, Material X	50,600	
Not yet ordered – current cost, Material X	110,000	
Not yet ordered – current cost, Material Z		142,200
Labour - hired locally	150,000	200,000
Site management	70,000	70,000
Staff accommodation and travel to site.	12,000	10,500
Plant on site – depreciation	17,200	21,200
Interest on capital, 9%	9,750	11,700
Total local contract costs	464,150	504,200
Headquarters costs allocated at a rate of 5% on total contract costs	21,750	23,400
	485,900	527,600
Contract Price	690,000	740,000
Estimated profit	204,100	212,400

Notes:

1) X, Y and Z are three building materials. Material X is not in common use and would not realize much money if re-sold. However, it could be used on other contracts but only as a substitute for another material currently quoted as 10 per cent less than the original cost of X. The price of Y, a material in common use, has doubled since it was purchased; its net realizable value if re-sold would be its new price less 15 per cent to cover disposal costs. Alternatively, it could be kept for use on other contracts in the following financial year.
2) With the construction industry not yet recovered from the recent recession, the company is confident that manual labour, both skilled and unskilled, could be hired locally on a subcontracting basis to meet the needs of each of the contracts

3) The plant which would be needed for the Shidwashini contract has been owned for some years and E14,800 is the year's depreciation on a straight line basis. If the Tubungu contract is undertaken, less plant will be required but the surplus plant will be hired out for the period of the contract at a rental of E8,000.
4) It is the company's policy to charge all contracts with notional interest at 9 per cent on estimated working capital involved in contracts. Progress payments would be receivable from the contractee.
5) Salaries and general costs of operating the small headquarters amount to about E199,000 each year. There are usually ten contracts being supervised at the same time
6) Each of the two contracts is expected to last from January to December which, coincidentally, is the company's financial year.
7) Site management is treated as a fixed cost.

You are required as the management accountant to the company:

i) To present comparative statements to show the net benefit to the company of undertaking the more advantageous of the two contracts.
ii) To explain the reasoning behind the inclusion in (or omission from) your comparative financial statements, of each item given in the cost estimates and the notes relating thereto.

(30 marks)

QUESTION 2:

a) Swazi Iron & Steel Company manufacturers Product X using three different raw materials. The product details are as follows:

Selling Price per unit E250

Material A	2 kgs	Material price E2.50 per kg.
Material B	3 kgs	Material price E4.00 per kg.
Material C	3 kgs	Material price E3.50 per kg
Direct labour	6 hours	Labour rate E 10 per hour

The company is considering its budget for next year. The following are the estimates of sales demand for Product X for July to October:

July	August	September	October
500 units	400 units	700 units	550 units

Company policy is to hold stocks (inventories) of finished goods at the end of each month equal to 50% of the following month's sales demand. Stocks at the start of the budget period will also meet this policy.

At the end of each production process, the products are tested and it is usual for 10 per cent of those tested to be faulty and cannot be rectified.
Raw material stocks (inventories) are expected to be as follows on 1st July:

Material A	1,000 kgs
Material B	500 kgs
Material C	800 kgs

Raw material stocks are to be increased by 10% from July to September.
Labour is paid on an hourly rate based on attendance. In addition to 6 hours of direct labour hours 2 hours of indirect labour hours are spent on support activities.

Required:

Prepare the following budgets for **the quarter from July to September** inclusive:

i) Sales budget in quantity and value
ii) Production budget in units
iii) Raw material usage budget in kgs.
iv) Raw material purchases budget in kgs and value.
v) Labour requirements budget in hours and value

(25 marks)

b. Explain the term Principal Budget Factor and the importance of its identification in budget preparation. **(5 marks)**

Total (30 marks)

QUESTION 3:

Swazi Sports Equipment is in the manufacture of Golf balls – a single product. No inventory of raw materials or finished goods is held. The manufacturing department is a cost centre within the business and operates a standard costing system based on marginal costs. In June the budgeted sales were 20,000 balls and the standard cost card is as follows:

	Standard cost (E)	Standard cost (E)
Materials (2.5kg at E6/kg)	15	
Labour (3 hrs at E12/hr)	36	
Marginal cost		51
Selling price		72
Contribution		21

In June the following results were achieved.
42,000 kg of material were bought at a cost of E200,000, this produced 20,200 golf balls. The labour was paid for 62,000 hours and the total cost was E694,000. Labour worked for 61,500 hours.

The sales price was reduced to protect the sales levels. However, only 19,000 balls were sold at an average price of E68.

Required: Calculate

i) a. Material price variance b. Material usage variance (7 marks)
ii) a. Wage rate variance b. Labour efficiency variance c. Idle time variance (10.5 marks)
iii) a. Sales price variance (2.5 marks)

Total (20 marks)

QUESTION 4:

Write **short notes** on the following:

i) Explain 'feedback' and 'feed-forward' in the context of budgetary control.
ii) Target costing approach to pricing
iii) Rolling budgets
iv) Describe the different kinds of pricing policies that an organization can apply

Total (4*5 = 20 marks)

End of exam question paper