

UNIVERSITY OF ESWATINI
DEPARTMENT OF BUSINESS ADMINISTRATION
MAIN EXAMINATION PAPER MAY 2019

DEGREE AND

YEAR OF STUDY : MASTER OF BUSINESS ADMINISTRATION

TITLE OF PAPER : MANAGEMENT ACCOUNTING

COURSE CODE : ACF622

TOTAL MARKS : 100 MARKS

TIME ALLOWED : THREE (3) HOURS

- INSTRUCTIONS :
1. This paper consists of **SIX (6)** numbered pages, including this page.
 2. There are **FOUR (4)** questions, answer **ALL FOUR (4)** questions.
 3. Begin solution to each question on a new page.
 4. Show all the necessary workings.
 5. Round off as you deem appropriate.

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

THIS PAPER MUST NOT BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR OR SUPERVISOR.

QUESTION 1 (25 marks)**ANSWER ALL TWO UNRELATED PARTS TO THIS QUESTION****Part A [10 marks]**

Sylvia Dlamini, the bookkeeper for Economic Freedom Fighters (Pty) Ltd, a political consulting firm, has recently completed a managerial accounting course at her local university. One of the topics covered in the course was the cost of goods manufactured schedule. Sylvia wondered if such a schedule could be prepared for her firm. She realised that, as a service oriented company, it would have no Work-in-Progress inventory to consider.

Listed below are the costs the firm incurred for the month ended August 31, 2018.

	Amount (E)
Supplies used on consulting contracts	3 700
Supplies used in the administrative offices	1 500
Depreciation on equipment used for contract work	900
Depreciation used on administrative office equipment	1 050
Salaries of professionals working on contracts	15 600
Salaries of administrative office personnel	7 700
Cleaning services for professional offices	300
Cleaning services for administrative offices	500
Insurance on contract operations	800
Insurance on administrative operations	900
Utilities for contract operations	1 900
Utilities for administrative offices	1 300

Required:

- i) Prepare a schedule of cost of contract services provided (similar to a cost of goods manufactured account) for the month of August 2018.

(8 marks)

- ii) For those costs not included in (i) above, explain how they would be classified and reported in the financial statements

(2 marks)

Part B [15 marks]

Majestic Drill Works (Pty) Ltd produces two types of gas grills: a family model and a deluxe model. The Director of Finance of the company has decided to use a plantwide overhead rate based on direct labour costs. However, the CEO of the company recently heard of activity-based costing and wants to see how the results would differ if this system were used. Two activity cost pools were developed: machining and machine setup. Presented below is information related to the company's operations:

	<u>Family Model</u>	<u>Deluxe Model</u>	<u>Total</u>
Direct labour costs	E75,000	E150,000	E225 000
Machine hours	2,000	2,000	4000 hours
Setup hours	200	800	1000 hours

Total estimated overhead costs are E450,000. Overhead cost allocated to the machining activity cost pool is E270,000 and E180,000 is allocated to the machine setup activity cost pool.

Required :

- i) Calculate the overhead rate using the traditional (plantwide) approach. **(2 marks)**
- ii) Calculate the overhead rates using the activity-based costing approach. **(2 marks)**
- iii) Using your results in (i) and (ii) above, calculate the overhead allocation for the Family Model and Deluxe Model under the traditional approach and ABC approach. **(8 marks)**
- iv) Using your results in (iii) above, determine the difference in allocation between the two approaches and briefly comment on your answer. **(3 marks)**

QUESTION 2 [25 marks]

Booth Company had sales in 2018 of E1,875,000 on 75,000 units. Variable and fixed costs amounted to E1,125,000 and E500,000 respectively. A new raw material is available that will decrease the variable costs per unit by 20% (or E3.00). However, to process the new raw material, fixed operating costs will increase by E125,000. Management feels that two-thirds of the decline in the variable costs per unit should be passed on to customers in the form of a sales price reduction. The marketing department expects that this sales price reduction will result in a 4% increase in the number of units sold.

Required:

- i) Prepare a projected Cost-Volume-Profit (CVP) income statement for the year ended 31 December 2018, assuming that: 1) the changes have not been made, and 2) the changes are made as described.
(12 marks)
- ii) Before Booth Company had the chance to implement usage of the new raw material, new industry specifications were announced and result in the following changes for the Booth Company. Variable costs will increase by 15% per unit and fixed costs will increase by E50,000. Management feels that a E3 per unit price increase is needed to accommodate the cost increases. However, this will result in a 10% decrease in units sold. Prepare a CVP income statement for the year ended 31 December 2018 assuming these changes have been made.
(6.5 marks)
- iii) The marketing department suggests implementing an advertising promotion that would increase variable costs by E0.50 per unit but would retain the original sales volume of 75,000 units. Prepare a CPV income statement for the year ended 31 December 2018 with these changes.
(6.5 marks)

QUESTION 3 [25 marks]

ABC (Pty) Ltd manufactures outdoor fireplaces. For the first 9 months of 2018, the company reported the following operating results while operating at 80% of plant capacity:

	E
Sales (75,000 units)	6,750,000
Cost of goods sold	<u>4,875,000</u>
Gross profit	1,875,000
Operating expenses	<u>750,000</u>
Net income	<u>1,125,000</u>

Cost of goods sold was 80% variable and 20% fixed; operating expenses were 70% variable and 30% fixed.

In October, ABC (Pty) Ltd received a special order for 4,000 fireplaces at E62 each from Langston's Landscape (Pty) Ltd. Acceptance of the order would result in an additional E7,000 of shipping costs but no increase in fixed operating expenses.

Before ABC (Pty) Ltd could give Langston's Landscape (Pty) Ltd an answer, they received another special order from Benson Building & Supply for 15,000 fireplaces. Benson Building & Supply is willing to pay E65 per fireplace but they want a special design embedded into the fireplace that increases cost of goods sold by E67,500. The special design also requires the purchase of a part that costs E5,000 and will have no future use for ABC (Pty) Ltd. Benson Building & Supply will pick up the fireplaces so no shipping costs are involved.

Due to capacity limitations, ABC (Pty) Ltd cannot accept both special orders.

Required:

- a) Prepare an incremental analysis for the special orders from Langston's Landscape (Pty) Ltd and Benson Building & Supply. (22 marks)
- b) Based on your answers in (a) above advise ABC (Pty) Ltd which order should be accepted. (3 marks)

QUESTION 4 [25 marks]

Mr Hank Short, the sales manager in the Winter Sports Department of Jennings Outdoor Company was given the following static budget report for selling expenses for the month of November 2018.

Jennings Outdoor Company
Winter Sports Department
Budget Report
For the Month Ended November 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Difference</u> <u>Favourable F</u> <u>Unfavourable U</u>
Sales in units	<u>4,000</u>	<u>4,500</u>	<u>500 F</u>
Variable expenses	E	E	E
Sales commissions	120,000	128,000	8,000 U
Advertising expense	38,000	41,250	3,250 U
Travel expense	185,000	202,125	17,125 U
Demonstration models given out	<u>100,000</u>	<u>90,750</u>	<u>9,250 F</u>
Total variable	<u>443,000</u>	<u>462,125</u>	<u>19,125 U</u>
Fixed expenses			
Rent	7,500	7,500	-0-
Sales salaries	60,000	60,000	-0-
Office salaries	40,000	40,000	-0-
Depreciation – vans (sales staff)	<u>2,500</u>	<u>3,000*</u>	<u>500 U</u>
Total fixed	<u>110,000</u>	<u>110,500</u>	<u>500 U</u>
Total expenses	<u>553,000</u>	<u>572,625</u>	<u>19,625 U</u>

*The increase in depreciation was due to a new vehicle that had to be purchased as a result of an accident driving on snowy roads on the way to visit a customer.

As a result of this budget report, Mr Hank was called into the CEO's office and congratulated on his excellent sales performance. He was reprimanded, however, for allowing his costs to get out of control. Mr Hank knew something was wrong with the performance report that he had been given. However, he was not sure what to do, and comes to you for advice.

Required:

- a) Prepare a budget report based on flexible budget data to help Hank (22 marks)
- b) Should Hank have been reprimanded? Explain (3 marks)