

UNIVERSITY OF ESWATINI
DEPARTMENT OF BUSINESS ADMINISTRATION
SPECIAL EXAMINATION PAPER JULY 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 **FIVE (5)** 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)

Trendy Toys & Games (Pty) Ltd manufactures specialty toys. Trendy uses a traditional product costing system to assign overhead costs uniformly to all products. To meet industry safety standards and to assure its customers of safe and durable toys, Trendy assigns its quality-control overhead costs to all products at a rate of 21% of direct labour costs. Its direct labour cost for the month of August for its toddler line of toys is E324,000. In response to repeated requests from its financial director, Trendy's management agrees to adopt activity-based costing. Data relating to the toddler line of toys for the month of August 2018 are as follows:

| <u>Activity Cost Pools</u> | <u>Cost Drivers</u> | <u>Overhead Rate</u> | <u>Number of Cost Drivers Used per Activity</u> |
|--|----------------------|----------------------|---|
| Materials Inspection | No. of kg | E0.70 per kg | 50,000 kg |
| Assembly Line Inspection | No. of finished toys | E0.15 per toy | 190,000 toys |
| National Toy Association Certification | Retail orders | E2.00 per order | 800 orders |

Required

- (a) Compute the quality-control overhead cost to be assigned to the toddler toy line for the month of August (1) using the traditional product costing system (direct labour is the cost driver), and (2) using activity-based costing. [10 Marks]

- (b) Determine the amount by which the traditional product costing system under-cost or over-cost the toddler toy line. [2 Marks]

- (c) Classify each of the activities as value-added or non-value added. [3 Marks]

- (d) Trendy Toys is exploring options to help reduce overhead costs especially for non-value added activities. One of the proposals is from the National Toy Association. For an additional E1 per order, this entity could perform additional safety checks that would reduce the assembly line inspection costs by E.01 per toy. Compute the overhead cost assigned to the toddler toy line for the month of August 2018 using activity-based costing under this proposal. On the basis of your answer, advise Trendy Toys whether to accept the National Toy Association's offer. [10 Marks]

QUESTION 2 (25 marks)

Joyful Journeys Music School (JJMS) provides private music lessons for elementary students. Its operating costs are as follows:

| | |
|----------------------|------------------|
| Rent on facilities | E2,200 per month |
| Advertising | E274 per month |
| Instrument Rent | E750 per month |
| Teaching Instruction | E40 per student |
| Books | E5 per student |
| Other Costs | E3 per student |

Joyful Journeys charges E100 per student per month.

Required

- (a) Determine the JJMS's break-even point in (1) number of students taught per month and (2) Emalangeni.

[10 Marks]

- (b) JJMS has just received notice that the rent on their facilities will be increasing by E500 per month and the instrument rent will also be increasing E20 per month. Compute the following:

- 1) the JJMS's break-even point in the number of students taught per month based on the new information;

[6 Marks]

- 2) the amount to charge per student assuming that JJMS does not increase the number of students taught.

[9 Marks]

QUESTION 3 (25 marks)

Conklan Company manufactures outdoor fireplaces. For the first 9 months of 2018, the company reported the following operating results while operating at 80% of plant capacity:

| | |
|----------------------|-------------------|
| Sales (75,000 units) | E6,750,000 |
| Cost of goods sold | <u>4,875,000</u> |
| Gross profit | 1,875,000 |
| Operating expenses | <u>750,000</u> |
| Net income | <u>E1,125,000</u> |

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

In October 2018, Conklan Company received a special order for 4,000 fireplaces at E62 each from Langston's Landscape Company. Acceptance of the order would result in an additional E7,000 of transportation costs but no increase in fixed operating expenses.

Required

- (a) Prepare an incremental analysis for the special order. [22 Marks]

- (b) Based on your answer in (a) above, advise Conklan Company whether to accept or reject the special order. Give two reasons to support your advice. [3 Marks]

QUESTION 4 (25 marks)

Moorcroft Company's budgeted sales and direct materials purchases for the period April to June 2019 are as follows:

| | <u>Budgeted Sales</u> | <u>Budgeted Direct Material Purchases</u> |
|-------|-----------------------|---|
| April | E300,000 | E45,000 |
| May | 320,000 | 54,000 |
| June | 370,000 | 60,000 |

Moorcroft's sales are 40% cash and 60% credit. Credit sales are collected 20% in the month of sale, 50% in the month following sale, and 26% in the second month following sale; 4% are uncollectible.

Moorcroft's purchases are 50% cash and 50% on account. Purchases on account are paid 40% in the month following the purchase and 60% in the second month following the purchase.

Required

- a) Prepare a schedule of expected collections from customers for April to June 2019. [11 Marks]

- b) Moorcroft's assistant accountant suggested that Moorcroft hire a part-time collector to encourage customers to pay more promptly and to reduce the amount of uncollectible accounts. Sales are still 40% cash and 60% credit but the assistant accountant predicted that this would cause credit sales to be collected 30% in the month of the sale, 50% in the month following sale, and 18% in the second month following sale; 2% are uncollectible.
 - i) Prepare a schedule of expected collections from customers for April to June 2019. [11 Marks]
 - ii) Briefly explain how these changes impact cash collections. [1 Mark]
 - iii) Based on your results in (ii) above, advice the company whether it is worth paying the part-time collector E1,000 per month [2 Marks]