

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

DEGREE AND

YEAR OF STUDY : MASTER OF BUSINESS ADMINISTRATION

TITLE OF PAPER : ADVANCED MANAGEMENT ACCOUNTING

COURSE CODE : ACF634

TOTAL MARKS : 100 MARKS

TIME ALLOWED : THREE (3) HOURS

- INSTRUCTIONS :
- 1 This paper consists of **FOUR (4)** numbered pages, including this page.
 2. There are **THREE (3)** questions, answer **ALL** 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- [36 Marks]

Boo Millers Ltd manufactures super white maize mealie-meal. The company buys maize grain from local farmers in Mbabane in Eswatini. The maize mealie-meal manufacturing process goes through three processing stages before it is completed. It is then sold in 10kg bags in the Eswatini local market. The process below relates to the first grinding stage that occurred in January 2019.

“Grinding department production data”:

Work in progress Units, 1 January; 100% complete as to materials and 80% complete as to conversion costs	10,000
Units started into production during January	100,000
Units completed and transferred out	95,000
Units of work in progress , 31 January; 60% complete as to materials and 20% complete as to conversion costs(Labour and Overheads)	?
Cost information:	
Work in progress inventory, 1 January:	
Materials cost	E1,500
Labour cost	E1,800
Overhead cost	E5,400
Costs added during January:	
Materials cost	E154,500
Labour cost	E22,700
Overhead cost	E68,100

Labour costs and overhead costs are incurred uniformly throughout the grinding process. Materials are added at several stages during the grinding process. Boo Millers uses the weighted-average method.

Required:

Prepare the Grinding Department production report for January showing the Total cost broken down into materials, labour and overhead costs.

[36 Marks]

Question 2- 45 Marks

Gogo's kitchen is a popular eatery located at the city centre of Manzini. Gogo, the owner of the business has been trying to understand the costs of the business. She hired an Accounting student from the University of Swaziland. Gogo has heard about Activity Based Costing and would like her new employee to implement it. Together they identified three major activities. The information from last month's data is given below:

Activity cost pool	Activity measure	Total cost	Total activity
Serving a party of diners	Number of parties served	E12,000	5,000 parties
Serving a diner	Number of diners served	E90,000	12,000 diners
Serving a drink	Number of drinks ordered	E26,000	10,000 drinks

The above costs do not include costs such as rent, property taxes and top-management salaries. A group of clients who sit at the same table are counted as a party. Costs such as cleaning linen, are the same whether one person is at a table or the table is full. But costs such as washing dishes, depend on the number of diners served.

According to Gogo the total cost for the month of April organization-sustaining costs was E180 000 and that 12 000 diners had been served. Therefore, the average cost per diner was E15.

Required:

1. According to the activity-based costing system, what is the total cost of serving each of the following parties of diners?
 - a) A party of four diners who order three drinks in total.
 - b) A party of two diners who do not order any drinks.
 - c) A lone diner who orders two drinks.

[18 Marks]

2. Convert the total costs you computed in (1) above to costs per diner. In other words, what is the average cost per diner for serving each of the following parties?
 - a) A party of four diners who order three drinks in total.
 - b) A party of two diners who do not order any drinks.
 - c) A lone diner who orders two drinks.

[6 Marks]

3. Why do the costs per diner for the three different parties differ from each other and from the overall average cost of E15.00 per dinner?

[12 Marks]

Question 3- 28 marks

Mbabane Ltd is a company that manufactures tools for use in the Eswatini Agricultural sector. The company purchased a lathe machine a year ago for E60 000. This machine operates very well. However, a new more advanced machine came on the market this year. This latest machine is capable of slashing annual operating costs by two thirds. The data is presented below as follows:

	Present machine	Proposed new machine
Purchase cost new	E60,000	E90,000
Estimated useful life new	6 years	5 years
Annual operating costs	E42,000	E14,000
Annual straight-line depreciation	10,000	18,000
Remaining book value	50,000	—
Salvage value now	10,000	—
Salvage value in 5 years	0	0

In an attempt to make a decision on whether or not to purchase the new machine the MD has prepared the following analysis:

Book value of the old machine	E50,000
Less salvage value	<u>E10,000</u>
Loss from disposal	<u>E40,000</u>

Sales are expected to be E200 000 per year, and selling and administrative expenses are expected to be E126 000 per year, regardless of which machine is used.

Required

1. Prepare a summary profit statement covering the next five years, assuming:
 - (a) That the new machine is not purchased.
 - (b) That the new machine is purchased.

[22 Marks]

2. Determine the desirability of purchasing the new machine using only relevant costs in your analysis

[6 marks]