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UNIVERSITY OF ESWATINI

DEPARTMENT OF ACCOUNTING & FINANCE

MAIN EXAMINATION PAPER

NOVEMBER\_ DECEMBER\_ 2019

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<b>DEGREE/YEAR OF STUDY:</b>	BACHELOR OF COMMERCIAL YEAR II/ IDE LEVEL II
<b>TITLE OF PAPER</b>	: INTRODUCTION TO COST AND MANAGEMENT ACCOUNTING
<b>COURSE CODE</b>	: ACF 213 (M) NOVEMBER/DECEMBER 2019
<b>TOTAL MARKS</b>	: 100 MARKS
<b>TIME ALLOWED</b>	: THREE (3) HOURS
<b>INSTRUCTIONS</b>	1 There are four (4) questions. Answer all. 2 Begin the solution to each question on a new page. 3 The marks awarded for each question are indicated at the end of the question. 4 Show all your workings. The working for any individual amount should be properly referenced to the answer; otherwise it will be ignored in the award of marks. 5 For theory questions, responses should be in bullet form and each unique point should be presented under a separate bullet/paragraph. Failure to do so will result in a loss of marks. 6 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 language together with the layout and presentation of your final answer.

**SPECIAL REQUIREMENTS:** CALCULATOR

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

**QUESTION 1**

Simiso Limited, a furniture making business manufacturers quality furniture for customer's orders. It has three production departments and two service departments. Budgeted overhead costs for the coming year are as follows:

	Total ( E )
Rent and rates	12,800
Machine insurance	6,000
Telephone charges	3,200
Depreciation	18,000
Production supervisor's salaries	24,000
Heating and lighting	6,400
	70,400

The three production departments – A, B and C, and the two service departments- X and Y, are housed in the new premises, the details of which, together with other statistics and information, are given as follows:

	A	B	C	X	Y
Floor area occupied	3,000	1,800	600	600	400
Machine value (E'000)	24	10	8	4	2
Direct labour hours budgeted	3,200	1,800	1,000		
Labour rates per hour	E 3.80	E 3.50	E 3.40	E 3.00	E 3.00
Allocated overheads: Specific to each department (E'000)	2.8	1.7	1.2	0.8	0.6
Apportionment of service department X's costs	50%	25%	25%		
Apportionment of service department Y's costs	20%	30%	50%		

**Required:**

- i) Prepare a statement showing the overhead costs budgeted for each department, showing the basis for apportionment [20 Marks]
- ii) Two pieces of furniture are to be manufactured for customers. Direct costs are as follows:

	Job 123 E 154	Job 124 E 108
Direct material		
Direct labour	20 Hours in department A 12 Hours in Department B 10 Hours in Department C	16 Hours in department A 10 Hours in Department B 14 Hours in Department C

Calculate the total costs for each job [10 Marks]

**Total:** [30 Marks]

**QUESTION 2**

A company sells a single product at a price of E 14 per unit. Variable manufacturing costs of the product are E 6.40 per unit. Fixed manufacturing overheads, which are absorbed into the cost of production at a unit rate (based on normal activity of 20 000 units per period) are E 92 000 per period. Any over-or under-absorbed fixed manufacturing overhead balances are transferred to profit and loss at the end of each period, in order to establish the manufacturing profit. Sales and production (in units) for the two periods are as follows:

	<b>Period 1</b>	<b>Period 2</b>
	<b>E</b>	<b>E</b>
Sales	15,000	22,000
Production	18,000	21,000

The manufacturing profit for period 1 was reported at E 35 800

**Required:**

- i) Prepare a trading statement to identify the manufacturing profits for period 2 using the existing absorption costing method **[7 Marks]**
- ii) Determine the manufacturing profits that would be reported in period 2 if marginal costing was used **[5 Marks]**
- iii) Explain with supporting calculations why the profits in i) and ii) are different **[6 Marks]**
- iv) Explain with supporting calculations the reasons for a change in profits between period 1 and 2 when absorption costing is used in each period. **[7 Marks]**

Total:

**[25 Marks]**

**QUESTION 3**

*NB: This question consists of two independent parts.*

**PART A**

Shiselweni Company has two divisions, Mazombizwe and Mahlalini. The Mazombizwe division produces three types of chemicals: products L, M and S, using a common process. Each of the products can either be sold by Mazombizwe to the external market at split off point (after a common process is complete) or can be transferred to Mahlalini for individual further processing into product LX, MX and SX. In November, which is a typical month, Mazombizwe's output was follows:

Product	KG
L	1 200
M	1 400
S	1 800

The market selling prices per kg for the products, both at split-off point and after further processing are as follows;

Product	E	Further processing	E
L	5.60	LX	6.70
M	6.50	MX	7.90
S	6.10	SX	6.80

The specific costs for each of the individual further processes are:

Variable costs of E 0.50 per kg of LX

Variable cost of E 0.70 per kg of MX

Variable costs of E 0.80 per kg of SX

Further processing leads to a normal loss of 5% at the beginning of the process for each of the products being processed.

**Required:**

Calculate and conclude whether any of the products should be further processed at Mahlalini in order to optimise the profit of the company as a whole. **[15 Marks]**

**PART B**

Thabiso stays in Ngculwini and works in Mbabane. He is considering booking himself on a newly established shuttle service between Ngculwini and Mbabane at a cost of E 7 500 for 3 months. Yetive, an acquaintance, who also makes the same journey, suggests that they both travel in his car and offers to give him E 1 100 per month as a contribution towards his car expenses. Thabiso is of the view that monthly depreciation on his car is E 3 400. Except for weekend travelling and using the car to attend evening revision classes for his ACCA examinations, the car stays in Thabiso's garage. Thabiso is of the view that using the car for work would result in the following monthly expenses:

	<b>E</b>
Petrol and oil	2,400
Tyres and miscellaneous	667

**Required:** With appropriate calculations, determine whether it would be financially prudent for Thabiso to accept Yetive's offer. **[10 Marks]**

**Total:**

**[25 Marks]**

- i) explain, with supporting calculations the change in profits from accepting the order for 5 000 packs at E 330; **[3 Marks]**
- ii) explain, with supporting calculations The change in profits from accepting an order of 15 000 packs at E 340; **[3 Marks]**
- iii) Briefly explain and justify which proposal, if either, should be accepted; **[3 Marks]**
- iv) Identify two non-financial factors that should be taken into account before making a final decision. **[3 Marks]**

Total:

**[25 Marks]**