



UNIVERSITY OF ESWATINI

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

MAIN EXAMINATION

AUGUST 2020

- TITLE OF PAPER : MANAGERIAL ACCOUNTING
- COURSE CODE : ACF622
- TOTAL MARKS : 100 MARKS
- TIME ALLOWED : THREE (3) HOURS
- INSTRUCTIONS
- 1 There are five (5) questions, answer any four (4)
 - 2 Begin the solution to each question on a new page.
 - 3 The marks awarded for a question are indicated at the end of each question.
 - 4 Show the necessary working.
 - 5 Calculations are to be made to zero 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 general quality of expression, together with layout and presentation of your answer.

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SPECIAL REQUIREMENTS: CALCULATOR

QUESTION 1

a) The Management Accountant plays an important role in the modern business environment and his/her activities may be categorized as providing information under the key headings of planning, control and decision making. You have just been appointed to a new role as Management Accountant in Sunshine Ltd, a large engineering company producing a wide range of parts for the automobile industry. This new role has been created following a majority decision of the Board of Directors based on the advice of the company's auditors. However, the Managing Director comes from a marketing background and does not understand why the company needs another accountant as there is already a Financial Accountant employed on a full time basis. She voted against the creation of the new position and considers the cost of your remuneration to be an unwelcome burden which will only serve to reduce the company's reported profits. According to her the equation $Y = a - bx$ which management accountant always uses are not relevant in modern day business environment.

You are aware of the strong opinion of the Managing Director and as your first task, you decide to attempt to convince her of the importance of Management Accounting in the modern business environment and also suggest some ways that you can ensure your future role in Sunshine Ltd is financially viable.

Required:

Prepare a Memorandum to the Managing Director in which you address her concerns using the following guidelines:

- b) Distinguish clearly between Financial Accounting and Management Accounting under any FOUR different headings. (10 marks)
- c) For each of the THREE key headings of planning, control and decision making; outline one Management Accounting technique and how it would lead to stronger commercial success for the company. (9 marks)
- d) Costs may be classified as fixed or variable. This classification method is useful for decision making because variable costs are relevant cost whereas fixed costs are irrelevant. Explain this statement. (6 marks)

[Total: 25 marks]

QUESTION 2

b) While managers can use different leadership styles, they all share the task of utilizing information to make decisions that achieve organizational goals. Accounting information for decision making will differ in terms of its details depending on the user.

Required:

Explain five (5) qualities of Management Accounting information. (10 marks)

c) Explain in brief the following terminologies as used in performance evaluation, highlighting their managerial objectives and the performance measurement indexes:

i) Cost centre (3 marks)

ii) Revenue/profit centre (3 marks)

iii) Investment centre (3 marks)

iv) Cost allocation (3 marks)

v) Cost apportionment (3 marks)

[Total: 25 marks]

QUESTION 3

Mr. Dlamini decided on 1 July, to invest his insurance compensation of E 4,000,000 in a retail business to buy and sell second hand shovels. The following transactions took place from that month to December 2019.

Purchases			Sales		
Date	Quantity	Cost	Date	Quantity	Value
July 5	200	720,000	Aug 2	500	2,500,000
Aug 1	400	1,520,000			
Sept 3	600	2,400,000			
Oct 4	400	1,400,000	Oct 12	600	2,700,000
Dec 7	500	1,400,000	Dec 12	400	1,500,000

Required

Calculate the cost of shovels issued during the period and the cost of shovels on hand on 31/12/2019 using the following methods of pricing

- i. FIFO (5 Marks)
- ii. LIFO (5 Marks)
- lii Weighted average (calculation to 2 decimal places) (5 Marks)
- iv. Calculate and discuss the effect, each of the pricing methods will have on the reported profit of the business (5 Marks)
- v. Examine critically the performance of the business during the period (5 Marks)

[Total marks 25]

QUESTION 4

Kings Limited is a listed company that assembles domestic electrical goods which it then sells to both wholesale and retail customers. Kings Ltd's management was disappointed in the company's results for the year ended 31 March 2019. In an attempt to improve performance the following measures were taken early in the year ended 31 March 2020:

A national advertising campaign was undertaken,

Rebates to all wholesale customers purchasing goods above set quantity levels were introduced,

The assembly of certain lines ceased and was replaced by bought in completed products. This allowed Kings Ltd to dispose of surplus plant.

Kings Ltd's summarised financial statements for the year ended 31 March 2020 are set out below:

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2020

	Em
Revenue (25% cash sales)	4,000
Cost of sales	<u>(3,450)</u>
Gross profit	550
Operating expenses	<u>(370)</u>
Operating profit	180
Profit on disposal of plant (see first note))	40
Financial charges	<u>(20)</u>
Profit before tax	200
Income tax expense	<u>(50)</u>
Profit for the year	<u>150</u>

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020

	Em	Em
Non-current Assets		
Property, Plant and equipment (note (ii))		550
Current Assets		
Inventory	250	
Trade receivables	360	
Bank	<u>nil</u>	<u>610</u>
Total Assets		<u>1,160</u>
Equity and Liabilities		
Stated capital (400m shares)		100
Income Surplus		<u>380</u>
		480
Non-current liabilities		
8% loan notes		200
Current liabilities		
Bank overdraft	10	
Trade payables	430	
Current tax payables	<u>40</u>	<u>480</u>
Total equity and liabilities		<u>1,160</u>

Below are ratios calculated for the year ended 31 March 2019:

Return on year end capital employed (profit before interest and tax over total assets less current liabilities)	28.1%
Net assets (equal to capital employed) turnover	4 times
Gross profit margin	17%
Net profit (before tax) margin	6.3%
Current ratio	1.6:1
Closing inventory holding period	46 days
Trade receivables' collection period	45 days
Trade payables' payment period	55 days
Dividend yield	3.75%
Dividend cover	2 times

Notes

Kings Ltd received E 120m from the sale of plant that had a carrying amount of E 80m at the date of its sale.

The market price of Kings Ltd's shares throughout the year averaged E3.75 each. There were no issues or redemption of shares or loans during the year.

Dividends paid during the year ended 31 March 2020 amounted to E 90m maintaining the same dividend paid in the year ended 31 March 2019.

Required:

- (a) Calculate ratios for the year ended 31 March, 2020 (showing your workings) for Kings Ltd, equivalent to those provided above. (20 marks)
- (b) Analyse the financial performance and position of Kings Ltd for the year ended 31 March 2020 compared to the previous year. (5 marks)

[Total: 25 marks]

QUESTION 5

Swazi (Pty) Ltd. specializes in the manufacture of Emajobo for export and the local market. The following information relates to the Company's budget for a given month.

Budgeted Production Quantity - 120,000 metres

Direct material:

Material A 0.5 kg (E1,200 per kg)

Material B 0.5 kg (E1,600 per kg)

Direct labour: - 30 mins per metre. (E6,000 per hour)

Variable Overheads - E30 million

Fixed Overheads: - E15 million

Direct labour 4000000 (E5000 per hour)

Actual production - 130,000 metres

Direct Material Purchased:

Material A 80,000 kg Costing E88 million

Material B 70,000 kg Costing E98 million

Variables overheads - E28 million

Fixed Overheads - E18 million

Required to compute the following variances from the above data:

- a. Total Direct Material Cost Variance (4 Marks)
- b. Direct Material Price Variance (4 Marks)
- c. Direct Material Usage Variance (4 Marks)
- d. Total Direct Labour Variance (5 Marks)
- e. Direct Labour Rate Variance (4 Marks)
- f. Direct Labour Efficiency Variance (4 Marks)

[Total: 25 marks]