



UNIVERSITY OF ESWATINI

**FACULTY OF COMMERCE
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION
AUGUST 2020**

TITLE OF PAPER : ADVANCED MANAGEMENT ACCOUNTING

COURSE CODE : ACF 634

TOTAL MARKS : 100 MARKS

TIME ALLOWED : THREE (3) HOURS

INSTRUCTIONS

- 1 There are four (4) questions, answer all.**
- 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.

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

SPECIAL REQUIREMENTS: CALCULATOR

QUESTION 1

Dlamini Brothers Ltd (Pty), a stationery/textbooks company, has been in business for the past ten years but has not practised any system of budgetary planning and control. Upon the advice of a management consultant, the company decided to adopt this system, beginning from its 2017/2018 financial year. The company's Statement of Financial Position as at 31st October 2017 is as presented below:

Fixed Assets at book value:	E'000	E'000	E'000
Freehold Land & Building*			64,000
Furniture Fittings & Equipment			8,000
Motor Vehicles			<u>24,000</u>
			96,000
Current Assets:			
Stock		6,400	
Trade Debtors		40,000	
Treasury Bills		<u>9,000</u>	
		55,400	
Less			
Current Liabilities:			
Trade Creditors	8,000		
Bank Overdraft	<u>16,400</u>	<u>24,400</u>	<u>31,000</u>
Capital			
			127,000

The Land is valued at E 24,000,000.

The company has a sales policy which blends both cash and credit terms in the following manner:

Month of Sale	Cash Sales [%]	Credit Sales [%]
November	30	70
December	45	55
All other	20	80

Credit customers in any particular month are expected to pay up in the following month.

This sales policy has contributed to the company's performance and the following sales projections have been provided:

	November	December	January	February	March	April
['000]	32,000	32,000	40,000	80,000	24,000	24,000

The price structure of the company's goods covers its cost and profit patterns, namely, the stationery/books, wages and profit in the ratio 25%, 55% and 20% respectively.

A discount deal has been struck with all the Company's suppliers to the effect that the company enjoys a 3% discount on half of each month's purchase paid on the spot. The balance is paid in full in the following month.

The company has decided that half of the stocks to be sold in December will be acquired in November because of excessive pressure that suppliers will face in December.

Wages have never been accrued beyond the month. Other expenditures will be E 5,200,000 for the first 3 months and thereafter the vehicle running expenses which amount to 50% of these other expenditures will go up by 10% every month.

The company plans to purchase two computers on 31st January at a cost of E5, 000,000. In anticipation of this, the company hopes to redeem E 5,000,000 worth of its treasury bills at the end of December when such bills will be three months.

Required

You are to prepare:

- (a) A cash budget for the six months of the 2016/2017 financial year. (15 Marks)
- (b) A profit and loss account (Income Statement) for the six months. (10 Marks)
- (c) A Statement of Financial Position as at 30 April 2017. (10 Marks)

[Total 35 Marks]

QUESTION 2

a) Jungle Twist Ltd manufactures quality blocks for the housing industry in Eswatini. It operates a standard marginal costing system. The following standard costs, volume and revenue data for the quarter ending 31 October, 2019 are provided:

Standard cost card:

Selling price		E18 per block
Costs:		
Direct material	P	3 kg at E2.60 per kg
	Q	2 kg at E2.50 per kg
Direct labour		2 hours at E0.60 per hour

Budgeted sales for the quarter: 62,500 blocks

Variable overheads are absorbed at the rate of E0.50 per direct labour hour. Fixed production overheads for the quarter are estimated to be E78, 500

The following actual results were recorded for the quarter just ended 31 October, 2019:

Production	:	60,000 blocks
Sales	:	58,000 blocks
Price	:	E17.00 per block
Direct material	P	150,000 kg were bought and used at E360,000
	Q	109,000 kg were bought and used at E327,000
Direct labour		108,000 hours were worked for at a cost of E90,400
Variable overheads		E82,000
Fixed production overheads		E80,000

Required:

Calculate the following variances for the quarter just ended 30 September, 2019 the:

- Price and usage variances for each material; (8 marks)
 - Mix and yield variance for each material; (8 marks)
 - Labour rate, labour efficiency and idle time variances; and (6 marks)
- b) Describe the *balanced score card approach* to performance measurement. (3 marks)

[Total: 25 marks]

QUESTION 3

a) Explain the term '*price-discrimination*' and explain **THREE (3)** conditions that are necessary for the successful operation of this pricing strategy. **(5 marks)**

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 **THREE** qualities of Management Accounting information. **(3 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 **(2 marks)**

ii) Revenue/profit centre **(2 marks)**

iii) Investment centre **(2 marks)**

d) Transfer pricing is the method used to sell a product from one subsidiary to another within a company. It impacts the purchasing behavior of the subsidiaries, and may have income tax implications for the company as a whole.

Required:

i. Describe any **THREE** methods of transfer pricing and discuss their limitations. **(6 marks)**

ii. Identify and explain **THREE (3)** objectives of *transfer pricing*. **(6 marks)**

[Total: 25 marks]

QUESTION 4

Africa Ltd (Pty) manufactures high quality coffee biscuits that are sold to hotels and restaurants in Manzini. Two months ago the company had prepared a budget for the forthcoming financial year.

Details of the budget is presented below:

	E
Sales	6,000,000
Less:	
Direct materials	2,080,000
Direct labour	1,160,000
Variable overheads	840,000
Fixed overheads	972,600
Total costs	5,052,600
Profit	947,400

The budget above has been prepared on the assumption that sales will be 800,000 packets of biscuits. However, due to changing economic conditions, the sales forecast for the year is now 720,000 packets of biscuits. It is expected that selling price per unit, direct costs per unit and variable overhead cost per unit will not change from those budgeted. It is also expected that fixed overheads will be the same as those budgeted.

Management is now considering a number of options so as to improve profitability for the forthcoming financial year:

Option 1:

Decrease the selling price by 20%. It is anticipated that this would increase sales volume by 25% on the forecast sales for the current year.

Option 2:

Decrease all variable costs by 10% and decrease fixed costs by 10%. This is not expected to have any impact on the sales level.

Option 3:

Decrease the selling price by 10% and decrease fixed costs by 5%. This is expected to increase sales volume by 25% on the forecast sales for the current year.

Required:

- a) Calculate the expected profit for the current year (forecast sales). (4 marks)
- b) Based on the forecast activity for the year, calculate:
 - i) The breakeven point in packets of biscuits.
 - ii) The margin of safety in percentage terms.
 - iii) The sales revenue required to earn a profit of E1, 440,000. (12 marks)
- c) Evaluate the *profitability* of the three options and recommend the option that Africa Ltd should adopt. (9 marks)

[Total: 25 marks]