

UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION PAPER DECEMBER 2017

DEGREE/ DIPLOMA AND

YEAR OF STUDY : MBA First Year

TITLE OF PAPER : Managerial Accounting

COURSE CODE : ACF 601 (M) DECEMBER 2017

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 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.

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SPECIAL REQUIREMENTS: CALCULATOR

QUESTION 1

(a) Discuss seven benefits and seven criticisms of activity-based costing. (14 marks)

(b) KY makes several products including Product W. KY is considering adopting an activity-based approach for setting its budget. The company's production activities, budgeted activity costs and cost drivers for next year are given below:

<u>Activity</u>	<u>Cost(E)</u>	<u>Cost Driver</u>	<u>Cost Driver Quantity</u>
Set –up costs	200, 000	No. of set-ups	800
Inspection/quality control	120, 000	No. of quality tests	400
Stores receiving	252, 000	No. of purchase requisitions	1800

Machines are reset after each batch. Quality tests are carried out after every second batch. The budgeted data for Product W for next year are:

Direct Materials	E2.50 per unit
Direct Labour	0.03 hours per unit E18 per hour
Batch Size	150 units
Number of purchase requisitions	80
Budgeted productions	15000 units

REQUIRED:

Calculate, using activity-based costing, the budgeted total production cost per unit for Product W. (11 marks)

(Total 25 Marks)

QUESTION 2

(a) Explain how CVP analysis can be used for managerial planning. (6 marks)

(b) State six assumptions of CVP analysis. (6 marks)

(c) Abacus Ltd, a manufacturing firm, produces two products, Alpha and Gamma, and the following budget applies:

	Product	
	Alpha	Gamma
	(£)	(£)
Selling price	6	12
Variable costs	<u>2</u>	<u>4</u>
Contribution margin	<u>4</u>	<u>8</u>
Fixed costs apportioned	£100 000	£200 000
Units sold	70 000	30 000

REQUIRED:

(i) Calculate the break-even points for each product and the company as a whole. (6 marks)

(ii) Comment on your findings, and state when CVP analysis would yield correct results? (7 marks)

(Total 25 Marks)

QUESTION 3

Karamajong Ltd, produces garments and had budgeted the following amounts at the beginning of the year:

Variable cost of production of each garment:

Direct materials	3 pounds@ 0.60 per pound
Direct labour	0.5 hr. @ E16.00 per hour
Variable overhead	0.5 hr.@E2.20
Fixed overhead:	
Materials handling	E 6,200
Depreciation	E 2,600

At the end of the year, Karamajong Ltd had the following actual costs for production of 3,800 tons of garments:

Direct materials	E 6,800
Direct labour	30,500
Variable overhead	4,200
Fixed overhead:	
Materials handling	6,300
Depreciation	2,600

REQUIRED:

- Calculate the budgeted amounts for each cost category listed above for the 4,000 budgeted tons of garments. (6 marks)
- Prepare a performance report using a budget based on expected production of 4,000 tons of garments. (9.5 marks)
- Prepare a performance report using a budget based on the actual level of production of 3,800 tons of garments. (9.5 marks)

(Total 25 Marks)

QUESTION 4

New Image Products Inc. is evaluating a new design for one of its manufacturing processes. The new design will eliminate the production of a toxic solid residue. The initial cost of the system is estimated at E860,000 and includes computerized equipment, software, and installation. There is no expected salvage value. The new system has a useful life of 8 years and is projected to produce cash operating savings of E225,000 per year over the old system (reducing labour costs and costs of processing and disposing of toxic waste). The cost of capital is 16%.

REQUIRED:

- i) Appraise the new system using NPV of the new system. (4 marks)
- ii) One year after implementation, the internal audit staff noted the following about the new system: (a) The cost of acquiring the system was E60,000 more than expected due to higher installation costs, and (b) the annual cost savings were E20,000 less than expected because more labour cost was need than anticipated. Using the changes in expected costs and benefits, compute the NPV as if this information had been available one year ago. Comment on the decision taken by the company? (5 marks)
- iii) Upon reporting the results mentioned in the post audit, the marketing manager responded in a memo to the internal audit department indicating that cash inflows also had increased by a net of E60,000 per year because of increased purchases by environmentally sensitive customers. Describe the effect that this has on the analysis in Requirement (ii). (6 marks)
- iv) Discuss the benefits of a post audit to a firm? (10 marks)

(Total 25 Marks)