UNIVERSITY EXAMINATIONS

UNIVERSITEITSEKSAMENS

UNISA university of south africa

MAC1501

October/November 2016

INTRODUCTION TO MANAGEMENT ACCOUNTING

Duration : 2 Hours

100 Marks

EXAMINATION PANEL AS APPOINTED BY THE DEPARTMENT.

Use of a non-programmable pocket calculator is permissible.

Closed book examination.

This examination question paper remains the property of the University of South Africa and may not be removed from the examination venue.

This examination question paper consists of 8 (EIGHT) pages.

PLEASE NOTE:

a) This examination question paper is available in both English and Afrikaans.

b) This examination question paper consists of 6 (SIX) questions.

c) Start each question on a new page.

d) Show all your calculations.

e) Write legibly in only black or blue ink. The use of a pencil or any other colour pen is not permitted.

f) PROPOSED TIMETABLE (try not to deviate from this):

Question	Topic	Marks	Time (minutes)
1	True or false questions, based on all learning units	10	12
2	Multiple choice questions, based on all learning units	10	12
3	Cost classification and assignment of overheard costs	17	20
4	Payroll accounting and accounting for purchased inventory	30	36
5	Ratio analysis and inventory management	15	18
6	Budgeting	18	22
	Total	100	120

[TURN OVER]

<u>QUESTION 1</u> (10 marks) (12 minutes)

Consider the following statements carefully and indicate whether they are TRUE **(T)** or FALSE **(F).** Write only the highlighted letter**.**

As an example: 1.1 T

1.1 The South African Revenue Service (SARS) is an external user of the financial statements of a public company. (1)

1.2 The annual financial statements of all public companies must be submitted to the Auditor-General SA for an independent audit. (1)

1.3 Being an integral part of the management process, Management Accounting provides information that is amongst other essential for optimising the use of a company's resources. (1)

1.4 Communication is a very important function of the management accounting system. (1)

1.5 A manufacturing company converts direct materials into finished goods which it then sells for a profit. (1)

1.6 Production overhead costs are those costs that can be directly traced to units of production. (1)

1.7 Mixed costs refer to the total cost of materials, labour and overheads. (1)

1.8 The flow of costs in a manufacturing environment starts with the purchase of materials. (1)

1.9 A manufacturer will disclose unsold finished goods as Inventory of Merchandise in its Statement of Financial Position. (1)

1.10 A company's value statement is a declaration of its core beliefs. It is often used to set out the company's responsibility towards its stakeholders. (1)

[10]

<u>QUESTION 2</u> (10 marks) (12 minutes)

For each of the following questions, read carefully through the information provided and select only the most correct option as your answer. Please list the question numbers below one another, from 2.1 to 2.10 with your corresponding answer next to it, for example: 2.1 (a)

2.1 Which of the following is *not* considered as a production overhead cost for a manufacturer? (1)

(a) Rent of factory building

(b) Insurance of production equipment

(c) Annual audit fee

(d) Salary of factory canteen manager

[TURN OVER]

2.2 A standard costing basis uses pre-determined rates for … (1)

(a) direct materials cost.

(b) direct labour cost.

(c) production overheads cost.

(d) all the elements of production cost.

2.3 Which of the following will lead to an increase in abnormal idle time in a factory? (1)

(a) The time production workers spend on taking tea and going to the toilet.

(b) The time lost between finishing one job and setting up the machines for the next job.

(c) The time employees spend on learning how to operate a new machine.

(d) The time it takes to repair a machine after a breakdown.

2.4 The process of relying on feedback to ensure a plan is being implemented is referred to as … (1)

(a) planning.

(b) directing.

(c) controlling.

(d) measuring.

2.5 Consider the cost/volume behaviour below: (1)

Cost	**Volume**
R10	1 unit
R100	10 units
R1 000	100 units

This behaviour is typical of a … cost.

(a) fixed

(b) variable

(c) mixed

(d) step

2.6 A report prepared by the management accountant is more likely to … (1)

(a) be used to assess the operating results of the most recent financial year.

(b) consider the entire organisation as the reporting entity.

(c) be used by decision makers outside the organisation.

(d) be tailored to the specific needs of an individual decision maker inside the organisation.

2.7 … is *not* considered part of the production budget. (1)

(a) Manufacturing costs

(b) Distribution costs

(c) Inventory levels

(d) Production supervisor salaries

2.8 The financial manager is *not* involved in the … decision. (1)

(a) investment

(b) financing

(c) production mix

(d) dividend

2.9 The focal point of financial management in a company is … (1)

(a) the number and types of products and services provided by the company.

(b) minimising the amount of taxes the company has to pay.

(c) the creation of value for the shareholders of the company.

(d) maximising profits of the company.

2.10 A management accountant who communicates information without bias is complying with the … ethical standard. (1)

(a) objectivity

(b) competence

(c) confidentiality

(d) integrity

[10]

<u>QUESTION 3</u> (17 marks) (20 minutes)

This question consists of two separate questions, both of which must be answered.

<u>PART 3.1</u> {7}

3.1.1 Explain the difference between product costs and period costs in a manufacturing environment. (5)

3.1.2 One method to assign production costs to units of production is through direct tracing of the cost, for example the cost of direct materials are assigned to products through direct tracing. Name two methods that are used to assign production overhead costs to units of production. (2)

PART 3.2 {10}

Baboo Lall operates a hotdog stand in Brooklyn Mall, Pretoria. Each hotdog sells for R15. The total cost of direct materials (the bread roll, sausage, condiment and wrapper) is R4 per hotdog. Rental for the hotdog stand amounts to R12 000 per month. Fixed wages of employees amount to R16 000 per month. Other overhead costs and sales units for the last three months were as follows:

	Number of hotdogs sold	**Total overhead cost**
	Units	R
September	2 850	5 550
October	3 000	5 800
November	3 550	6 390

Sales for December is expected to be 3 500 hotdogs.

REQUIRED:

3.2.1 Use the high-low method to calculate the fixed and variable costs of the other overhead costs. (5)

3.2.2 Calculate the expected profit of Baboo's hotdog stand for December. Use the following format to answer this question: (5)

	R
Total sales	
Less: Variable costs	
Less: Fixed cost	
Profit	

QUESTION 4 (30 marks) (36 minutes)

This question consists of two separate questions, both of which must be answered.

PART 4.1 {15}

Mr Mkhize is employed by Amambo Limited. Mr Mkhize is directly involved in manufacturing the company's leading pharmaceutical drug.

The normal working week of the company is 45 hours. Mr Mkhize's basic wage rate is R45 per hour. The company pays its employees normal time and a half for any work in excess of 45 hours per week. In the week ended 14 October 2016, Mr Mkhize worked 51 hours; however, he was idle for 3 hours due to material shortages.

Additional information:

1. Mr Mkhize makes the following contributions:

Pension fund	8% of normal wage
Medical Aid	6% of normal wage
UIF	1% of gross wage

2. The company makes the following contributions:

Pension fund	15% of normal wage
Medical aid	9% of normal wage
UIF	1% of gross wage

3. Mr Mkhize pays PAYE at 18% of his taxable income.

REQUIRED:

Calculate the following:

4.1.1 The net wage payable to Mr Mkhize for the given week. {8}

4.1.2 The amount that will be allocated to the direct labour cost. {3½}

4.1.3 The amount that will be allocated to factory overhead costs. {3½}

PART 4.2 {15}

The following are the inventory transaction of Tshinakaho, a retailer, for the financial year ended 30 September 2016:

	R
Purchased inventory on account…………………………………………………………………	125 400
Paid for delivery of the inventory in cash…………………………………………………….	2 200
Sales of inventory on account…………………………………………………………………….	25 300
Paid for delivery of sold goods to the customer in cash……………………………………..	1 100
Sold inventory for cash…………………………………………………………………………….	12 650
Sold inventory on account……………………………………………………………………	88 550
Purchased inventory on account……………………………………………………………….	33 000
Paid for delivery of inventory in cash……………………………………………………….	550
Returned unwanted goods to the supplier…………………………………………………….	11 000

On 1 October 2015, the value of physical inventory on hand was R5 500, and on the 30 September 2016, the value of physical inventory on hand was R45,650. Tshinakaho applies a mark-up of 20% on cost on all goods sold.

REQUIRED

Prepare the journal entries of Tshinakaho for the above transactions according to the perpetual system.

<u>QUESTION 5</u> (15 marks) (18 minutes)

The following financial ratios, based on the audited financial statements of Abaphaki Limited, are presented to you:

	2016	**2015**
Current ratio	1,2 : 1	3 : 1
Quick ratio	0,57 : 1	1,31 : 1

REQUIRED:

5.1 Write down the formulas that are used to calculate the current ratio and the quick ratio. (2)

5.2 What does the current ratio indicate to an analyst? (1)

5.3 What does the quick ratio indicate to an analyst? (1)

5.4 Discuss in full your interpretation of the current ratio for 2015. For purposes of this discussion you must *not* compare the current ratio for 2015 with any of the other ratios. (3)

5.5 Consider all our ratios given and comment on the company's inventory management. (5)

5.6 Name one risk of carrying too little inventory. (1)

5.7 Explain the basic economic order quantity (EOQ) model as an inventory management strategy to mitigate the risk of holding too much or too little inventory on hand. Your explanation must include the underlying assumptions of the EOQ-model. (2)

[15]

<u>QUESTION 6</u> (18 marks) (22 minutes)

MaNdlovu Limited manufactures and sells a single product. The details of the product are as follows:

- The selling price per unit is R250.
- The budgeted sales volume for each quarter of 2017 is as follows:

Quarter	**Units**
1..	20 000
2..	25 000
3..	30 000
4...	20 000

- Each unit of finished goods requires four kilograms of raw materials. This material is purchased from an outside supplier at R25 per kilogram.
- Each unit requires three direct labour hours and labour is currently paid R30 per hour.
- Inventories of finished goods:

  The company requires its closing inventory of finished goods to be equal to 20% of the next quarter's sales

  Opening inventory of finished goods for the first quarter is 2 000 units.

[TURN OVER]

- Inventories of raw materials

  The closing inventory of raw materials is expected to be 10% of the next quarter's production requirements.

  Opening inventory of raw materials for the first quarter is 10 000 kilograms.

- Variable manufacturing overheads vary with direct labour hours. Overhead rate per hour is R10.00

REQUIRED:

Prepare the following operational budgets for 2017 quarter 1 and quarter 2:

6.1 Sales budget (2)

6.2 Production budget (4)

6.3 Material purchase budget (7)

6.4 Direct labour budget (3)

6.5 Variable manufacturing overhead budget (2)

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EXAMINATION PANEL AS APPOINTED BY DEPARTMENT

EXAMINERS:

FIRST: MS JE KLEYNHANS
MS SB NTULI
MS NM MAPONYA
MR SKM SITHOLE

SECOND: MR S NDLOVU