



Assignment 2 Questions

**Selected accounting & financial
management techniques**

MAC3703


Semester 2

Department of Management Accounting

IMPORTANT INFORMATION:

Please activate your myUnisa and myLife email addresses and make sure that you have regular access to the myUnisa module site MAC3703-18-S2 (registered for second semester), as well as your group site.

BAR CODE



COMPULSORY ASSIGNMENT 02/2018 FOR THE SECOND SEMESTER

TOTAL MARKS: 80 marks
DUE DATE: 07 September 2018

MAC3703 – Unique number – 735498

Before attempting this assignment, make sure that you have studied topics 1 – 5 from MAC3703 study guide.

The assignment contains five (5) written questions. We would like to encourage you to submit your assignment via *myUnisa*, where you have to upload your answers in the format of a **single PDF-document**.

Only selected questions or parts of questions will be marked. However, it is important that in order to obtain any marks all questions must be answered and be of an equally high standard.

You need to answer the questions in your **own words!** Pay attention to the verb list on pages vii & viii in the CIMA Reader when answering the questions.

Lecturers' contact details

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QUESTION 1 – PRICING DECISION AND PRICING STRATEGY (20 MARKS)

Melodi Sound (MS) manufactures speakers and is about to launch a new cordless speaker called SB4. SB4 is the company's first cordless speaker and it is the most technologically advanced speaker ever developed by MS. The company expects the unique technology and exclusive design to attract both new and existing MS customers.

Given the unique nature of these cordless speakers, MS has no experience of the price demand relationship of this product. However, based on experience from previous products, it expects that during the product's introductory phase, at a selling price of R2 000, the demand would be 20,000 units per month. For every R320 increase in selling price the monthly demand would reduce by 3,500 units, and for every R320 decrease in selling price the monthly demand would increase by 3,500 units.

The variable costs of production for one unit of SB4 are as follows:

Direct materials R 700

Direct labour R 400

Variable overhead R 200

MS is planning an advertising campaign during the introductory phase of SB4. The total cost of the advertising campaign is yet to be finalised with the advertising agency. However, after deducting the cost of this advertising, the Managing Director requires a minimum profit of R 40 000 000 for the introductory phase.

Note: the introductory phase of SB4 is expected to have a duration of three months. There are no other specific fixed costs associated with SB4.

REQUIRED:

- a) **Calculate** the maximum cost of the advertising campaign in order to achieve the Managing Director's profit requirement for the introductory phase of SB4. (10)
Note: If Price = $a - bx$ then Marginal Revenue = $a - 2bx$
- b) **Explain** TWO reasons why it may **not** be appropriate to set the introductory price of SB4 using the assumptions contained in the profit-maximisation model you used in **a)** above. (4)
- c) **Explain** the likely changes that will occur in the unit selling price **AND** unit production cost in the growth stage. (6)

[20]

(CIMA adapted)

QUESTION 2 – TOTAL QUALITY MANAGEMENT (10 MARKS)

Furniture Inc. manufactures and sells office tables using special African wood. The managing director Mrs Koma is concerned about the current profitability of the business and therefore decided to reduce amongst other expenses, the staff training cost.

The following is the information in respect of the year ended 31 December 2017

1. Selling price and cost information per office table:

Selling price	R 15 000
Table frame (wood)	(R 9 000)
Other costs (glue, nail etc)	(R 940)
Table assembly cost	(R1 100)
Delivery cost	<u>(R 250)</u>
Contribution	R 3 710

2. Quality cost information for the year:

Inspection costs (manufacturing)	R 6 250 000
Staff training costs	R 2 119 565

- 1 200 completed office tables were found to have a faulty frame before delivery to the customer. Each faulty frame had to be replaced and the table had to be reassembled. Furniture Inc. is unable to recover the cost of faulty frames from the supplier as the supplier has gone into liquidation.
- Furniture Inc. had to replace 600 tables that had already been delivered to customers due to a failure of the frame.
- Collection cost per faulty table is R 300.
- The estimated market size is 50 000 (i.e. number of office tables expected to be sold).
- The management team at Furniture Inc. estimated that its market share fell by 10% due to adverse consumer reaction as a result of bad publicity.

REQUIRED:

Calculate the total cost of quality and ensure that the costs are allocated under the correct headings. (10)

[10]

QUESTION 3 - BUSINESS PROCESS RE-ENGINEERING (10 MARKS)

“Business process re-engineering is the fundamental rethinking and radical redesign of business process to achieve dramatic improvements in critical contemporary measures of performance, such as cost, quality, and speed.”

(Hammer and Champy: Re-engineering the Corporation, 1993)

REQUIRED:

Explain the contribution a management accountant could make to the planning and implementation of a business process re-engineering programme. (10)

[10]

QUESTION 4 – THROUGHPUT ACCOUNTING (15 MARKS)

TyreBoss manufactures tyres for both sedan and special utility vehicle (SUV) cars. The same machine (K1 and K2) are used to manufacture these two types of tyres. During the next period the time available on the machines is 126 hours for K1 and 195 hours for K2.

The company uses throughput accounting.

Details per unit:

	Sedan Tyre	SUV Tyre
	R	R
Selling price	700.00	900.00
Materials	(350.00)	(500.00)
Labour	(100.00)	(120.00)
Variable production overheads	(20.00)	(25.00)
Fixed production overheads	(30.00)	(40.00)
Profit	200.00	215.00

The machine time needed to make one unit of product is:

	Sedan Tyre	SUV Tyre
K1	0.35 hours	0.40 hours
K2	0.60 hours	0.65 hours

Any mix of output can be sold at the above selling prices and the demand is unlimited for each of the tyres.

REQUIRED:

- a) **State** the principle of throughput accounting and the effects of using it for short-term decision making. (6)
- b) **Briefly describe** the uses to which advocates of throughput suggest that the ratio be used. (4)
- c) **Identify**, using a throughput approach, the production plan for the next period that would result in the most profitable use of the machines, assuming machine K2 is the bottleneck. (5)

[15]

QUESTION 5 TARGET COSTING AND JUST IN TIME (25 MARKS)

PART A

Printworx is a printing company that specialises in producing high quality cards and calendars for sale as promotional gifts. Much of the work produced by Printworx uses similar techniques and for a number of years Printworx has successfully used a standard costing system to control its costs.

Printworx is now planning to diversify into other promotional gifts such as plastic moulded items including cardholders and similar items. There is already a well-established market place for these items but Printworx is confident that with its existing business contacts it can be successful if it controls its costs. Initially Printworx will need to invest in machinery to mould the plastic, and it is likely that this machinery will have a life of five years. An initial appraisal of the proposed diversification based on low initial sales volumes and marginal cost based on product pricing for year 1, followed by increase in both volumes and selling prices in subsequent years, shows that the investment has a payback period of four years.

REQUIRED

- a) **Explain** the relationship between target cost and standard costs and how Printworx can derive target costs from target prices. (5)
- b) **Discuss** the conflict that will be faced by Printworx when making pricing decision based on marginal cost in the short term and the need for full recovery of all costs in the long term. (5)

(10)

PART B

REQUIRED

- a) **State** and briefly explain FIVE main features of JIT production system. (5)
 - b) **State** the financial benefits of JIT. (5)
 - c) Give FOUR reasons why the adoption of TQM is particularly important within JIT production environment. (5)
- (15)**
[25]

TOTAL MARKS: 80