National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

SECOND SEMESTER EXAMINATION: 2012

DATE:	**MAY 2012**
SUBJECT:	**ACCOUNTING 2B: CAC 2206**
TIME ALLOWED:	**THREE HOURS**
MARKS:	**100**

INFORMATION FOR CANDIDATES

1. Answer **all** questions
2. All workings should be shown
3. Begin each Full question on a new page
4. All answers should be presented in good style

Question 1 [25 marks]

On 1 January 2012, the summary of the Statement of Financial Position of SW Ltd was as follows:

Non Current Assets

	Cost	Accumulated Depreciation	NBV
	$	$	$
Machinery	80 000	19 200	60 800
Current Assets			
Stocks		24 200	
Debtors		25 000	
		49 200	
Current Liabilities			
Proposed Dividends	1 000		
Bank overdraft	9 000	10 000	
Working capital			39 200
			100 000
Equity and Reserves			
Share capital			40 000
Reserves			20 000
			60 000
Long term Liabilities			
15% Loan			40 000
			100 000

a) The following are expected during the next three months:

	Sales	**Purchases**	**Expenses**
	$	**$**	**$**
January	150 000	100 000	20 000
February	200 000	150 000	25 000
March	300 000	280 000	30 000

b) Sales collections have the following patterns:

i. During the month of sale 80% (a 4% discount is given for payment in this period

ii. In the subsequent month 20%

c) Payment for purchase is made in the month of purchase in order to take advantage of a 10 % prompt settlement discount, calculated on the purchase figures shown above

d) Stock levels are expected to remain same throughout the period.

e) Depreciation of machinery is calculated at the rate of 12% per annum on cost. The appropriate portion for each month from January to March is included in the expenses figures above.
f) Expenses are paid for in the month in which they were incurred.
g) The proposed dividend will be paid in January
h) Loan interest for the three months will be paid in March.

Required

a) Prepare a cash budget for each of the three months from January to March 2012 **[17]**
b) Prepare a budgeted Statement of Comprehensive Income for the period. **[4]**
c) Prepare a Statement of Financial Position as at 31 March 2012**.** **[4]**

Question 2 [25 marks]

A company is reviewing its stock policy and has the following alternatives available for the evaluation of stock number 230

i. Purchase stock twice monthly 100 units.
ii. Purchase monthly, 200 units.
iii. Purchase every three months, 600 units.
iv. Purchase six monthly ,1 200 units
v. Purchase annually, 2 400 units.

Additional information

a) It is ascertained that the purchase price per unit will be $1 for deliveries up to 500 units. A 5% discount is offered by the supplier on the whole order where deliveries are 501 up to 1 000 and 10% discount for deliveries in excess of 1 000.
b) The ordering costs are $5 per order
c) The holding costs are 25 cents per unit of average stock quantity held.

Required

a) Advise management on the optimum order size **[18]**
b) What are the main aims of Just in Time (JIT) **[7]**

Question 3[25 marks]

The following information provides details of the costs, volume and cost drivers for a particular period in respect of ABC Ltd.

	Product A	Product B	Product C	Total
Production and sales (units)	30 000	20 000	8 000	
Raw material usage per unit	5	5	11	
Direct material cost per unit	$25	$20	$11	$ 1 238 000
Direct labour hours per unit	1⅓	2	1	88 000
Machine hours per unit	1⅓	1	2	76 000
Direct labour cost	$8	$12	$6	
Number of production runs	3	7	20	30
Number of deliveries	9	3	20	32
Number of receipt	15	35	220	270
Number of production orders	15	10	25	50

Overheads costs

	$
Set up	30 000
Machines	760 000
Receiving	435 000
Packing	250 000
Engineering	373 000
	1 848 000

The company has allocated overheads to products on the basis of direct labour hours. However the majority of the overheads are related to machine hours rather than to direct labour hours. The company has recently redesigned its costing system by recovering overheads using machine hours. Both the current and the previous cost system reported low profit margins for product A, which is the company's highest selling product.

Required

- **i.** Compute the product costs using the traditional costing system, absorb overheads on the basis of direct labour hours. **[8]**
- **ii.** Compute product costs using an activity based costing system (ABC) **[13]**
- **iii.** What are the merits and criticisms of ABC **[4]**

Question 4 [25 marks]

P Electronics manufactures 51 cm colour television sets (TVs).The following information is available for 2011:

Units manufactured and sold	14 000 units
Selling price per unit	$1 200
Variable costs per unit	$ 720
Plant improvements	20 000 hours
Testing and inspection per unit	1 hour
Liability claims	$200 000
Rework cost per TV	$180
Reworked TVs	3 105 units
Product improvements	10 000 hours
Warranty repair cost per TV	$200
Repaired TVs	1 296 units
Estimated lost sales from poor quality	1 000 units
Labour rate per hour: Plant improvement	$60 per hour
: Testing and inspection	$40 per hour
: Product improvement	$50 per hour

Additional information

a) Due to bad quality TV sets, the company lost a customer who normally purchase 1 000 units per annum. If the loss of sales could have been prevented, the annual sales would have been 15 000 units per annum

b) P Electronics ‘capacity under current conditions is 15 000units per annum. If all reworks can be eliminated, the capacity can be improved to 16 000 units. The company can implement a process modification that would ensure 100% quality and no rework or warranty repairs. The new process would cost an additional $900 000 per annum. The demand for P Electronics' TV sets is 14 000 units per annum

c) Madhula Furnitures (a prospective new customer) is willing to purchase 2 000 units per annum if P Electronics implements the new design this will increase the annual demand to17 000 units . The contribution margin per TV will be $200 on the 2 000 units. The lost customer also suggested that he will always like in the past purchase 1 000 units per annum provided the new design is implemented. This implies that if the company accepts the offer the 1 000 units cannot be delivered to existing customers since the production capacity is only 16 000 units per annum.

Required

a) Calculate the cost of quality per quality category and show the ratio of each cost of quality as a percentage of sales **[13]**

b) Should P Electronics implement the new design, state clearly where the savings and additional costs are arising from. **[9]**

c) Suppose P Electronics' designers implement the new design. Advise management if they should accept the offer of Madhula Furnitures. **[3]**

END OF EXAMINATION PAPER