NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

DEPARTMENT OF TEXTILE TECHNOLOGY
END OF SEMESTER EXAMINATIONS APRIL 2009
MANAGEMENT ACCOUNTING TXT 4122
TIME: 3 HOURS

INSTRUCTIONS

1. Answer **ALL** questions.
2. Show all workings.
3. Start each question on a new page.

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1. **(20)**

a) Analyse the following costs between:

i)	Direct materials	**ii)**	Direct labour
iii)	Factory indirect expenses	**iv)**	Administration expenses
v)	Selling and distribution expenses	**vi)**	Finance charges

a) Raw materials
b) Factory storekeeper's wages
c) Depreciation of delivery motor vehicles
d) Wages of factory canteen staff
e) Advertising
f) Lubricants of factory machinery
g) Postal charges of parcels sent to customers
h) Carriage inwards on raw materials
i) Debt collection costs
j) Wages of crane drivers in the factory
k) Interest on overdraft
l) Royalty paid for each item manufactured
m) Company secretary salary
n) Discount allowed
o) Wages of factory cleaners
p) Chief accountant\s salary
q) Wages of painters engaged in production
r) Hotels bills incurred by sales staff
s) Audit fees
t) Bank charges

(10)

(b) Costs have different behaviour patterns. Give an example of cost that suit the descriptions given below, and, for each description, draw a graph to show the behavior pattern of that cost.

(i)	period costs,	**(1 ½)**
(ii)	local authority's water bills,	**(1 ½)**
(iii)	hiring charges of a lathe	**(1 ½)**
(iv)	bond paper in a photocopying company	**(1 ½)**
(v)	cost of raw materials where quantity discounts are offered	**(1 ½)**
(iv)	wages of quality control staff in a factory	**(1 ½)**
(v)	factory insurance costs	(**1**)

2. (**15**)

Ndlovu (Pvt) Limited manufactures and sells a single product. During the next year it plans to produce 20 000 units and sell them at $10 000 each. The budgeted income statement is as follows:

	$000	**$000**
Sales		200 000
Less cost of sales:		
Direct materials	68 000	
Direct wages	52 000	
Fixed Production overheads	24 000	144 000
Gross Profit		56 000
Less fixed selling and admin. costs		30 000
Next profit before tax		26 000

Required:

(a) Calculate the contribution per unit. **(2)**
(b) Calculate the number of units to be produced and sold to 'break even' **(2)**
(c) Calculate the expected profit if sales were to be doubled as a result of reducing the selling price by 15%. **(2)**
(d) Ndlovu (Pvt) Limited's marginal tax rate is 40% what sales value would the company have to make in order to earn an after-tax profit of $30m? (Use the budgeted figures). **(4)**
(e) State 5 assumptions underlying the break even analysis. **(5)**

3. **(25)**

A company has to choose between two projects both of which involve an investment of £20,000. The current cost of capital is 10%. The net cash flows of the projects are:

Year	**Project A**	**Project B**
	$	**$**
1	1,000	14,000
2	2,000	4,000
3	2,000	4,000
4	7,000	2,000
5	20,000	8,000

<u>Required</u>

a) For each Project calculate the following:

- i) Payback Period……………………. **(3)**
- ii) Net Present value (NPV) …………… **(6)**
- iii) Profitability Index (P.I.) ………………… **(3)**
- iv) Internal Rate of Return (IRR) ……………. **(7)**

b) State 3 advantages and 3 disadvantages of the Payback method **(6)**

4.

(a) State and explain **3** advantages and **2** disadvantages of activity based costing.**(10)**

(b) Explain **five** differences between ‘Financial Accounting’ and Management Accounting.’ **(5)**

5. **(25)**

Match each item in Column A with its suitable description obtained from Column B. Write down **only** the numbers in column A and against them, the letter from Column B that represents your choice. (e.g. if your answer for 1.10 is (v) then you should write 1.10v).

Column A	Column B
1.1 Cost unit	a) A cost that has been incurred as a result of a past decision.
1.2 Overhead allocation	b) A cost that does not change with changes in output.
1.3 Management Accounting	c) May be caused by using a different grade of labour
1.4 A relevant cost is	d) Contain both elements of fixed and variable.
1.5 A sunk cost is	e) A unit of product or service in relation to which costs are ascertained.
1.6 Profit/Volume ratio	f) A costing technique whereby fixed costs are not absorbed into product costs.
1.7 Service Cost Centre	g) The charging of overheads to cost centers without apportioning them.
1.8 Margin of safety	h) Is concerned with identifying, presenting and interpreting information used for decision-making, planning and controlling activities etc.
1.9 Overhead Absorption	i) The value of the best alternative foregone.
1.10 Labour rate variance	j) Measures the relationship of contribution to sales.
1.11 Cost centre	k) A band of activity in which a specific form of budgeted sales and cost relationship will be valid.
1.12 Marginal Costing	l) A production or service location, function, activity or item of equipment whose costs may be attributed to cost units.
1.13 Fixed cost	m) Is the excess of budgeted sales over the break even sales.
1.14 Periodic Inventory System	n) Aims at producing high quality items, exactly at the right time they are required.
1.15 Indirect material	o) The quantity of work achievable at standard performance in an hour.
1.16 Opportunity cost	p) Any activity for which a separate measurement of cost is desired.
1.17 Relevant Range	q) A system of stocktaking after a specified period of time
1.18 Cost Objective	r) A future cash flow arising as a direct consequence of the decision under review.
1.19 First in, First out (FIFO)	s) A department that gives support to other departments.
1.20 Semi-variable costs	t) Is one that is designed to adjust for changes in volume.
1.21 Break even volume	u) The number of units at which total revenue equals total costs.
1.22 Budget	v) Values issues to production using the price of the oldest stock held in store
1.23 Just In Time	w) The application of overheads to units of production.
1.24 Flexible Budget	x) Is a quantitative expression of a plan of action prepared in advance of the period to which it relates.
1.25 Standard Hour	y) Includes such items like stationery, consumable materials, maintenance materials, lubricating oil, spare parts for machinery etc.