



AFRICA UNIVERSITY

(A United Methodist-Related Institution)

“Investing In Africa’s Future”

FACULTY OF MANAGEMENT AND ADMINISTRATION

COURSE TITLE: MAC 301 MANAGEMENT ACCOUNTING

SEMESTER 1: FINAL EXAMINATION-NOVEMBER 2014
[PARALLEL MUTARE]

LECTURER MR I. RARAMI

TIME: 3 HOURS

INSTRUCTIONS

Answer **ALL** questions

Start each question on a new page in your answer booklet.

The marks allocated to each question are shown at the end of the question

Show all your workings

Credit will be given for presentations that are neat, logical and grammatically well constructed.

MAC 301: MANAGEMENT ACCOUNTING.

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Use of a non-programmable calculator is permissible.

QUESTION 1

Ice Lolo manufacturing company based in Mutare has the following revenue and cost structure.

	PRODUCTS			
	A	B	C	D
Maximum output & sales	7500	6000	8200	8500
	\$	\$	\$	\$
Selling price per unit	25	31	45	52
Variable production costs:				
Direct material	7	12	20	18
Direct labour	6	8	13	16
Overheads	4	3	5	6
Direct material required per unit	4 litres	2.5 litres	2 litres	3 litres

The supply of direct material is limited to 70 000 litres. Budgeted fixed costs amount to \$100 000

Required:

- Determine the optimal product mix. [8 marks]
- Calculate the maximum contribution and profit. [4 marks]

QUESTION 2

a). The cost to manufacture A.B an unfinished product of value \$3500, is as follows:

	\$
Direct material	1500
Direct labour	1000
Variable Overheads	600
Fixed overheads	<u>400</u>
Total cost per unit	<u>3500</u>

The selling price per unit is \$5000. The company has an unused capacity which can be used to complete the units and sell them at \$6000 each. In order to complete a unit, direct material and direct labour cost will increase by \$200 and \$400 respectively. In addition, variable overheads will increase by \$240, but there will be no change in fixed overheads.

Required:

Advise the manufacturer if A.B the unfinished units should be sold as they are or processed further. [8 marks]

b). A Company is considering the alternatives of either manufacturing a component or purchasing it from an outside supplier. The company's estimated production costs are as follows:

Production costs		\$
Direct materials		100
Direct labour	40	
Variable production overheads		20
Absorbed fixed overheads	<u>32</u>	
Full production cost	<u>192</u>	

If the company does not produce the component, the capacity that it released is not utilised to produce something else. An outside supplier has offered to sell the component to the company at \$180

i). Should the company buy the component or continue to make it?

[5 marks]

ii). What other factors a business need to take into account, in addition to the quantitative factors.

[3 marks]

b). A company that produces a single product has a normal production capacity of 50 000 units. The following is the company's cost data.

		\$
Direct material cost per unit		2.50
Direct labour cost per unit	6.00	
Variable overhead per unit	1.50	
Total fixed overheads		200000

The company expects to sell 40000 units at its generally accepted selling price of \$20 per unit. It has received cancellations, of orders for 10000 units. It does not expect to receive any more orders at the selling price of \$20. A customer who wishes to sell the product in an export market that will not affect the company's current market offers to purchase the 10000 units at a special price of \$13.00

Should the company accept this special order?

Show the net benefit/loss arising from accepting the special order.

[12 marks]

QUESTION 3

Good Day produces a product Passwell from materials A,B,C. The product specifications of 10kg of Passwell are as follows:

Standard material cost of 10kg of product Passwell

Material	Kgs	Proportion	Rate per kg	Amount
			\$	\$
A	4	(25)	10,00	40,00
B	4	(25)	15,00	60,00
C	8	(50)	7,50	<u>60,00</u>
				<u>160,00</u>

Actual material cost

Materials used to produce 1000 kg of product Passwell were as follows:

Material	Kgs	Rate per kg	Amount
		\$	\$
A	420	9,00	3 780,00
B	410	14,50	5 945,00
C	<u>790</u>	8,20	<u>6 478,00</u>
	<u>1620</u>		<u>16 203,00</u>

You are required to calculate the:

- a) Total material cost variance [3 marks]
- b) Material price variance [3 marks]
- c) Material usage variance [3 marks]
- d) Material mix variance [3 marks]
- e) Material yield variance [3 marks]
- f) Define standard costing [2 marks]
- g) State any two purposes of standard costing [2 marks]
- h) Standards may be classified into the following broad categories listed, explain them.
 - 1. Basic standards [2 marks]
 - 2. Ideal standards [2 marks]
 - 3. Current attainable standards [2 marks]

Question 3

The following is a summary of the selling prices and cost data of Good Better Best Pvt Ltd that produces and sells three products, A, B, and C.

	A	B	C
Selling price	20	30	40
Variable cost	<u>12</u>	<u>20</u>	<u>24</u>

Contribution	8	10	16	
Proportions		30%	50%	20%
Fixed costs				\$100 000
Target profit				\$ 40 000

Required:

1. Calculate

a). Weighted average

i). Selling price per unit [3 marks]

ii) . Variable cost per unit [3 marks]

iii). Contribution per unit [3 marks]

iv). Contribution ratio [3 marks]

b). Break-even volume and its composition [4 marks]

c). Break-even value and its composition [4 marks]

d). Sales volume required to make target profit, and sales composition [4 marks]

e). Sales value require to make target profit, and sales composition [4 marks]

Question 4

State and explain briefly the stages in the decision, planning and control procedures. [7 marks]

END OF PAPER