MANAGEMENT ACCOUNTING (MBAB823)

MEMORANDUM 2nd PAPER - NOVEMBER 2018 – TOTAL 100

Question 1.1	A	B	C	D	E
Question 1.2	A	B	C	D	E
Question 1.3	A	B	C	D	E
Question 1.4	A	B	C	D	E
Question 1.5	A	B	C	D	E
Question 1.6	A	B	C	D	E
Question 1.7	A	B	C	D	E
Question 1.8	A	B	C	D	E
Question 1.9	A	B	C	D	E
Question 1.10	A	B	C	D	E
Question 1.11	A	B	C	D	E
Question 1.12	A	B	C	D	E
Question 1.13	A	B	C	D	E

Question 1.14	A	B	C	D	E
Question 1.15	A	B	C	D	E
Question 1.16	A	B	C	D	E
Question 1.17	A	B	C	D	E
Question 1.18	A	B	C	D	E

(3 x 18 = 54)

QUESTION 2 (SCHEDULE OF COST OF GOODS MANUFACTURED) **(14)**

2.1. Applied manufacturing overhead is R126 000 (R60,000 × 210%). Actual manufacturing overhead is also R126 000, so there is **no** overapplied or underapplied overhead.

2.2. Woodland Canning Company

Schedule of Cost of Goods Manufactured for the Year

(3)

Direct material	
Raw material inventory, January 1	R12 500
Add: Purchases of raw material	186 250
Raw material available for use	R198 750
Deduct: Raw material inventory, December 31 (12 500 x 1.10)	R13 750
13,750 Raw material used	R185 000
Direct labour	R60 000
Manufacturing overhead	126 000
Total manufacturing cost	371 000
Add: Work in process inventory, January 1	19 50
Subtotal	***R390 500***
Deduct: Work in process inventory, December 31	21 250
Cost of goods manufactured	R369 050

(8)

2.3.

Finished goods inventory, January 1	R 21 000
Add: Cost of goods manufactured	369 050
	R390 050
Deduct: Finished goods inventory, December 31	23 100
Cost of goods sold	R366 950

(3)

QUESTION 3 (ABC COSTING) **(18)**

3.1. Overhead application rates:

Handling	R5 000/50	=	R100 per handle
No of parts	6 500/25	=	260 per part
Design changes	1 800/15	=	120 per design change
No of set-ups	1 500/12	=	125 per set-up

Overhead application:

	Amateur	**Professional**
Handling	R2 000	R3 000
No. of parts	R2 600	R3 900
Design changes	R 720	R1 080
No. of setups	R 625	R 875
	R5 945	R8 855

Cost per unit:

	Amateur	**Professional**
Direct materials	R 90	R120
Direct labour	R 20	R 30
Overhead 5945/200	R 30	
8855/100		R 89
	R140	R239

(12)

3.2. Overhead application rate:

14,800/700 = R21 per direct labour hour (to nearest R)

Cost per unit:

	Amateur	Professional
Direct materials	R90	R120
Direct labour	R20	R30
Overhead (21 × 400)/200	R42 ✓✓	
(21 × 306)/100		R63 ✓✓
	R152 ✓	R213 ✓

(6)

QUESTION 4 (RETURN ON INVESTMENT) (14)

4.1. No. 1: R40,000 ÷ R160,000 = 25%

No. 2: R34,000 ÷ R200,000 = 17%

No. 3: R84,000 ÷ R300,000 = 28%

(3)

4.2. Controllable profit margin (R200 000) ÷ assets invested (R600 000) = 33.33%

(2)

4.3. None as all will lower the current return on investment.

(2)

4.4. Residual income: R84 000 – (R300 000 × 20%) = R24 000

This investment is attractive from both Eastern and Ararat's perspective. The positive residual income indicates that the investment covers the imputed interest charge.

(4)

4.5. **No.** The bonus is based on return on investment, which ignores the firm's goals. If, say, the 20 per cent threshold is still in effect, investment No. 3 should be pursued by Eastern division because it is attractive from Ararat's perspective. It may, however, be rejected because it will reduce Eastern's return on investment. The plan could be improved by changing the performance basis to residual income.

 (2)