



THE COUNCIL OF COMMUNITY COLLEGES OF JAMAICA
BACHELOR OF SCIENCE EXAMINATION

SEMESTER II – 2019 MAY

PROGRAMME: BUSINESS ADMINISTRATION
COURSE NAME: MANAGEMENT ACCOUNTING
CODE: ACCT3603
YEAR GROUP: THREE
DATE: MONDAY, 2019 MAY 06
TIME: 3:00 P.M. - 5:00 P.M.
DURATION: 2 HOURS
EXAMINATION TYPE: FINAL

This Examination Paper has 10 Pages

INSTRUCTIONS:

1. ANSWER ALL QUESTIONS FROM SECTION A
2. ANSWER ANY TWO (2) QUESTIONS FROM SECTION B

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO

SECTION B

Instruction: In the booklet provided, answer any **TWO (2)** questions in this section.

Question 1

Roger Manufacturing makes and sells a product, MEGA B, to corporate organisations. For the upcoming quarter, the company has the following budgeted sales units and selling price per unit:

	Sales (units)	Selling price (unit)
July	50 000	\$100
August	40 000	\$100
September	60 000	\$100

The company uses material MG to produce MEGA B. Each unit of MEGA B requires 2 pounds of MG at a cost of \$15 per pound.

It takes 4 hours of direct labour to produce one unit of MEGA B, at a rate of \$12 per hour.

Inventories at June 30 and September 30 are as follows:

	June 30 (pounds)	September 30 (pounds)
Raw materials (MG)	9 600	12 000
Finished goods (MEGA B)	10 000	12 000

Company policy states that:

1. Raw materials inventory at the end of each month should be 10% of the following month's usage
2. Finished goods inventory at the end of each month should be 20% of the following month's sales units

Total sales were \$4 000 000 and \$5 000 000 in May and June, respectively.

Cash collections are as follows:

1. 40% of all sales is collected in the month of sale
2. 50% of all sales is collected in the first month following sale
3. 8% of all sales is collected in the second month after sale
4. 2% of all sales becomes uncollectable

Prepare the following budgets for the quarter ending September 30:

- i. Sales (\$) (3 marks)
- ii. Production (units) (9 marks)
- iii. Direct material purchases (\$) (12 marks)
- iv. Direct labour (6 marks)

(Total 30 marks)

Question 2

Bearings and Steel Limited manufactures a single product. The following is an extract from the Standard Cost Card for 2018 July:

Description	Standard Cost per Unit	Total
	\$	\$
Direct raw materials (4 metres)	850.00	3 400.00
Direct labour (1 hour)	400.00	400.00
Total		3 800.00

Actual results for the month were as follows:

Production	1 500 units
Direct raw material purchased	5 750 metres for \$5 002 500
Opening stock direct raw materials	400 metres
Closing stock direct raw materials	350 metres
Direct wages paid	\$577 500 for 1 540 hours

- A. Calculate, and give **ONE (1)** reason for, each of the following variances:
- i. Direct material price (3 marks)
 - ii. Direct material usage (4 marks)
 - iii. Direct material total (3 marks)
 - iv. Direct material labour rate (3 marks)
 - v. Direct labour efficiency (3 marks)
 - vi. Direct labour total (3 marks)
- B. Explain the significance of adverse labour variances. (5 marks)
- C. Comment on **THREE (3)** limitations of standard costing. (6 marks)

(Total 30 marks)

Question 3

Saturn Limited has been in operation for several months but found that, at critical times, it had difficulty coping with a shortage of cash. On August 31, Saturn commissioned you to prepare a cash budget. The following data was gathered:

- i. Approximately 20% of all sales is for cash. Eighty per cent of credit customers pay the month after sales, while 20% pay two months after.
- ii. All purchases are on credit; 60% is paid in the month after purchase and 40% is paid two months afterwards.
- iii. Old machinery will be sold for \$3 000 in September. New equipment, at a value of \$200 000, will be purchased in October; with 50% of the cost price to be paid in the month of purchase, and the balance in equal monthly instalments over the next four months.
- iv. A full year's depreciation, at a rate of 10% per annum, will be charged on December 31.
- v. Utilities are expected to be \$20 000 for September and are expected to increase by 10% each month.
- vi. A loan of \$250 000 will be obtained in October at an annual interest rate of 12%. No principal will be repaid until 2015 January. Interest, however, will be paid on a monthly basis, starting October.
- vii. Fifty per cent of salaries and general expenses are normally paid in the month incurred, with the remainder being paid the following month.
- viii. Amounts for July and August, as well as projected figures for September to December, are:

Months	Sales	Purchases	Salaries	General Expenses
July	80 000	60 000	40 000	32 000
August	90 000	75 000	40 000	44 000
September	120 000	95 000	50 000	42 000
October	130 000	100 000	50 000	50 000
November	140 000	105 000	55 000	54 000
December	160 000	110 000	55 000	56 000

- ix. Balance at bank as at August 31 is \$150 000.
- A. Prepare a cash budget for 2014 September 01 to 2014 December 31. (24 marks)
 - B. Highlight **THREE (3)** limitations of budgeting. (6 marks)
- (Total 30 marks)**

Question 4

- A. Identify the purpose of transfer pricing. (3 marks)
- B. Discuss **THREE (3)** problems associated with transfer pricing. (6 marks)
- C. Elaborate on **THREE (3)** potential benefits of operating a transfer pricing system. (9 marks)
- D. A company operates two divisions; Baking and Packaging. The former manufactures two products; bread, and bun dough. Bread is sold to external customers at \$42 per unit. The only outlet for bun dough is Packaging. Packaging supplies an external market and can obtain its semi-finished supplies (bun dough) from either the Baking Division or an external source. Currently, Packaging has an opportunity to purchase bun dough from an external supplier for \$38 per unit. The capacity of the Baking Division is measured in units of output, irrespective of whether bread, bun dough or a combination of both is manufactured. The associated product costs are as follows:

	Bread	Bun Dough
Variable costs per unit	\$32	\$35
Fixed overheads per unit	<u>5</u>	<u>5</u>
Total unit costs	<u>37</u>	<u>40</u>

Determine an appropriate transfer price for the sale of bun dough from the Bakery Division to the Packaging Division, under the following conditions:

- i. When the Baking Division has spare capacity and limited external demand for bread. (5 marks)
- ii. When the Baking Division is operating at full capacity with unsatisfied external demand for bread. (7 marks)

(Total 30 marks)

END OF EXAMINATION