UNIVERSITY OF JOHANNESBURG

Department of Commercial Accounting

Advanced Marketing Finance
and
Cost and Financial Management for Non-specialists

CFM44B2 & BGF44B4

Final Assessment Opportunity

29 November 2016

Time: 3 hours   **Marks: 100**

Assessor: Mrs I Baigrie

Internal Moderator: Mrs J West

External Moderator: Mrs S Miller

INSTRUCTIONS:
- This paper consists of 7 pages (including the cover page).
- Answer all questions **in INK** in the answer books provided.
- Show all calculations and workings clearly.
- Silent, non-programmable calculators may be used.
- Where applicable, round all calculations to the nearest Rand, unless stipulated otherwise.

Question	Topic	Marks	Time
1	Inventory Management	15	27 minutes
2	Cost-Volume-Profit and Break-Even Analysis	16	29 minutes
3	Standard Costing	10	18 minutes
4	Budgeting	28	50 minutes
5	Capital Budgeting	20	36 minutes
6	Working Capital Management	11	20 minutes
		100	180 minutes

QUESTION 1   **(15 MARKS)**

Alpha Traders manufacture and sell kitchen utensils and cleaning materials. Alpha Traders use the perpetual inventory system and the first-in-first-out (FIFO) method to value raw materials issued to production as well as the closing balance at the end of each month. During September 2016, they had the following transactions relating to raw material WW22 which they use in the manufacture of their Wonder Wipes:

Date		
1	Inventory on hand:	200 units at R15 per unit, purchased 01/08/2016
		100 units at R16 per unit, purchased 20/08/2016
4	Inventory issued to production:	250 units
12	Inventory received:	300 units at R18 per unit
20	Inventory received:	175 units at R19 per unit
23	Inventory issued to production:	225 units
25	Damaged inventory returned to supplier:	50 units purchased on 20/09/2016
28	Inventory issued to production:	130 units

REQUIRED

1.1   Calculate the value of raw material WW22 issued to production during the month of September 2016.   (6)

1.2   Calculate the value of the closing balance of WW22 on 30 September 2016.   (6)

1.3   Explain what the weighted average method of inventory valuation is and how it works. Illustrate your answer with an example which shows how this system of inventory valuation works.   (3)

[15]

QUESTION 2   **(16 MARKS)**

Beta Traders have provided you with the following information relating to their Super Scrubs (SS). Beta Traders use a mark-up on cost of 20% on all kitchen cleaning materials. During the three months July to September 2016 they produced 120 000 Super Scrubs and incurred the following costs in relation to these products:

Direct materials used	R 98 480
Direct labour used	R 94 000
Fixed manufacturing overheads attributable to SS	R 24 000
Variable manufacturing overheads attributable to SS	R 47 520

REQUIRED

2.1   Calculate the contribution per unit for the Super Scrubs for the three months.   (8)

2.2   Calculate the break-even point in units for the Super Scrubs for the three months. (2)

2.3   Calculate the margin of safety ratio for the Super Scrubs for the three months.   (3)

2.4   Cost-volume-profit (CVP) analysis is based on a number of underlying assumptions. List three of these assumptions.   (3)

[16]

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QUESTION 3 (10 MARKS)

Delta Products has given you the following information in relation to their production of canvas camping chairs during September 2016. There was no opening or closing inventory of raw material DP66 which is the canvas used in the manufacturing process:

	Standard price / meter	Actual price / meter	Standard quantity per item	Normal Production	Actual Production	Volume DP66 used
DP66	R 20.00	R 21.00	1.5 m	5 500 units	5 000 units	7 200 m

REQUIRED

Provide the formulae used to calculate the following variances, and calculate the variances applicable to raw material DP66 for September 2016, indicating if the variance is favourable or unfavourable:

3.1	Total direct materials variance	(4)
3.2	Direct materials price variance	(3)
3.3	Direct materials usage / quantity variance	(3)

[10]

QUESTION 4   **(28 MARKS)**

The following information was extracted from Dabulamanzi Traders for the months or
July to September 2016:

	July	August	September
	R	R	R
Sales (60% cash)	900 000	800 000	750 000
Purchases (20% cash)	400 000	440 000	500 000
Salaries and wages	160 000	160 000	175 000
Overhead expenses	170 000	160 000	180 000

Additional information:

1. The opening bank balance on 1 July 2016 is expected to be an overdraft of R45 000.

2. Credit sales are collected as follows:

    60% in the month following the month of sale,

    35% in the 2nd month following the month of sale,

    5% will prove to be bad.

3. Credit sales were R350 000 in May and R380 000 in June 2016.

4. Credit purchases are paid in the month following purchase less a 2% discount.

5. The trade payables opening balance for purchases at 1 July 2016 was R310 000 which
    was for June credit purchases.

6. Overhead expenses include a monthly depreciation charge of R18 000. Overhead
    expenses are paid in the month following the month in which they are incurred.

7. Overhead expenses for June 2016 were R125 000 excluding depreciation.

8. A provisional tax payment of R85 000 must be made at the end of August 2016.

9. A new vehicle will be bought in July 2016 for R400 000. A deposit of R90 000 will be
    paid in July, followed by monthly instalments of R7 000 beginning on 31 July 2016.

10. A dividend of R25 000 from shares in another company will be received in September
    2016.

REQUIRED

4.1   Prepare the cash budget for Dabulamanzi Traders for the months of July, August
        and September 2016.   (28)

                                                                                [28]

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QUESTION 5 (20 MARKS)

Egoli Manufacturers is a manufacturing company that produces various products for the automotive industry. Egoli Manufacturers is in the process of acquiring new manufacturing equipment. The following estimated information is available:

Economic life	4 years
Purchase cost of equipment	R800 000
Annual profit:	
Year 1	R210 000
Year 2	R220 000
Year 3	R230 000
Year 4	R240 000
Residual value at the end of 4 years	10% of purchase cost

Additional information:

• Assume that the equipment will be sold for R360 000 at the end of year 4. The profit/loss on the proposed sale has not yet been included in the profit for year 4.

• Depreciation of 20% per annum, using the straight line method, has not been included in the estimated profit calculations above, which include only cash items.

• The cost of capital is 12%.

• Ignore tax and inflation.

REQUIRED

5.1 Using the formula: ARR = average annual profit / average investment, calculate the accounting rate of return (ARR) on the new equipment for Egoli Manufacturers.

(7)

5.2 Calculate the payback period (PP) on the new investment for Egoli Manufacturers, showing the cash flows per year and the cumulative cash flows at the end of each year. (4)

5.3 Use the present value factors below to calculate the net present value (NPV) of the new investment for Egoli Manufacturers. (6)

Period (n)	0	1	2	3	4	5	6
Rate 12%	1.000	0.893	0.797	0.712	0.636	0.567	0.507

5.4 Indicate if, in your opinion, Egoli Manufacturers should purchase the new equipment, providing at least two reasons for your answer based on your calculations. (3)

[20]

QUESTION 6   **(11 MARKS)**

Zara and Zanele, the owners of ZaZa Boutique have asked for your help with their working capital management. They have tried to reduce their trade receivables over the last twelve months and have implemented a number of controls in order to improve their cash flows. They would like to know if the controls that they have put in place have helped them to improve their working capital management. They have given you the following spreadsheet and have told you that their cash conversion cycle for the period to June 2015 was 90 days.

	2016	2015
Sales revenue	480 000	440 000
Cost of sales	180 000	168 000
Inventories	60 000	65 000
Trade receivables	44 000	46 000
Trade payables	40 000	36 000

REQUIRED

6.1 Calculate the cash conversion cycle / operating cash cycle for ZaZa Boutique for the
     period to June 2016. Assume all sales are on account.   (8)

6.2 Write a motivation to Zara and Zanele, indicating if their attempts to improve their
     cash management have been successful, and suggest two changes that they could
     implement going forwards that would further improve their cash management based
     on the results of your analysis.   (3)

[11]

TOTAL = 100 MARKS