



UNIVERSITY
OF
JOHANNESBURG

Department of Commercial Accounting

**Advanced Marketing Finance
and
Cost and Financial Management for Non-specialists**
CFM44B2 & BGF44B4

Final Assessment Opportunity
21 November 2017

Time: 3 hours

Marks: 100

Assessor: Mrs I Baigrie

Internal Moderator: Mr F Hemmings

External Moderator: Mrs SF Kaasjager

INSTRUCTIONS:

- This paper consists of 8 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	Cost Classification	20	36 minutes
2	Inventory Control	10	18 minutes
3	Cost Volume Profit	15	27 minutes
4	Flexible Budgeting	12	22 minutes
5	Standard Costing	16	29 minutes
6	Working Capital Management	13	23 minutes
7	Capital Investment Decisions	14	25 minutes
		100	180 minutes

QUESTION 1**(20 MARKS)**

Asenati Enterprises manufacture sandals which they sell to major retail outlets. They have a number of different products and use different cost drivers to allocate their manufacturing overheads to production. They have provided you with the following information relating to their men's leather slip-on sandals (MLSO) for the period January to June 2017. During this period they produced 5 000 pairs of MLSO sandals:

Direct materials used	R86 500
Direct labour used	R40 000
Indirect materials allocated to MLSO	R 8 400
Indirect labour allocated to MLSO	R 4 000
Other manufacturing overheads allocated to MLSO (40% fixed)	R 7 500
Selling costs attributable to MLSO (30% fixed)	R 6 000
Distribution and administration costs to MLSO (80% fixed)	R 2 500

Asenati Enterprises were advised by their trade union that they need to increase all wages and salaries by 15% with effect from 1 July 2017, which they have done. Their fixed costs and other variable overheads have remained unchanged in the second half of the year. They plan to produce another 5 000 pairs of MLSO sandals in the second half of 2017.

REQUIRED

- 1.1 Calculate the total prime costs for the MLSO sandals for the period to 30 June 2017. (2)
- 1.2 Calculate the total period costs for the MLSO sandals for the period to 30 June 2017. (2)
- 1.3 Calculate the total product costs for the MLSO sandals for the period to 30 June 2017. (3)
- 1.4 Calculate the variable cost per unit for the MLSO sandals for the period to 30 June 2017. (3)
- 1.5 Calculate the predetermined overhead rate that they should use to allocate their variable manufacturing overheads to product MLSO from 1 July 2017. (4)
- 1.6 Calculate the predetermined overhead rate that they should use to allocate their fixed manufacturing overheads to product MLSO from 1 July 2017. (2)
- 1.7 Calculate the cost per unit that Asenati Enterprises should use for budgeting purposes for product MLSO from 1 July 2017. (4)

[20]

QUESTION 2**(10 MARKS)**

Benguela Traders make garden ornaments which they sell to various retail outlets in Gauteng. They use the weighted average method to calculate their cost of sales and closing inventory for all their lower-cost items and the specific identification method for their high cost items. They have provided you with the following information for the month of October 2017 for the raw materials GO17 which they use to manufacture their small garden creatures sets:

Opening balance	01/10	100 kg @R15.00 per kg purchased on 28/08/2017
		150 kg @R16.00 per kg purchased on 12/09/2017
Inventory issued	01-11/10	120 kg
	12-24/10	80 kg
	25-31/10	60 kg
Inventory purchased	12/10	140 kg @ R16.95 per kg
	25/10	100 kg @ R17.17 per kg

REQUIRED

- 2.1 Calculate the weighted average price per unit for the opening inventory on 1 October 2017. (2)
- 2.2 Calculate the value of the closing balance of raw material GO17 as at 31 October 2017, using the weighted average method. (5)
- 2.3 Calculate the total value of raw material GO17 issued to production during October 2017 using the weighted average method. (3)

[10]

QUESTION 3**(15 MARKS)**

Chaza Traders have provided you with the following information relating to their SuperCom product for the months of August and September 2017:

Month	Total Fixed Costs	Standard # Units	Variable cost per unit	Selling price per unit
August	R28 800	2 400	R8.00	R28.00
September	R32 250	2 400	R8.50	R30.00

REQUIRED

- 3.1 Calculate the contribution margin per unit for the SuperCom for the month of August 2017. (2)
- 3.2 Calculate the contribution margin ratio for the SuperCom for the month of August 2017. (2)
- 3.3 Calculate the break-even point in units for the SuperCom for the month of August 2017. (2)
- 3.4 Calculate the contribution margin per unit for the SuperCom for the month of September 2017. (2)
- 3.5 Calculate the break-even point in units for the SuperCom for the month of September 2017. (2)
- 3.6 Calculate the margin of safety percentage for the SuperCom for the month of September 2017. (2)
- 3.7 Chaza Traders anticipate that their fixed and variable costs will remain unchanged from the September amounts for the remainder of the year, and that they can continue to produce the SuperComs at the same rate of output. They have told you that they want to make a profit of R42 150 a month from this product from November 2017. Advise Chaza Traders what price they will need to sell their SuperComs at in order to achieve this. (3)

[15]

QUESTION 4**(12 MARKS)**

Deliwe Enterprises have given you a fixed monthly budget for their product DE99 which they used for the months of July to December 2017. They have asked you to prepare a flexible monthly budget for them which they can use in 2018 at levels of production of 10 000 and 12 000 units a month. They have also told you that fixed costs are going to increase by an average of 10% and variable costs by 12% from 1 January 2018. Depreciation, however, will remain unchanged.

COST	COST BEHAVIOUR	FIXED MONTHLY BUDGET 2017 9 000 UNITS
Direct Materials	Variable at R10.00 per unit	90 000
Direct Labour	Variable at R22.00 per unit	198 000
Depreciation Machinery	Fixed per month	30 000
Variable Overheads	Variable at R2.40 per unit	21 600
Fixed Overheads	Fixed per month	4 000

REQUIRED

- 4.1 Prepare the flexible budget for Deliwe Enterprises for product DE99 for the month of January 2018 at the activity levels of 10 000 and 12 000 units. (12)

[12]

QUESTION 5**(16 MARKS)**

Ehola Products has asked you to help them analyse their production variances for the month of October 2017. During October 2017 they planned to manufacture 9 500 units of product EP55 and actually manufactured 10 000 units. In addition, they have provided you with the following information:

COST	Standard Cost & Cost Driver	Actual Used	Actual Cost for product EP55 for October 2017
Direct Labour	Variable at R20.00 per labour hour. 2 labour hours per unit	21 000 hours	R410 000
Direct Materials	Variable at R12.00 meter. 3 meters per unit	32 000 meters	R376 000
Variable Manufacturing Overheads	Variable at R0.30 per unit.		R3 250
Fixed Manufacturing Overheads	Fixed at R120 000 per annum & apportioned 5% to product EP55.		R6 000

REQUIRED

Calculate the following variances for October 2017 for product EP55 based on the information provided, indicating if the variances are favourable or unfavourable:

- 5.1 Direct labour cost variance (2)
- 5.2 Direct labour rate variance (2)
- 5.3 Direct labour efficiency variance (2)
- 5.4 Direct materials cost variance (2)
- 5.5 Direct materials price variance (2)
- 5.6 Direct materials usage variance (2)
- 5.7 Total Variable manufacturing overhead variance (2)
- 5.8 Total Fixed manufacturing overhead variance (2)

[16]

QUESTION 6**(13 MARKS)**

Fikile Fitters and Turners manufacture parts for the motor industry in South Africa. All their sales are on account and they give their clients, who are all major brand names in the motor industry, sixty days to pay their accounts. However, they suspect that some of their clients are taking advantage of these terms, and have requested your help in analysing their working capital management. They have given you the following figures for the year to 30 September 2017 and have told you that their cash conversion cycle for the previous year to 30 September 2016 was 66 days:

	2017	2016
Sales	1 200 000	980 000
Cost of Sales	420 000	480 000
Inventories	312 000	333 000
Trade Receivables	444 000	322 000
Trade Payables	68 000	89 000

REQUIRED

- 6.1 Calculate Fikile Fitters and Turners' receivables collection period for the period to 30 September 2017. (3)
- 6.2 Calculate Fikile Fitters and Turner's cash conversion cycle for the period to 30 September 2017. (6)
- 6.3 Are the management of Fikile Fitters and Turners correct in suspecting that certain debtors are not paying their account timeously? Explain your answer. (2)
- 6.4 Provide the management of Fikile Fitters and Turners with two suggestions that they could implement in order to reduce their cash conversion cycle going forwards. (2)

[13]

QUESTION 7**(14 MARKS)**

Galema Manufacturers are leading suppliers in patio furniture in South Africa. They also export to Mauritius, the Seychelles, Madagascar and the rest of Africa. They have asked for your help in the evaluation a new machine that they are considering acquiring. This machine has an economic life of five years and will cost R1 800 000. They anticipate making a profit from this machine of R300 000 per annum in the first two years, increasing to R340 000 per annum after that. They anticipate that they can sell the machine at the end of its useful life for R400 000. They plan to depreciate the machine to its residual value over its useful life, and this depreciation has been taken into account in the profit calculations above. Their cost of capital is 14% per annum and their targeted accounting rate of return is 20% per annum. They have given you the following NPV table:

Period (n)	0	1	2	3	4	5	6
Rate =14%	1.000	0.8772	0.7695	0.6750	0.5921	0.5194	0.4556

REQUIRED

- 7.1 Use the present value table provided to calculate the net present value of the new machine. (8)
- 7.2 Use the formula $ARR = (\text{average annual profit} / \text{average investment})$ to calculate the accounting rate of return on the new machine. (4)
- 7.3 Indicate if, in your opinion, Galema Manufacturers should purchase the new machine, providing at least two reasons for your answer. (2)

[14]

TOTAL = 100 MARKS