FEEDBACK TUTORIAL LETTER

2nd SEMESTER 2019

TEST 3

COST AND MANAGEMENT ACCOUNTING 202

CMA612S
(a)  

<table>
<thead>
<tr>
<th>Relevant inflows:</th>
<th>Discontinue at 30 June (N$)</th>
<th>Discontinue at 30 November (N$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of printing materials</td>
<td>10 000✓</td>
<td>-</td>
</tr>
<tr>
<td>Sales of pallets (W1)</td>
<td>380✓</td>
<td>-</td>
</tr>
<tr>
<td>Sub-letting income (N$2 500 x 5)✓</td>
<td>12 500✓</td>
<td>-</td>
</tr>
<tr>
<td>Sales of machines (W2)</td>
<td>27 000✓</td>
<td>25 000✓</td>
</tr>
<tr>
<td>Sales of vehicles</td>
<td>48 000✓</td>
<td>44 000✓</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>97 880</strong></td>
<td><strong>69 000</strong></td>
</tr>
</tbody>
</table>

Relevant outflows

<table>
<thead>
<tr>
<th>Salaries and wages (W3)</th>
<th>65 000✓</th>
<th>90 000✓</th>
</tr>
</thead>
<tbody>
<tr>
<td>Printing</td>
<td>15 000✓</td>
<td>14 500✓</td>
</tr>
<tr>
<td>Distribution (N$4 000 x 5)✓</td>
<td>-</td>
<td>20 000✓</td>
</tr>
<tr>
<td>Publishing vacancy</td>
<td>500✓</td>
<td>5 500✓</td>
</tr>
<tr>
<td>Materials and supplies:</td>
<td>100✓</td>
<td></td>
</tr>
<tr>
<td>Printing [(5 x N$31 000) – N$18 000]✓</td>
<td>-</td>
<td>137 000✓</td>
</tr>
<tr>
<td>Distribution (W1)</td>
<td>500✓</td>
<td>5 500✓</td>
</tr>
<tr>
<td>Cancellation charge (W1)</td>
<td>100✓</td>
<td></td>
</tr>
<tr>
<td>Occupancy costs (W4)</td>
<td>29 112✓</td>
<td>34 250✓</td>
</tr>
<tr>
<td>Apportioned</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Directly attributable</td>
<td>-</td>
<td>14 250✓</td>
</tr>
<tr>
<td>Printing and distribution fee (N$65 000 x 5)✓</td>
<td>325 000✓</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>434 712</td>
<td>315 500</td>
</tr>
</tbody>
</table>

Net cash outflow

|               | 338 832 | 246 500 |

**Workings:**

**W1**

If pallets are taken for July and August and resold to Yomunde Ltd, the cash outflow will be N$240 ((N$500 – N$380) x 2). If the pallets are taken for July only, the cash outflow will be N$220 (N$500 + N$100 – N$380). If pallets are cancelled for both months, the cash outflow will be N$300. The lowest cash outflow option should therefore be chosen, and only the August delivery would be cancelled if the departments are closed at the end of June. If closure occurs at the end of November, the distribution department supply cost amounts to N$5 500 (N$1 100 x 5).

**W2**

Only incremental sale proceeds should be included in the analysis. Depreciation and the written-down value of assets represent sunk costs and are not relevant for decision-making purposes. For closure in June, the selling price is N$48 000 – N$21 000 = N$27 000.

**W3**

Two specialist staff (N$13 000 x 5 months) will continue to be paid if the department is closed in June, and the entire N$18 000 will be incurred if the department is closed in November (N$18 000 x 5 months). If the department is closed in November, it is assumed that the publishing vacancy will be filled for five months at a cost of N$14 500 (N$2 900 x 5 months). With a June closure, the publishing vacancy will cost the company N$15 000 (N$3 000 x 5), which is the salary of the transferred employee. Redundancy payments are not relevant, since the same amount will be paid to all staff irrespective of the date of closure.
W4

The occupancy costs for five months are:

<table>
<thead>
<tr>
<th></th>
<th>Printing (N$)</th>
<th>Distribution (N$)</th>
<th>Total (N$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>42 500</td>
<td>6 030</td>
<td>48 500</td>
</tr>
<tr>
<td>Directly attributable</td>
<td>12 750 (30%)</td>
<td>1 530 (25%)</td>
<td>14 250</td>
</tr>
<tr>
<td>Apportioned (balance)</td>
<td>29 750</td>
<td>4 500</td>
<td>34 250</td>
</tr>
</tbody>
</table>

It is assumed that company cash flows, in respect of the costs which are apportioned to activities, will be reduced by N$5 138 (15% x N$34 250) if the department is closed in June. In other words, it is assumed that actual cash flows will be reduced and not merely the proportion of costs which is allocated to the department. Furthermore, all directly attributable costs can be saved.

(Marks for working should only be awarded to candidates who showed them)

Available marks: 24, Maximum marks: 18

(b)

Based on the above information, I recommend to management of Walliato Ltd that printing and publishing should be discontinued on 30 November.

(c) Factors to be considered

- Need to ensure that Walliato’s has the infrastructure to manage Yomunde, such as service level agreements. The demand/supply position is in close balance and problems in Nongoma’s output will have direct impacts on the market. (1)
- Effect of the decision on the workers’ morale. (1)
- Long-term effect of the decision (for example, the effect on future contracts). (1)
- Implications of Umdoni’s strategic decision to focus on publishing. (1)
- Nongoma’s ability to secure distribution points. (1)

(d)

(i) This statement is incorrect.

- All relevant cash flows should be considered when making a decision. (1)
- When making short-term decisions, incremental fixed costs will be relevant. (1)
- Fixed costs become relevant over the long-term. When making long-term decisions, fixed costs should therefore be considered. (1)

(One mark for any three valid point)

(ii) ABC is a technique used to allocate fixed overhead costs to products.

- Decisions should be based on relevant costs, usually variable product costs and incremental fixed costs. (1)
- Therefore, ABC should not be used for short-term decision-making purposes. (1)
- In the long run all costs become variable, and therefore avoidable. (1)
• For long-term decision-making purposes, a costing system is required that reports average long-run product costs. (1)
• The best estimates of these long-run production costs are usually derived from an ABC system. (1)
• In this case, ABC cannot be used directly for decision-making but can provide attention-directing information. (1)

(One mark for any three valid point)

Question 2 (20 Marks)

(a)

Mark-up%
Sales price N$10.00
Full cost N$6.50
Profit N$3.50 ✓

Mark-up % = 3.5/6.5 x 100 = 53.8% ✓

(b)

Sales price
N$2 487 500 − (250 000 x N$10) = N$12 500 U ✓

Sales volume
(240 000 − 250 000) x (10 − 6) = N$40 000 F ✓

Or
(240 000 − 250 000) x (10 − 6.5) = N$35 000 F ✓

Water-price
1 260 000 x (N$0.61 − N$0.60) = N$12 600 U ✓

Water-quantity
(1 260 000 − 250 000 x 5) x 0.60 = N$6 000 U ✓

Bottles – price
255 000 x (N$1.05 − N$1.10) = N$12 750 F ✓

Bottles – quantity
(255 000 − 250 000) x N$1.10 = N$5 500 U ✓

Labour – rate
N$80 000 − N$72 000 = N$ 8 000 U ✓
VOH – rate
(N$48 700 – 240 000) x 0,2 = N$700 √

VOH – efficiency
(240 000 x 250 000) x 0,2 = N$2 000 F √

FOH – Expenditure
N$331 000 – 240 000 x 1,4 = N$5 000 F √

FOH – Efficiency
(240 000 – 250 000) x 1,4 = N$14 000 F √

Commission paid
(0,55 – R0,50) x 250 000 = N$12 500 U √

(12 Marks)

(c)

Possible reasons are:
• Inefficient use of water √
• Workers not as familiar with lathe as expected √
• Changes in method of production, resulting in an inappropriate standard √
• Theft of raw water √

(Award one mark for any correct possible causes of unfavourable usage variance)

(d)

Opportunity cost

Production and sales = 250 000
Special order = 50 000
Lost of sales = 50 000

<table>
<thead>
<tr>
<th>Sales (N$10 x 50 000)</th>
<th>500 000 √</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: variable cost</td>
<td></td>
</tr>
<tr>
<td>Materials (N$0.6 + N$0.1) x 5 x 50 000</td>
<td>175 000 √</td>
</tr>
<tr>
<td>Bottle &amp; label (N$1.25 x 50 000)</td>
<td>62 500 √</td>
</tr>
<tr>
<td>Variable overhead (N$0.2 + N$0.1) x 50 000</td>
<td>15 000 √</td>
</tr>
<tr>
<td>Lost contribution</td>
<td>247 500 √p</td>
</tr>
</tbody>
</table>

(5 Marks)

THE END