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UNIVERSITY
OF SCIENCE AND
TECHNOLOGY

HP-GSB
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Graduate School of Business

FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION

HAROLD PUPKEWITZ GRADUATE SCHOOL OF BUSINESS

QUALIFICATION: DIPLOMA IN BUSINESS PROCESS MANAGEMENT	
QUALIFICATION CODE: 06DBPM	LEVEL: 6
COURSE CODE: BAC621C	COURSE NAME: BUSINESS ACCOUNTING 2B
SESSION: JULY 2024	PAPER: PAPER 2
DURATION: 3 HOURS	MARKS: 100

SECOND OPPORTUNITY EXAMINATION QUESTION PAPER

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INSTRUCTIONS

1. This question paper is made up of four (4) questions.
2. Answer **ALL** the questions in blue or black ink only. **NO** pencil
3. Start each question on a new page in your answer booklet and **show all workings**.
4. Round off only final answers to two (2) decimal places unless otherwise stated.
5. Questions relating to this examination may be raised in the initial 30 minutes after the start of the paper. Thereafter, candidates must use their initiative to deal with any perceived error or ambiguities & any assumption made by the candidate should be clearly stated.

PERMISSIBLE MATERIALS

Silent, non-programmable calculators

THIS QUESTION PAPER CONSISTS OF 7 PAGES (including this front page)

QUESTION 1

[20 MARKS]

Each of the following questions has only ONE correct answer. In your answer script, write down the numbers 1.1 to 1.10. Then, next to each number only write down the letter which, in your opinion, represents the correct answer.

- 1.1 If the actual number of kilograms of direct material used exceeds the standard number of kilograms allowed but actual price was less than standard price, the materials quantity variance will be:
- A Adverse
 - B Favourable
 - C Favour
 - D Adversa
- 1.2 If the actual number of kilograms of direct material used exceeds the standard number of kilograms allowed but actual price was less than standard price, the materials price variance will be:
- A Adverse
 - B Favourable
 - C Favour
 - D Adversa
- 1.3 The following method of evaluating capital projects does NOT take into account the time value of money:
- A Payback period
 - B Discounted payback period
 - C Net present value
 - D Internal rate of return
- 1.4 The following method of evaluating capital projects does NOT take into account cash flows over the entire life of the project:
- A Payback period
 - B Accounting rate of return
 - C Net present value
 - D Internal rate of return
- 1.5 The following statement is NOT true:
- A If the net present value of a project is negative, the project is not profitable.
 - B The discounted payback method does not take into consideration all cash flows.
 - C The net present value can be positive or negative.
 - D When funds for capital projects are limited, the most profitable investment will be the one with the shortest payback period.
- 1.6 The following factor does NOT affect cash flow:
- A Funds from the issue of share capital
 - B Revaluation of a fixed asset
 - C Decrease in the level of trade debtors
 - D Repayment of a bank loan

1.7 Nawa CC produces and sells only one product. The following budgeted data is available:

Inventory levels (2022)	1 May	31 May
Raw material (kilograms)	1 000	600
Finished products (units)	500	???
Sales sold 1 800 units at N\$150 per unit		
Production units 1 900		

The units of closing inventory (finished goods) is...

- A 500
- B 800
- C 900
- D 600

1.8 Wana CC produces and sells only one product. The following budgeted data is available:

Inventory levels (2022)	1 June	31 June
Raw material (kilograms)	2 000	1 000
Finished products (units)	1 000	1 200
Selling price is N\$30 per unit		
Production units 3 800		

Budgeted sales in value (N\$) is.....

- A N\$114 000
- B N\$108 000
- C N\$180 000
- D N\$124 000

The following information relates to questions 1.9 and 1.10:

A company uses standard costing and the standard variable overhead cost for a product is 6 direct labour hours at N\$10 per hour.

Last month when 3 900 units of the product were manufactured, the actual variable overheads was N\$235 000 and 24 000 hours were worked.

1.9 The variable overhead expenditure variance for last month was:

- A N\$5 000 Adverse
- B N\$5 000 Favourable
- C N\$6 000 Adverse
- D N\$6 000 Favourable

1.10 The variable overhead efficiency variance for last month was:

- A N\$5 000 Adverse
- B N\$5 000 Favourable
- C N\$6 000 Adverse
- D N\$6 000 Favourable

QUESTION 2**[24 MARKS]**

Nancy Ltd supplied the following flexible budget for its Welding Department at output levels of 10 000 and 11 000 units respectively:

Activity level (units)	10 000	11 000
	<u>N\$</u>	<u>N\$</u>
Direct labour	50 000	55 000
Direct material	40 000	44 000
Indirect labour	80 000	82 000
Maintenance	18 000	19 000
Depreciation	<u>16 000</u>	<u>16 000</u>
	<u>204 000</u>	<u>216 000</u>

During the past month only 9 000 units were manufactured and the following costs were actually incurred:

	<u>N\$</u>
Direct labour	48 000
Direct material	35 000
Indirect labour	76 000
Maintenance	19 000
Depreciation	<u>16 100</u>
	<u>194 100</u>

REQUIRED:

Prepare a Performance Report that will be useful to the management of Nancy Ltd.

Note: Round off variable cost per unit to two decimal places, total costs and variances to the nearest N\$.

QUESTION 3**[20 MARKS]**

Leader Ltd manufactures a single product. The budget information for the following year was as follows:

	Per unit	10 000 units
	<u>N\$</u>	<u>N\$</u>
Sales at N\$23.50 per unit	23.50	235 000
Production costs:		
Direct material – 5 kg @ N\$2 per kg	10.00	100 000
Direct labour – 1 hour @ N\$5 per hour	5.00	50 000
Variable overheads – 1 labour hour	<u>2.00</u>	<u>20 000</u>
Standard marginal cost	17.00	170 000
Fixed cost	<u>4.00</u>	<u>40 000</u>
	21.00	2 10 000
Standard profit	<u>2.50</u>	<u>25 000</u>
	<u>23.50</u>	<u>235 000</u>

By the end of the year, the following actual figures were recorded:

Actual production	11 000 units
Direct material	54 000 kg at N\$27 500
Direct labour	10 500 hours at N\$57 750
Variable overheads	N\$23 100
Fixed overheads	N\$45 000

REQUIRED:

- 3.1 Calculate the following variances: (3 marks each)
- a) Direct material price
 - b) Direct material usage
 - c) Direct labour rate
 - d) Direct labour efficiency
 - e) Variable overhead expenditure
 - f) Variable overhead efficiency
- 3.2 What is a variance and why is it important to calculate and analyse variances? (2)

QUESTION 4

[20 MARKS]

The management of Penguin CC presently considers investing in a new machine which it believes will increase productivity in its factory. The initial cash outlay will be N\$334 000 and a return of at least 12% per annum is required on all new capital projects. It is estimated that the following cash flows will be derived from operations with this new machine:

Year	Cash flow
1	N\$155 000
2	N\$144 000
3	N\$75 000
4	N\$ 61 000
5	N\$12 161

Additional information:

The factory supervisor is of the opinion that this machine will have an economic useful life of 5 years after which it will most probably have no resale value.

REQUIRED:

- 4.1 Make a recommendation to the management of the corporation as to the viability of investing in this machine. Make use of the net present value method. (10)
- 4.2 Calculate the discounted payback period of the project. (10)

QUESTION 5**[16 MARKS]**

Onawa Ltd manufactures a top-selling electronic spreadsheet product called Cell 123.

Onawa provided you with the following information:

	<u>N\$</u>
Selling price	300
Variable costs:	
Manufacturing	(115)
Marketing	<u>(65)</u>
Contribution margin	<u>120</u>

The fixed costs of Cell 8 are N\$30 000.

YOU ARE REQUIRED TO:

- a) Calculate Onawa Ltd break-even point both in units and sales revenue. (6)
- b) Calculate the operating income if 500 units are sold. (7)
- c) The precision and reliability of CVP analysis are limited by several underlying assumptions. Identify any three (3) of these assumptions. (3)

END OF EXAMINATION PAPER

APPENDIX TABLE 1

Present Value Tables

Number of Years	Interest Rate per Year														
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%
1	.990	.980	.971	.962	.952	.943	.935	.926	.917	.909	.901	.893	.885	.877	.870
2	.980	.961	.943	.925	.907	.890	.873	.857	.842	.826	.812	.797	.783	.769	.756
3	.971	.942	.915	.889	.864	.840	.816	.794	.772	.751	.731	.712	.693	.675	.658
4	.961	.924	.888	.855	.823	.792	.763	.735	.708	.683	.659	.636	.613	.592	.572
5	.951	.906	.863	.822	.784	.747	.713	.681	.650	.621	.593	.567	.543	.519	.497
6	.942	.888	.837	.790	.746	.705	.666	.630	.596	.564	.535	.507	.480	.456	.432
7	.933	.871	.813	.760	.711	.665	.623	.583	.547	.513	.482	.452	.425	.400	.376
8	.923	.853	.789	.731	.677	.627	.582	.540	.502	.467	.434	.404	.376	.351	.327
9	.914	.837	.766	.703	.645	.592	.544	.500	.460	.424	.391	.361	.333	.308	.284
10	.905	.820	.744	.676	.614	.558	.508	.463	.422	.386	.352	.322	.295	.270	.247
11	.896	.804	.722	.650	.585	.527	.475	.429	.388	.350	.317	.287	.261	.237	.215
12	.887	.788	.701	.625	.557	.497	.444	.397	.356	.319	.286	.257	.231	.208	.187
13	.879	.773	.681	.601	.530	.469	.415	.368	.326	.290	.258	.229	.204	.182	.163
14	.870	.758	.661	.577	.505	.442	.388	.340	.299	.263	.232	.205	.181	.160	.141
15	.861	.743	.642	.555	.481	.417	.362	.315	.275	.239	.209	.183	.160	.140	.123
16	.853	.728	.623	.534	.458	.394	.339	.292	.252	.218	.188	.163	.141	.123	.107
17	.844	.714	.605	.513	.436	.371	.317	.270	.231	.198	.170	.146	.125	.108	.093
18	.836	.700	.587	.494	.416	.350	.296	.250	.212	.180	.153	.130	.111	.095	.081
19	.828	.686	.570	.475	.396	.331	.277	.232	.194	.164	.138	.116	.098	.083	.070
20	.820	.673	.554	.456	.377	.312	.258	.215	.178	.149	.124	.104	.087	.073	.061

Discount factors: Present value of \$1 to be received after t years = $1/(1 + r)^t$.

Note: For example, if the interest rate is 10% per year, the present value of \$1 received at year 5 is \$.621.