Course No: ACC 3308 – MAN 3310 Course Title: Managerial Accounting Date: 23/05/2013 No. of Questions: (6) Time: 2 hour Using Calculator (yes)	University of Palestine Final Exam 2nd Semester 2012/2013 Total Grade: 60	Instructor Name: Dr. Khaled Eissa Student No.: ____________________ Student Name: ____________________ College Name: Business Administration Dep. / Specialist: Accounting Using Dictionary (No)

Answer 5 Questions only

Question 1:

The Bathtub Division of Kirk Plumbing Corporation has recently approached the Faucet Division with a proposal. The Bathtub Division would like to make a special "ivory" tub with gold-plated fixtures for the company's 50 year anniversary. It would make only 3,000 of these units. It would like the Faucet Division to make the fixtures and provide them to the Bathtub Division at transfer price of $83. If sold externally, the estimated variable cost per unit would be $80. However, by selling internally, the faucet division would save $5 per unit on variable selling expenses. The Faucet Division is currently operating at full capacity. Its standard unit sells for $30 per unit and has variable cost of $20.

Required:

a. Compute the minimum transfer price that the Faucet Division should be willing to accept. Should it accept this offer?
b. If Faucet division accept this offer according to orders from top management of Corporation. Compute the effect on its income.

Question 2:

Arquitectos Interiors of Juarez, Mexico, is contemplating a major change in its cost structure. Currently all of its drafting work is performed by skilled draftsmen. Alfonso Jiminez, Arquitectos' owner, is considering replacing the draftsmen with a computerized drafting system. However, before making the change, Alfonso would like to know the consequences of the change, since the volume of the business varies significantly from year to year. Shown below are CVP income statements for each alternative.

	Manual system	Computerized system
Sales	$3,000,000	$3,000,000
Variable costs	2,400,000	1,200,000
Contribution margin	600,000	1,800,000
Fixed Costs	100,000	1,300,000
Net Income	**$ 500,000**	**$ 500,000**

Required:

a. Determine the degree of operating leverage for each alternative
b. Which alternative would produce the higher net income if sales increases by $300,000?
c. Using the margin of safety ratio, determine which alternative could sustain the greater decline in sales before operating at a loss

Question 3:

Johnson Enterprises uses a computer to handle its sales invoices. Lately, Business has been so good that it takes an extra 3 hours per night, plus every third Saturday, to keep up with the volume of sales invoices. Management is considering updating its computer with a faster model that would eliminate all of the overtime processing.

	Current Machine	New Machine
Original Purchase cost	$10,000	$15,000
Accumulated depreciation	$ 3,000	--
Estimated annual operating costs	$15,000	$12,000
Useful Life	6 years	6 years

If sold now, the current machine would have a salvage value of $5,000. If operated for the reminder of its useful life, the current machine would have zero salvage value. The new machine is expected to have zero salvage value after 5 years.

Required:

Should the current machine be replace? (Show your answer using incremental analysis)

Question 4:

Pargo Corporations produces industrial robots for high-precision manufacturing. The following information is given for Pargo Corporation.

	Per Unit	Total
Direct Materials	$380	
Direct Labor	$290	
Variable Manufacturing overhead	$ 72	
Fixed Manufacturing overhead		$ 1,800,000
Variable selling & administrative expenses	$ 55	
Fixed selling & administrative expenses		$ 324,000

The company has a desired ROI of 20%. It has invested assets of $51,000,000. It anticipates production of 3,000 units per year.

Required:

a. Compute the cost per unit of the fixed manufacturing overhead and the fixed selling & administrative expenses.
b. Compute the desired ROI per unit.
c. Compute the target selling price

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Question 5:

Klean Fiber Company is the creator of Y-Go, a technology that weaves silver into its fabrics to kill bacteria and odor on clothing while managing heat. Y-Go has become very popular as undergarment for sports activities. Operating at capacity, the company can produce 1,000,000 undergarments of Y-Go a year. The per unit and the total costs for an individual garment when the company operates at full capacity are as follows:

	Per Undergarment	Total
Direct Materials	$ 2.00	$2,000,000
Direct Labor	0.75	750,000
Variable Manufacturing overhead	1.00	1,000,000
Fixed Manufacturing overhead	1.50	1,500,000
Variable selling & administrative expenses	0.25	250,000
Totals	**$5.50**	**$5,500,000**

The Falcon Army has approached Klean Fiber and expressed an interest in purchasing 250,000 Y-Go undergarments for soldiers in extremely warm climates. The Army would pay the unit cost for direct materials, direct labor, and variable manufacturing overhead costs. In addition, the Army has agreed to pay an additional $1 per undergarment to cover all other costs and provide a profit. Presently, Klean Fiber is operating at 70% capacity and does not have any other potential buyers for Y-Go. If Klean Fiber accepts the Army's offer, it will not incur any variable selling expenses related to this order.

Required:

Using Incremental analysis, determine whether Klean Fiber should accept the Army's offer.

Question 6:

Spencer Company manufactures and sells 3 products. Relevant per unit data concerning each product are given below:

	Product		
	A	B	C
Selling price	$24	$16	$30
Variable cost and expenses	$20	$6	$24
Machine hours to produce	2	4	4

Required:

a. Compute the contribution margin per unit of the limited resources (machine hours) for each product
b. Assuming 1,500 additional machine hours are available, which product should be manufactured?

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