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MAIN EXAMINATION

MAY – AUGUST 2019 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

REGULAR PROGRAMME

CAC 610: MANAGERIAL ACCOUNTING

Date: JULY 2019	Duration: 2 Hours
INSTRUCTIONS: Answer Question ONE and any other TWO Questions	

The following exhibit presents the statement of cash flows for Nike, Inc., maker of athletic shoes, for three recent years.

Nike Inc.: Statement of Cash Flows

(Amount in millions)	**Year 1**	**Year 2**	**Year 3**
Operations			
Net income	167	243	297
Depreciation and amortization	15	17	34
Other Addbacks/Subtractions	(5)	5	3
Working Capital provided by Operations	*177*	*265*	*324*
(Increase) Decrease in Accounts Receivable	(38)	(105)	(120)
(Increase) Decrease in Inventories	(25)	(86)	(275)
Increase) Decrease in Other Operating Current Assets	(2)	(5)	(6)
(Increase) Decrease in Accounts Payable	21	36	59
(Increase) Decrease in Other Operating Current Liabilities	36	22	32
Cash Flow from Operations	***169***	***127***	***14***
Investing			
Sale of Property, Plant and Equipment	3	1	2
Acquisition of Property, Plant and Equipment	(42)	(87)	(165)
Acquisition of Investment	(1)	(3)	(48)
Cash Flow from Investing	***(40)***	***(89)***	***(211)***
Financing			
Increase in Short-term Debt	0	0	269
Increase in Long-term Debt	0	1	5
Issue of Common Stock	3	2	3
Decrease in Short-term Debt	(96)	(8)	0

Decrease in Long-term Debt	(4)	(2)	(10)
Dividends	(22)	(26)	(41)
Cash Flow from Financing	***(119)***	***(33)***	***226***
Change in Cash	*10*	*5*	*29*
Cash, Beginning of the Year	74	84	89
Cash, End of the Year	84	89	118

Q1. i) Why did Nike experience increasing net income but decreasing cash flow from operations during this three-year period? **(15 marks)**

ii) How did Nike finance its investing activities during the three-year period? Evaluate the appropriateness of Nike's choice of financing during Year 3**.** **(15 marks)**

Q2. XYZ ltd is preparing budget for the year ended 31 December 2006. The company manufactures and sells one product. The selling prices is $150 per unit but this will increase to $160 as from 1 July 2005. The budgeted sales volumes are:

	UNITS
January to March	40,000
April to June	50,000
July to September	30,000
October to December	45,000

Sales for January to march 2007 are expected to be 40,000 units.
Each unit of products uses 3 units of component A, 2 units of component B and 1 unit of component C, the current unit price of which are as follows:

	USD$.
Component A	9
Component B	6
Component C	25

Component A and B are expected to increase in price by 10% from 1 April 2006. Component C will rise by 5% from the same date. Labour costs for the product are $30 per unit, this will increase by 5% from 1 October 2006.
Variable production overhead will be $10 per unit, fixed production overhead is budgeted at $264,000 for the year and incurred evenly over each period.
Stock of finished units is budgeted at 20% of the next three month period's sales. No stock of components is held.
Required:
Prepare the following budgets for XYZ Ltd for each of the four three-month periods of 2006:

a) Sales budget (in $ and units) **(5 marks)**
a) Production budget (in units) **(5 marks)**
b) Component usage budget (in units) **(5 marks)**
c) Production cost budget (in $'000) **(5 marks)**

Q3. From the following profit and loss accounts and Balance sheet of Swadeshi Polytex Ltd. For the year ended 31st December 1987 and 1988, you are required to prepare a comparative income statement and comparative Balance sheet.

Profit and loss Account

(In Lakhs of Rs)

Particular	**1987 Rs**	**1988 Rs**	**Assets**	**1987 Rs**	**1988 Rs**
Total cost of goods sold	600	750	By net sales	800	1,000
To operation expenses:					
• Administration expenses	20	20			
• Selling expenses	30	40			
To net profit	150	190			
	800	1,000		800	1,000

Balance sheet as on 31st December 1987 and 1988

(In Lakhs of Rs)

Liabilities	**1987 Rs**	**1988 Rs**	**Assets**	**1987 Rs**	**1988 Rs**
Bills payable	50	75	Cash	100	140
Sundry creditors	150	200	Debtors	200	300
Tax payable 6%	100	150	Stock	200	300
Debentures 6%	100	150	Land	100	100
Preference capital	300	300	Building	300	270
Equity capital	400	400	Plant	300	270
Reserves	200	245	Furniture	100	140
	1,300	**1,520**		**1,300**	**1,520**

Q4. Swasey Manufacturing needed to determine if it would be cheaper to make 10,000 units of a component in-house or to purchase them from an outside supplier for $4.75 each. Cost information on internal production includes the following:

	Total cost ($)	Unit cost ($)
Direct materials	10,000.00	1.00
Direct labour	20,000.00	2.00
Variable overheads	8,000.00	0.80
Fixed overheads	44,000.00	4.40
Total	82,000.00	8.20

Fixed overheads will continue whether the component is produced internally or externally. No additional cost of purchasing will be incurred beyond the purchasing price.

Required:

a) What are the alternatives for Swasey Manufacturing? **(4 marks)**

b) List the relevant cost (s) of internal production and external purchase. **(6 marks)**

c) Which alternative is more cost effective and by how much? **(5 marks)**

d) Now assume that fixed overhead includes $10,000 of cost that can be avoided if the component is purchased externally. Which alternative is more cost effective and by how much? **(5 marks)**

END