



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF LAW, BUSINESS INTELLIGENCE AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND HUMAN CAPITAL MANAGEMENT

EXAMINATION PAPER

COURSE CODE : CAC223
COURSE TITLE : COST AND MANAGEMENT ACCOUNTING
DURATION : 3 Hours
LEVEL : 2.2
DATE :

11 JUN 2024

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Answer **all** questions in **Section A and Section B**.
3. Begin each question on a new page for Section B only.
4. The number of marks for each question or part question is shown in brackets []
5. Use of silent non-programmable calculators is allowed

SECTION A [20 Marks]

ANSWER ALL QUESTIONS. Each question carries two marks.

SELECT THE MOST APPROPRIATE ANSWER

1. Which ONE of the following costs would NOT be classified as a production overhead cost in a food processing company?

- A. The cost of renting the factory building;
- B. The salary of the factory manager;
- C. The depreciation of equipment located in the materials store;
- D. The cost of ingredients.

2. A company absorbs overheads on machine hours. In a period, actual machine hours were 17,285, actual overheads were \$496,500 and there was under-absorption of \$12,520.

What was the budgeted level of overheads?

- A. \$483,980
 - B. \$496,500
 - C. \$509,020
 - D. It cannot be calculated from the information provided.
3. An engineering firm operates a job costing system. Production overhead is absorbed at the rate of \$8.50 per machine hour. In order to allow for non-production overhead costs and profit, a mark-up of 60 per cent of prime cost is added to the production cost when preparing price estimates.

The estimated requirements of job number 808 are as follows:

Direct materials	\$10,650
Direct labour	\$3,260
Machine hours	140

The estimated price notified to the customer for job number 808 will be:

- A. \$22,256
- B. \$22,851
- C. \$23,446
- D. \$24,160

4. A company operates a process in which no losses are incurred. The process account for last month, when there was no opening work-in-progress, was as follows:

Process Account			
	\$		\$
Costs arising	624,000	Finished outputs (10000units)	480,000
		Closing W.I.P(4000units)	144,000
	624,000		624,000

The closing work in progress was complete to the same degree for all elements of cost.

What was the percentage degree of completion of the closing work-in-progress?

- A. 12%
 - B. 30%
 - C. 40%
 - D. 75%
5. Two products (W and X) are created from a joint process. Both products can be sold immediately after split-off. There are no opening inventories or work in progress. The following information is available for last period:

Total joint production costs \$776,160

Product	Production	Sales Units	Selling Price
	Units		Per Unit
W	12,000	10,000	\$10
X	10,000	8,000	\$12

Using the sales value method of apportioning joint production costs, what was the value of the closing inventory of product X for last period?

- A. \$68 992

B. \$70 560

C. \$76 032

D. \$77 616

6. A company's budget for the next period shows that it would break even at sales revenue of \$800,000 and fixed costs of \$320,000. The sales revenue needed to achieve a profit of \$200,000 in the next period would be:

A. \$1,000,000

B. \$1,300,000

C. \$1,320,000

D. \$866,667

7. X plc intends to use relevant costs as the basis of the selling price for a special order: the printing of a brochure. The brochure requires a particular type of paper that is not regularly used by X plc although a limited amount is in X plc's inventory which was left over from a previous job. The cost when X plc bought this paper last year was \$15 per ream and there are 100 reams in inventory. The brochure requires 250 reams. The current market price of the paper is \$26 per ream, and the resale value of the paper in inventory is \$10 per ream.

The relevant cost of the paper to be used in printing the brochure is:

A. \$2,500

B. \$4,900

C. \$5,400

D. \$6,500

8. The details of four short-term investments are as follows:

Investment Andora pays interest of 1.7 per cent every 3 months

Investment Bata pays interest of 3.4 per cent every 6 months

Investment Capa pays interest of 5.4 per cent every 9 months

Investment Delta pays interest of 7.0 per cent every 12 months

The investment that gives the highest effective annual rate of interest, assuming that the interest is reinvested, is:

- A. Investment Andora
- B. Investment Bata
- C. Investment Capa
- D. Investment Delta

9. Abisha Ltd has fixed costs of \$60,000 per annum. It manufactures a single product that it sells for \$20 per unit. Its contribution to sales ratio is 40 per cent.

Abisha Ltd's breakeven point in units is:

- A. 1,200
- B. 3,000
- C. 5,000
- D. 7,500.

10. A farmer grows potatoes for sale to wholesalers and to individual customers. The farmer currently digs up the potatoes and sells them in 20kg sacks. He is considering a decision to make a change to this current approach. He thinks that washing the potatoes and packaging them in 2kg cartons might be more attractive to some of his individual customers.

Which of the following is relevant to his decision?

- (i) The sales value of the dug potatoes
- (ii) The cost per kg of growing the potatoes
- (iii) The cost of washing and packaging the potatoes
- (iv) The sales value of the washed and packaged potatoes

- A. (ii), (iii) and (iv) only
- B. (i), (ii) and (iii) only
- C. (i), (ii) and (iv) only
- D. (i), (iii) and (iv) only

[Total 20 marks]

SECTION B [80 Marks]

ANSWER ALL QUESTIONS. Begin each question on a new page.

Question 1

A company manufactures and sells a single product that has the following cost and selling price structure:

	\$/unit	\$/unit
Selling price		120
Direct material	22	
Direct labour	36	
Variable overheads	14	
Fixed overheads	12	(84)
Profit per unit		36

The fixed-overhead absorption rate is based on the normal capacity of 2,000 units per month. Assume that the same amount is spent each month on fixed overheads.

Budgeted sales for next month are 2,200 units.

You are required to:

a) Calculate

- (i) The breakeven point, in sales units per month **[5]**
- (ii) The margin of safety for next month **[3]**
- (iii) The budgeted profit for next month **[3]**
- (iv) The sales required to achieve a profit of \$96,000 in a month **[3]**

b) Discuss the usefulness of dividing costs into variable and fixed components in the context of short-term decision-making **[6]**

[Total 20marks]

Question 5

Walaz Ltd makes and sells four products. The profit and loss statement for April is as follows:

Products	Wegan \$	Xata \$	Yam \$	Zed \$	Total \$
Sales	30,000	20,000	35,000	15,000	100,000
Cost of sales	(16,000)	(8,000)	(22,000)	(10,000)	(56,000)
Gross profit	14,000	12,000	13,000	5,000	44,000
Overhead costs:					
Selling	(8,000)	(7,000)	(8,500)	(6,500)	(30,000)
Administration	(2,000)	(2,000)	(2,000)	(2,000)	(8,000)
Net profit	4,000	3,000	2,500	(3,500)	6,000

The management team is concerned about the results, particularly those of product Zed, and it has been suggested that Walaz Ltd would be better off if it ceased production of product Zed. The production manager has said that if product Zed were discontinued the resources which would become available could be used to increase production of product Yam by 40 percent. You have analysed the cost structures of each of the products and discovered the following:

Products	Wegan \$	Xata \$	Yam \$	Zed \$	Total \$
Variable costs	4,800	1,600	13,200	5,000	24,600
Fixed costs	11,200	6,400	8,800	5,000	31,400
	16,000	8,000	22,000	10,000	56,000

The total fixed costs figure includes \$20,000 which is not specific to any one product, and which has been apportioned to each product on the basis of sales values. If the quantity of any product increases by more than 25 percent, then the specific fixed production costs of the product will increase by 30 percent.

The selling overhead comprises a fixed cost of \$5,000 per product plus a variable cost which varies in proportion to sales value. The fixed cost is not specific to any product but the sales director believes that it should be shared equally by the four products. The administration cost is a central overhead cost; it is not affected by the products made.

Required:

- a) Prepare a statement which shows clearly the results of continuing to produce products Wegan, Xata, Yam and Zed at the same volumes as were achieved in April. Present your statement in a format suitable for management decision-making [15]
- b) Prepare:
 - (i) A statement showing clearly the results if product Zed is discontinued, and the number of units of Yam is increased in accordance with the production manager's statement. (Assume that no change in selling price per unit is necessary to sell the additional units.) [4]

- (ii) Reconcile the profit calculated in (a) and (b) (i) above; advise the management team as to whether product Zed should be discontinued. [3]
- c) Explain briefly any non-financial factors which should be considered before discontinuing a product. [8]

[Total 30marks]

0/14 (pm)