

ZIMBABWE EZEKIEL GUTI UNIVERSITY



DEPARTMENT OF ACCOUNTING AND FINANCE

B.COM ACCOUNTING

COURSE: INTRODUCTION TO COST AND MANAGEMENT ACCOUNTING

COURSE CODE: CAC107

DURATION: 3 HOURS

11 JUNE 2018

INSTRUCTIONS TO CANDIDATES

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

Question One

The following information is available for periods 1-6 for a company that produced a single product:

	\$
Unit selling price	10
Unit variable cost	6
Fixed costs for each period	300

Normal activity is expected to be 150 units per period, and production and sales for each period are as follows:

	Period 1	Period 2	Period 3	Period 4	Period 5	Period 6
Units sold	150	120	180	150	140	160
Units produced	150	150	150	150	170	140

There were no opening stocks at the start of period 1, and the actual manufacturing fixed overhead incurred was \$300 per period. Assume that nonmanufacturing overheads are \$100 per period.

Required

Prepare the absorption cost statements for periods 1- 6. (25 marks)

[Total 25 marks]

Question Two

Belfast Chemicals Ltd manufactures an adhesive, which passes through two processes; Y and Z. Details of the second process, Process Z, for the month of May were as follows:

Opening work in progress	Nil
Materials transferred from Process Y	5,000 kilos at \$23,000
Labor costs	500 hours at \$4,40 per hour
Overheads	60% of labor cost
Output transferred to finished goods	4,000 kilos
Closing work in progress	400 kilos
Normal loss	10% of input (scrap value \$1 per kilo)

Closing work in progress is 100% complete for material content and 75% complete for both labor and other overheads.

Required:

- a. Explain the term process costing. (3 marks)
- b. Prepare
 - i. Process Z account for the month of May showing clearly the value of the transfer to finished stock account and also the valuation of work in progress. (13 marks)
 - ii. Abnormal gain/loss account (6 marks)
- c. Explain in relation to process costing the concept of equivalent units. (3marks)

[Total: 25 Marks]

Question Three

‘An accountant calculates an organisations profit and loss based upon financial information from many sources.’

Required:

- a. Name the characteristics that this information must have to be described as good information for the accountant and, for each characteristic, state why it is necessary. (17 marks)
- b. List and explain any four sources internal sources of information and four external sources of information. (8 marks)

[Total: 25 marks]

Question Four

PBE Co. is an ice cream producer. Currently it produces at capacity and sells ice cream in two flavours: vanilla and mocha-almond. The company is using traditional costing, under which indirect costs are allocated based on direct labour hours. The operating data for PBE Co. in March 2018 is as follows.

	Vanilla	Mocha-almond
Units produced and sold	50,000	1,000
Price	US\$30	US\$50
Direct labour hours per unit	0.02	0.02
Direct labour cost per hour	US\$50	US\$50
Machine hours per unit	0.01	0.01
Machine setup hours per production run	4	6
Number of production runs	50	10
Direct materials used	US\$300,000	US\$10,000

The company incurs manufacturing overheads totalling US\$1,275,000 in March 2018. An interview with the production manager shows that the following activities are required in the production process during the month.

Activity	Hierarchy	Activity	Hierarchy	Activity	Hierarchy	Activity	Hierarchy
Cost Driver	Costs	Cost Driver	Costs	Cost Driver	Costs	Cost Driver	Costs
Run machine		Unit-level activity		Machine hours		US\$510,000	
Handle production run		Batch-level activity		Production runs		US\$144,000	
Set up machine		Batch-level activity		Machine setup hours		US\$520,000	
Port products		Product-sustaining activity		Number of product		US\$101,000	
						US\$1,275,000	

Required:

- a. Prepare a Calculate the profit for each product using traditional costing. (5 marks)
- b. Calculate the profit for each product using ABC. (15 marks)
- c. Comment on the results calculated above. (5 marks)

[Total: 25 Marks]

End of paper