



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC 107
COURSE TITLE : INTRODUCTION TO COST AND
MANAGEMENT ACCOUNTING
DURATION : 3 Hours
DATE : 28 May 2019

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 in both Section A and Section B.
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets.
6. Each question in Section A carries 2 marks.

SECTION A

Answer all questions in this section. Each question carries 2 marks.

1. Which of the following industries would most likely use a Process cost Accounting system?
 - A. Construction
 - B. Beer
 - C. Hospitality
 - D. Consulting

2. Which of the following is not a method of cost absorption?
 - A. Percentage of direct material cost
 - B. Machine hour rate
 - C. Labour hour rate
 - D. Repeated distribution method

3. Which of the following document evidences the transaction of purchase of material?
 - A. Material requisition
 - B. Store requisition
 - C. Purchase order
 - D. Purchase invoice

4. Opportunity cost is an example of which of the following?
 - A. Sunk Cost
 - B. Irrelevant Cost
 - C. Relevant Cost
 - D. Period Cost

5. The main purpose of cost and management accounting is to
 - A. Maximize profits
 - B. Help in inventory valuation
 - C. Provide information to management for decision making
 - D. Aid in the fixation of selling price

6. In furniture manufacturing use of nail, pins, glue, and polish which use to increase its esteem value that cost is treated as:
 - A. Direct material cost
 - B. Indirect material cost
 - C. FOH cost
 - D. Prime cost

7. Which of the following is not an avoidable cause of labour turnover?
 - A. Dissatisfaction with Job
 - B. Lack of training facilities
 - C. Low wages and allowances
 - D. Disability, making a worker unfit for work

8. A cost unit is
 - A. The cost per hour of operating a machine
 - B. The cost per unit of electricity consumed
 - C. A unit of product or services in relation to which costs are ascertained

- D. A measure of work output in a standard
9. Abnormal cost is the cost:
- A. Cost normally incurred at a given level of output
 - B. Cost not normally incurred at a given level of output
 - C. Cost which is charged to customer
 - D. Cost which is included in the cost of the product
10. If overtime is resorted to at the desire of the customer, then the overtime premium:
- A. should be charged to costing profit and loss account
 - B. should not be charged at all
 - C. should be charged to the job directly
 - D. should be charged to the highest profit-making department
11. Labour turnover means:
- A. Turnover generated by labour
 - B. Rate of change in composition of labour force during a specified period
 - C. Either of the above
 - D. Both of the above
12. Out of the following, what is not the work of purchase department:
- A. Receiving purchase requisition
 - B. Exploring the sources of material supply
 - C. Preparation and execution of purchase orders
 - D. Accounting for material received
13. Economic order quantity is that quantity at which cost of holding and carrying inventory is:
- A. Maximum and equal
 - B. Minimum and equal
 - C. It can be maximum or minimum depending upon case to case.
 - D. Minimum and unequal
14. Calculate workers left and discharged from the following:
Labour turnover rates are 20%, 10% and 6% respectively under Flux method, Replacement method and Separation method. No. of workers replaced during the quarter is 80.
- A. 112
 - B. 80
 - C. 48
 - D. 64
15. Service departments costs should be allocated to:
- A. Only Service departments
 - B. Only Production departments
 - C. Both Production and service departments
 - D. None of the production and service department

[Total: 30 Marks]

SECTION B

Answer all questions in this section.

Question One

a. In the context of activity-based costing(ABC), it was stated in Management Accounting- Evolution not Revolution by Bromwich and Bhimani, that

‘Cost drivers attempt to link costs to the scope of output rather than the scale of output thereby generating less arbitrary product costs for decision making.’

You are required to explain the terms 'activity-based costing' and 'cost drivers'. (13 marks)

b. XYZ PLC manufactures four products, namely A, B, C and D, using the same plant and processes. The following information relates to a production period:

Product	Volume	Material cost/unit (RTGS \$)	Direct labour per unit (Hours)	Machine time per unit (Hours)	Labour cost per unit (RTGS \$)
A	500	5	0.5	0.25	3
B	5,000	5	0.5	0.25	3
C	600	6	2	1	12
D	7,000	17	1.5	1.5	9

Total production overhead recorded by the cost accounting system is analysed under the following headings:

Factory overhead applicable to machine- oriented activity is RTGS\$ 37,424

Set-up costs are RTGS\$ 4,355

The cost of ordering materials is RTGS\$ 1,920

Handling materials - RTGS\$ 7,580

Administration for spare parts - RTGS\$ 8,600.

These overhead costs are absorbed by products on a machine hour rate of RTGS\$ 4.80 per hour, giving an overhead cost per product of:

A= RTGS\$ 1.20 B= RTGS\$ 1.20 C= RTGS\$ 4.80 D= RTGS\$ 0.20

However, investigation into the production overhead activities for the period reveals the following totals:

Product	Number of set-ups	Number of material orders	Number of times materials was handled	Number of spare parts
A	1	1	2	2
B	6	4	10	5
C	2	1	3	1
D	8	4	12	4

Required

- i. Compute an overhead cost per product using activity-based costing, tracing overheads to production units by means of cost drivers. **(6 marks)**
- ii. To comment briefly on the differences disclosed between overheads traced by the present system and those traced by activity-based costing. **(6 marks)**

[Total: 25 Marks]

Question Two

Phiri Products Ltd manufactures goods which could involve any or all of three production departments. These departments are simply entitled A, B and C. A direct wages cost percentage absorption rate for the recovery of production overheads is applied to individual job costs.

	Dept. A	Dept. B	Dept. C
Indirect materials	RTGSS\$ 23,000	RTGSS\$ 35,000	RTGSS\$ 57,000
Indirect wages	RTGSS\$ 21,000	RTGSS\$ 34,000	RTGSS\$ 55,000
Direct wages	RTGSS\$ 140,000	RTGSS\$ 200,000	RTGSS\$ 125,000
Direct labour hours	25,000	50,000	60,000
Machine hours	100,000	40,000	10,000

Details for the company's budgets for the year ended 31 March 2020 are as follows:

The following information is also available for the production departments:

	Dept. A	Dept. B	Dept. C
Area (square metres)	30,000	20,000	10,000
Purchases	RTGSS\$ 220,000	RTGSS\$ 160,000	RTGSS\$ 20,000
Horse power of machinery	55	30	15
Other budgeted figures are	RTGSS\$		
Power	120,000		
Rent, rates, light, heat	90,000		
Insurance (machinery)	20,000		
Depreciation	80,000		

Machinery is depreciated on the basis of 20% on cost.

Job No. 347 passed through all three departments and incurred the following actual direct costs and times.

	Direct Material	Direct Wages	Direct Labour Hours	Machine Hours
	RTGSS\$	RTGSS\$		
Dept. A	152	88	35	60
Dept. B	85	192	90	30
Dept. C	52	105	45	10

A sum amounting to 30% of the production cost is added to every job to enable a selling price to be quoted.

Required:

- a. A statement to show the total production overheads per department and calculate the absorption rate which the company has adopted. (16 marks)
- b. Calculate the selling price to be quoted for Job No. 347. (3 marks)
- c. Using the available data, calculate absorption rates based on
 - i. Direct labour hour rate. (3 marks)
 - ii. Machine hour rate. (3 marks)

[Total: 25 marks]

Question Three

Mrs Johnston has taken out a lease on a shop for a down payment of RTGSS\$ 5,000. Additionally, the rent under the lease amounts to RTGSS\$ 5,000 per annum. If the lease is cancelled, the initial payment of RTGSS\$ 5,000 is forfeit. Mrs Johnston plans to use the shop for the sale of clothing, and has estimated operations for the next twelve months as follows:

	RTGSS\$
Sales	115,000
Value-added tax (VAT)	(15,000)
Net Sales	100,000
Cost of goods sold	(50,000)
Wages and wage related costs	(12,000)
Rent including the down payment	(10,000)
Rates, heating, lighting and insurance	(13,000)
Audit, legal and general expenses	(2,000)
Net profit before tax	13,000

In the figures no provision has been made for the cost of Mrs Johnston but it is estimated that one half of her time will be devoted to the business. She is undecided whether to continue with her plans, because she knows that she can sublet the shop to a friend for monthly rent of RTGSS\$550 if she does not use the shop herself.

Required:

- Explain and identify the 'sunk' and 'opportunity' costs in the situation depicted above;
(6 marks)
- State what decision Mrs Johnston should make according to the information given, supporting your conclusion with a financial statement.
(14 marks)

[Total: 20 marks]

End of Paper