

ZIMBABWE EZEKIEL GUTI UNIVERSITY



DEPARTMENT OF ACCOUNTING AND FINANCE

B.COM ACCOUNTING

COURSE: INTRODUCTION TO COST AND MANAGEMENT ACCOUNTING

COURSE CODE: CAC107

3 DECEMBER 2018

DURATION: 3 HOURS

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

“In designing a system to account for material and labour costs it is important that suitable clerical procedures are introduced to ensure that costs are collected quickly and accurately.”- C. Drury pg.45

Required

With the aid of a diagram, clearly outline the procedures for ordering, receiving, and issuing materials of inventory. **(25 marks)**

[Total: 25 Marks]

Question Two

Musendo Ltd, a company engaged in the manufacture of specialist marine engines, operates a historic job cost accounting system that is not integrated with the financial accounts.

At the beginning of May 2018 the opening balances in the cost ledger were as follows:

	(\$)
Stores ledger control account	85,400
Work in progress control account	167,350
Finished goods control account	49,250
Cost ledger control account	302,000

During the month, the following transactions took place:

	(\$)
Materials:	42,700
Purchases	63,400
Issues to production	
to general maintenance	1,450
to construction of manufacturing equipment	7,650
Factory wages:	
Total gross wages paid	124,000

\$12,500 of the above gross wages were incurred on the construction of manufacturing equipment, \$3,5750 were indirect wages and the balance was direct.

Production overheads: the actual amount incurred, excluding items shown above, was \$15,2350; \$30,000 was absorbed by the manufacturing equipment under construction and under absorbed overhead written off at the end of the month amounted to \$7,550.

Royalty payments: one of the engines produced is manufactured under license. \$2,150 is the amount that will be paid to the inventor for the month's production of that particular engine.

Selling overheads: \$22,000.

Sales: \$410,000.

The company's gross profit margin is 25% on factory cost.

At the end of May stocks of work in progress had increased by \$12,000.

The manufacturing equipment under construction was completed within the month and transferred out of the cost ledger at the end of the month.

Required:

- a. Define the term job costing (3 marks)
- b. Prepare the relevant control accounts, costing profit and loss account, and any other accounts you consider necessary to record the above transactions in the cost ledger for May 2018. (22 marks)

[Total: 25 marks]

Question Three

“Accounting is concerned with providing information which will help decision-makers to make good decisions. An understanding of accounting therefore requires an understanding of the decision-making process and an awareness of the users of accounting information.” – C Drury pg. 3.

Required:

- a. Citing relevant examples in cost and management accounting, clearly outline the decision making process, . (14 marks)
- b. Outline the distinctions between financial accounting and cost and management accounting. (11marks)

[Total: 25 marks]

Question Four

A manufacturing company has prepared the following budgeted information for 2019:

	\$
Direct material	800,000
Direct labour	200,000
Direct expenses	40,000
Production overhead	600,000
Administrative overhead	328,000
Budgeted activity levels include:	
Budgeted production	600,000 units
Machine hours	50,000
Labour hours	40,000

It has recently spent heavily upon advanced technological machinery and reduced its workforce. As a consequence, it is thinking about changing its basis for overhead absorption from a percentage of direct labour cost to either a machine hour or labour hour basis. The administrative overhead is to be absorbed as a percentage of factory cost.

Required:

- Prepare pre-determined overhead absorption rates for production overhead based upon the three different bases for absorption mentioned above. **(6 marks)**
- Outline the reasons for calculating a pre-determined overhead absorption rate. **(2 marks)**
- Select the overhead absorption rate that you think the organization should use giving reasons for your decision. **(3 marks)**
- The company has been asked to price job AX, this job requires the following:

Direct material	\$3,788
Direct labour	\$1,100
Direct expenses	\$422
Machine hours	120
Labour hours	220

Compute the price for this job using the absorption rate selected in c) above, given that the company profit margin is equal to 10% of the price. **(6 marks)**

- e. The company previously paid its direct labour workers upon a time basis but is now contemplating moving over to an incentive scheme. Draft a memo to the Chief Accountant outlining the general characteristics and advantages of employing a successful incentive scheme. **(8 marks)**

[Total 25 marks]

End of Paper