



ZIMBABWE EZEKIEL GUTI UNIVERSITY

COLLEGE FOR LIFE LONG LEARNING

Faculty of Law, Business Intelligence and Economics

EXAMINATION PAPER

COURSE CODE : DAF 112
COURSE TITLE : Principles of Cost and Management Accounting
SPECIAL REQUIREMENTS : NONE
DURATION : 2 Hours
LEVEL : 1.1
DATE : 13 JUN 2020

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. The number of marks for each question or part question is shown in brackets
[]
5. Begin each answer on a new page.
6. **DO NOT OPEN THIS PAPER UNTIL THE INVIGILATOR INSTRUCTS YOU.**

ANSWER ALL QUESTIONS.

Question One

Takanana Ltd manufactures and sells a single product. The budgeted profit statement for this month, which has been prepared using marginal costing principles, is as follows:

	\$	\$
Sales		864,000
Less Variable production cost of sales:		
Opening inventory (3,000 units)	69,000	
Production (22,000 units)	506,000	
Closing inventory (1,000 units)	(23,000)	(552,000)
		312,000
Less Variable selling costs		(60,000)
Contribution		252,000
Less Fixed overhead costs:		
Production	125,000	
Selling and administration	40,000	(165,000)
Net Profit		87,000

The normal monthly level of production is 25,000 units and inventory is valued at standard cost.

Required:

- Prepare in full a budgeted profit statement for this month using absorption costing principles. Assume that fixed production overhead costs are absorbed using the normal level of activity. **[10marks]**
- Prepare a statement that reconciles the net profit calculated in (a) with the net profit using marginal costing. **[5marks]**
- Distinguish between variable costing and absorption costing **[10marks]**

[Total 25marks]

Question Two

CO Ltd is considering the alternatives of either purchasing a component from an outside supplier or producing the component itself. The estimated costs to the company of producing a component are as follows:

Direct labour	100
Direct materials	300
Variable overheads	50
Fixed overheads	200
	650

The outside supplier has quoted a price of \$400 for supplying the component.

Required:

- Should CO Ltd produce or buy the component from the supplier? Justify your answer **[10 marks]**
- Evaluate the importance of contribution costing to a manufacturing business enterprise **(15marks)**

[Total 25 Marks]

Question Three

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 **[4 Marks]**
- (ii) The margin of safety for next month **[4 Marks]**
- (iii) The budgeted profit for next month **[5 Marks]**
- (iv) The sales required to achieve a profit of \$96,000 in a month **[5 Marks]**

b) Discuss the usefulness of dividing costs into variable and fixed components in the context of short-term decision-making? [7 Marks]

[Total 25marks]

END OF EXAMINATION QUESTION PAPER

2/0PM