



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC 111
COURSE TITLE : MANAGEMENT ACCOUNTING FOR BUSINESS
(MAIN)
DURATION : 3 Hours
DATE : 15 July 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.
4. Each question carries 25 marks.
5. Begin each question on a new page.
6. The number of marks for each question or part question is shown in brackets.

Question One

a. Briefly outline the key differences between financial accounting and management accounting with specific reference to each of the following matters in the context of financial accounting and management accounting:

- i. Users of information.
- ii. Reporting period/ frequency.
- iii. Time orientation of information.
- iv. Reporting format.

(10 marks)

b. Describe the costs associated with holding stock and ordering stock. (6 marks)

c. Calculate three normal control levels, which may be used in stock control systems, from the following information for a particular raw material:

Economic order quantity, 12 000 kilos

Lead time, 10 to 14 working days

Average usage, 600 kilos per day

Minimum usage, 400 kilos per day

Maximum usage, 800 kilos per day

(9 marks)

[Total:25 marks]

Question Two

Kay Limited is a manufacturing company which sells its products all around Zimbabwe. The company uses the absorption costing technique to attribute costs to individual products provided to its customers. The factory, in which the company undertakes all of its production, has three production departments – ‘Cutting’; ‘Shaping’ and finishing, and two service departments – ‘Stores’ and ‘Maintenance’.

Total fixed production costs expected to be incurred after primary allocation and apportionment for the upcoming financial year for each department are as follows:

Cost center	\$
cutting	525 000
shaping	400 000
finishing	250 000
stores	100 000
maintenance	80 000

The stores and maintenance analysis of the services they provide indicates that their costs should be apportioned production departments as follows:

	cutting	shaping	finishing	stores	maintenance
stores	40%	30%	20%	0%	10%
maintenance	45%	15%	25%	15%	0%

The number of machine and labour hours budgeted each production cost centre is:

	cutting	shaping	finishing
Machine hours	60 000	45 000	5 000
Labour hours	30 000	17000	20 000

Required:

- a. Using the elimination method, Re-apportion the service department costs and calculate the most appropriate overhead rate for each department. (Rate should be calculated to two decimal places). **(16 marks)**
- b. Using the rates calculated in part (b) calculate the full production cost of the following job and the selling price if the company requires a mark-up of 20% on cost:

(9marks)

JOB NUMBER 1234

Direct Materials \$100

Direct Labour:

Cutting Department 10 hours at \$16 per hour

Shaping Department 15 hours at \$14 per hour

Finishing department 7 hours at \$10 per hour

Machine hours required

Cutting Department 20 hours

Shaping Department 12 hours

Finishing 5 hours

[Total:25 marks]**Question Three**

Sakunda Ltd is a manufacturer of paint, currently producing and sells 200 buckets per day. Sakunda uses one kg of raw material called Zygon in the manufacture of one bucket of paint. The company purchases zygon from Gara Ltd for \$5 per Kg. Gara Ltd guarantees a delivery time of 20 days of zygon to management of Sakunda Ltd to avoid any shortages, since this would disrupt production, The placement of each order is estimated to require 1 hour of clerical time, with a direct cost of \$15 per hour plus overhead costs of another \$5 per hour. Sakunda Ltd estimated that the annual cost of holding inventory of zygon in its warehouses is 10% of the value (measured by purchase cost of one kg) of inventory. Other costs associated with storing and protecting the zygon in inventory amount to 5 cents per kg per year.

Required:

- a. Produce a formula to calculate the order quantity which would minimize these costs and your answer should explain each constituent part of the formula and their relationships. **(6 marks)**
- b. Use the formula in (a) above to calculate the order size which would minimize these costs. **(4 marks)**
- c. Determine the reorder level for zygon. **(3 marks)**

- d. The managing director of Sakunda Limited has asked you to prepare a report suitable for senior management; to assist in its understanding of management accounting. He has suggested that senior management need clarification on the topic of cost terms and their importance and application in management accounting.

Required:

Draft a report for the managing director which explains the following commonly used cost terms in management accounting:

- i. cost object
- ii. cost objective
- iii. indirect cost
- iv. direct cost
- v. period cost

(12 marks)

[Total:25 marks]

Question Four

Chimudhara Ltd produces a single product called Brandy. The company is considering adopting a standard variable costing system for internal reporting. The management accountant has provided the following information relating to standard costs which applies to the production of this product:

Direct materials	(6kg @ \$11 per kg)
Direct labour	(6hrs @ \$12 per hr)
Standard selling price	\$160

Details of the costs incurred, and the revenue generated during the month of November 2018 are provided below:

Sales	4,760,000
Direct materials (146,000kg @ \$12 per kg)	1,752,000
Direct labour (164,000 hours @ \$13 per hr)	<u>2,132,000</u>
	<u>3,884,000</u>
Contribution	<u>876,000</u>

Additional Information

1. The company never holds stocks of finished products, but instead sells all units of output in the month in which they are produced.
2. Chimudhara Ltd had budgeted to produce and sell 30,000 units of Brandy in November of the most recent financial year. 28,000 units were actually produced and sold during November of the most recent financial year.

Required:

- a. Identify and briefly explain three types of standard that a Management Accountant may consider when introducing a Standard Costing system. **(9 marks)**
- b. Calculate the standard contribution of one unit of 'Brandy'. **(4marks)**
- c. Calculate the relevant variances for November 2018 under the headings of sales, materials and labour. **(12 marks)**

[Total:25 marks]

THE END