



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
DURATION : 3 Hours
DATE :

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.

Royalties per unit of production	1 600
Other factory indirect expenses	58 000
Interest on loans and overdraft	3 800
Raw materials:	
Inventory at beginning of year	120 000
Purchases	400 000
Inventory at end of year	160 000
Other administration expenses	42 000
Other distribution expenses	65 000

Required:

- a. Prepare a cost sheet (statement of cost) of Changamire Limited clearly showing
 - i. Prime cost (7 Marks)
 - ii. Total factory overheads (6 Marks)
 - iii. Total production cost (2 Marks)

- b. The managing director of Changamire 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. direct and indirect costs

- iii. variable and fixed costs
- iv. product and period costs.

Illustrate your answer with examples.

(10 marks)

[Total: 25 marks]

Question Two

Weaver Ltd manufactures and sells a single product called Product W. The company operates an absorption costing system for product costing purposes and values closing stock at normal absorption cost. Fixed production overheads are applied to units of output using a predetermined overhead absorption rate based on an expected normal annual activity level of 258,000 units per annum. Fixed production overheads for the most recent financial year were budgeted to be \$5,160,000.

There was no opening stock at the start of the most recent financial year. Sales and production levels for the first three months of that year were as follows:

	Month 1	Month 2
Sales units	21,000	18,000
Production units	21,000	22,500

The actual selling price per unit achieved throughout the most recent financial year was \$180, while the actual variable cost incurred per unit remained at \$80 during that year. Fixed production overheads actually incurred were as follows: Month 1: \$410,000 and Month 2: \$432,000. In addition, fixed selling and administration costs of \$405,000 were incurred during each of the two months.

Required:

- a. Prepare operating profit statements for month 1 and month 2 :
 - i. In accordance with the absorption costing approach currently used by Weaver Ltd.
 - ii. In accordance with a marginal costing approach.

(15 marks)

b. In respect of each of the two months, explain any difference between the profits reported using absorption costing in (a)(i) above and those reported using marginal costing in (a)(ii) above.

(5 marks)

c. Outline the arguments put forward in favour of the use of absorption costing for internal reporting.

(5 marks)

[Total: 25 Marks]

Question Three

RUE Ltd, a private company, manufactures a single product and uses a standard costing system. The production department budgets for the last period included the following:

Production output	7 500 units
Direct materials	5 kg at \$6 per kg
Direct labour	4.5 hours at \$9 per hour
Fixed production overheads	\$4 per direct labour hour

The actual results for the period were as follows:

Production output 7 950 units

Direct materials purchased and used 41 250 kg costing \$239 250

Direct labour 34 950 hours at a cost of \$325 035

Fixed production overheads \$130 500

Required:

a. Identify three reasons for establishing a standard costing system (3 Marks)

b. Calculate the standard cost for the period (4 Marks)

c. Calculate the following variances for the period:

- | | | |
|------|----------------------------|-----------|
| i. | Direct material price | (3 Marks) |
| ii. | direct material usage | (3 Marks) |
| iii. | direct labour rate | (3 Marks) |
| iv. | direct labour efficiency | (3 Marks) |
| v. | fixed overhead expenditure | (3 Marks) |
| vi. | fixed overhead volume | (3 Marks) |

[Total: 25 Marks]

Question Four

Builders Boy Ltd. manufactures a single multi-purpose tool (known as 'The Builder's Boy') used extensively by those involved in the construction industry. Given the current economic climate for this industry the company are examining its projections and plans for the next financial period: the year ending 31st August 2010. The Directors are concerned about ensuring profitability and survival and have a number of questions and proposals about which they require advice.

The following information has been provided for 'The Builder's Boy' for the year ending 31st August 2010:

- 36,000 units of the product are expected to be sold at a uniform selling price of \$15 per unit.
- Production costs are budgeted at \$345,000 of which \$30,000 are regarded as fixed costs.
- Selling and distribution costs are budgeted at \$114,000 of which \$39,000 are regarded as variable costs.
- Administration costs are budgeted at \$36,000 fixed cost plus \$ 6,000 variable giving a total of \$42,000.

Required:

- a. Calculate the break even point in units and in sales value based on the original budgeted data noted above. **(6 marks)**
- b. Calculate the margin of safety and Provide a brief explanation of the term “Margin of Safety”. **(5 marks)**
- c. Calculate the number of units to be produced if the Builders Boy Ltd is targeting a profit of \$30000 **(4marks)**
- d. Analyse five (5) assumptions made when using break even analysis. **(10 marks)**

[Total 25 marks]

THE END