

# ZIMBABWE EZEKIEL GUTI UNIVERSITY



## DEPARTMENT OF ACCOUNTING AND FINANCE

### B.COM ACCOUNTING

COURSE: COST AND MANAGEMENT ACCOUNTING

COURSE CODE: CAC205

DURATION: 3 HOURS

11 JUNE 2018

#### 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

- Explain the concept of capital expenditure, clearly indicating its importance to various organizations. **(5 marks)**
- Identify any four methods of capital expenditure of your choice and outline their benefits and drawbacks. **(20 marks)**

**[Total: 25 Marks]**

### Question Two

Mahomet Massa is a wholesaler who sells its products to a wide range of retailers. Marketing is done through three geographical areas: the South, the Midlands and the North. The estimates of the costs and revenues for each sales territory for the next accounting period are as follows:

	South		Midlands		North		Total
	\$	\$	\$	\$	\$	\$	\$
Sales		900,000		1,000,000		900,000	2,800,000
Cost of goods sold		(400,000)		(450,000)		(500,000)	(1,350,000)
Gross Profit		500,000		550,000		400,000	1,450,000
Fixed selling costs:							
Salesmen's salaries	80,000		100,000		120,000		
Sales office and management expenses	40,000		60,000		80,000		
Advertising	50,000		50,000		50,000		
Salesmen's expenses	50,000	(220,000)	60,000	(270,000)	80,000	330,000	
Headquarters administration expenses		(80,000)		(90,000)		(90,000)	
Warehousing costs		(32,000)		(36,000)		(36,000)	
Total costs		(332,000)		(396,000)		(456,000)	(1,184,000)
Net profit (or loss)		168,000		154,000		(56,000)	266,000

The products are packaged and dispatched from a central warehouse, and it is estimated that 50% of the costs are variable and the remainder are fixed. All of the selling costs are fixed, with the exception of salesmen's expenses, which are variable with sales revenue. All of the administration expenses of the headquarters are common and unavoidable to all alternatives, and have been apportioned to sales territories on the basis of sales value.

**Required**

- a. Advise management, in view of the loss, if the North area should be closed? **(15 marks)**
- b. Clearly outline the importance of qualitative factors in decision-making. **(10 marks)**

**[ Total: 25 Marks]**

**Question Three**

ABC Limited manufactures three products from three basic raw materials in three departments. The company operates a budgetary control system and values its stock of finished goods on a marginal cost basis. The following data is given for the month of June 2019:

	<b>Product A</b>	<b>Product B</b>	<b>Product C</b>
Sales	\$1,500,000	\$1,080,000	\$1,680,000
Stock of finished products at 30 June 2019 (units)	3,000	2,000	2,500
	<b>Department I</b>	<b>Department II</b>	<b>Department III</b>
Fixed production Overhead	\$239,000	\$201,300	\$391,200
Direct labor hours	47,800	67,100	65,200
	<b>Materials DM 11</b>	<b>Materials DM 21</b>	<b>Materials DM 31</b>
Stock at 1st June 2019 (units)	24,500	20,500	17,500

The company is introducing a new system of inventory control, which should reduce stocks. The forecast is that stocks at 30 June 2019 will be reduced as follows: raw materials by 10% and finished products by 20%.

Fixed production overhead is absorbed on a direct labor hour basis. It is expected that there will be no work-in-progress at the beginning or end of the month.

Administration cost is absorbed by products at a rate of 20% of production cost and; selling and distribution cost is absorbed by products at a rate of 40% of production cost.

Profit is budgeted as a percentage of total cost as follows: product A 25%; product B 12,5 % and product C 16,67%.

Standard cost data, per unit of product:

	Price/ unit	Product A	Product B	Product C
	(\$)	(Units)	(Units)	(Units)
Direct material				
DM 11	2.00	5	-	12
DM 21	4.00	-	10	9
DM 31	1.00	5	5	-
	Rate/hour	Hours	Hours	Hours
	(\$)			
Direct Wages				
Department I	2.50	4	2	2
Department II	2.00	6	2	3
Department III	1.50	2	4	6
		\$	\$	\$
Other variable costs		10	20	15

**Required:**

Produce for the month of June 2019 the following budgets

- a. Production. (5 marks)
- b. Materials usage. (5 marks)
- c. Purchases (5marks)
- d. Profit and loss account for each product and in total (10 marks)

[Total: 25 Marks]

**Question Four**

- a. A company produces three products, and is reviewing the production and sales budgets for the next accounting period. The following information is available for the three products:

	Product X	Product Y	Product Z
Contribution per unit	\$12	\$10	\$6
Machine hours required per unit	6 hours	2 hours	1 hour
Estimated sales demand	200 units	200 units	200 units
Required machine hours	1,200 hours	400 hours	200 hours

Machine capacity is limited to 1,200 hours for the period, and is insufficient to meet total sales demand.

**Required**

- i. With the aid of practical examples define a limiting factor. (3 marks)
- ii. Advise as to which products should be produced during the period. (12marks)

- b. A company 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 the component are as follows:

	\$
Direct labor	100
Direct material	300
Variable overheads	50
Fixed overheads	200
	<b>650</b>

The outside supplier has quoted a figure of \$500 for supplying the component:

**Required**

Advise as to whether management should adopt this approach or not. (10 marks)

[Total: 25 Marks]

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