



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC 205
COURSE TITLE : COST AND MANAGEMENT ACCOUNTING
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 in both Section A and Section B.
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets.

SECTION A

Answer all questions in this section. Each question carries 2 marks.

1. Capital budgeting method to analyse information of financials include
 - a. internal rate of return
 - b. accrual accounting rate of return
 - c. net present value
 - d. all of above

2. If contribution margin is RTGSS\$ 13,000, total variable cost is \$RTGS 7,000 then total revenue will be
 - a. RTGSS\$ 6,000
 - b. RTGSS\$ 6,000
 - c. RTGSS\$ 20,000
 - d. RTGSS\$ 20,000

3. Which of following is an example of functional budget?
 - a. Flexible budget
 - b. Master budget
 - c. Production budget
 - d. None of the above

4. In accounting, recoverable value is the higher of:
 - a. NRV and Replacement value of an asset
 - b. Replacement and deprival value of an asset
 - c. NRV and deprival value of an asset
 - d. Value in use and NRV of an asset

5. "Contribution margin less controllable fixed cost" is used to:
 - a. Assess the performance of a segment
 - b. Assess the performance of a segment's manager
 - c. Assess the uncontrollable fixed cost proportion in relation to the contribution
 - d. Assess the real contribution margin

6. Which of the following is NOT included in a cash budget?
 - a. Cash sales
 - b. Receipts from debtors
 - c. Cash Drawings
 - d. Accrued expenses

7. XYZ Company has contribution to sales ratio 20% and profit to sales ratio 5%. What is the margin of safety ratio?
 - a. 20%
 - b. 25%
 - c. 4%
 - d. 5%

8. When the sales increase from RTGSS\$ 40,000 to RTGSS\$ 60,000 and profit increases by RTGSS\$ 5,000, the P/V ratio is -

- a. 20%
 - b. 30%
 - c. 25%
 - d. 40%.
9. A Local Authority is preparing cash Budget for its refuse disposal department. Which of the following items would not be included in the cash budget?
- a. Capital cost of a new collection vehicle
 - b. Depreciation of the machinery
 - c. Operatives wages
 - d. Fuel for the collection Vehicles
10. BDH produced 30,500 units of Kisty (a product). Each unit of Kisty takes two units of component L. Component L is budgeted to cost \$ 12 per unit. Current inventory of Kisty is 4,000 units. BDH wants 6,000 units of Kisty on hand at the end of the next year. How much will the direct materials budget show as the cost of materials to be purchased?
- a. \$ 756,000
 - b. \$ 390,000
 - c. \$ 684,000
 - d. \$ 330,000
11. The P/v ratio of a company is 50% and margin of safety is 40%. If present sales are RTGSS\$. 3,000,000 then Break Even Point in RTGSS\$ will be
- a. RTGSS\$ 900,000
 - b. RTGSS\$ 1,800,000
 - c. RTGSS\$ 500,000
 - d. None of the above
12. A Ltd is a manufacturing company that has no production resource limitations for the foreseeable future. The Managing Director has asked the company managers to coordinate the preparation of their budgets for the next financial year. In what order should the following budgets be prepared?
- (1) Sales budget
 - (2) Cash budget
 - (3) Production budget
 - (4) Purchase budget
 - (5) Finished goods inventory budget
- a. (2), (3), (4), (5), (1)
 - b. (1), (5), (3), (4), (2)
 - c. (1), (4), (5), (3), (2)
 - d. (4), (5), (3), (1), (2)

13. Which of the following statements regarding budgeting is untrue?
- While budgeting, the principal budget factor should be considered
 - Budget must be prepared in conformity with GAAPs
 - Budgeting is helpful in planning and control
 - A budget could be flexible or fixed
14. A diagram where X axis is the number of units sold and Y axis the revenue and cost. The point at which sales line intersects total cost line is the:
- Maximum sales revenue
 - Net profit
 - Net loss
 - Break-even point
15. Which of the following should be regarded as a relevant cost in terms of decision making?
- Incremental cost
 - Sunk cost
 - Non-incremental cost
 - Fixed cost

[Total: 30 marks]

SECTION B

Answer all questions in this section.

Question One

Two decision-making problems are faced by a company which produces a range of products and absorbs production overhead using a rate of 200% on direct wages. This rate was calculated from the following budgeted figures:

	RTG\$\$
Variable production costs	64,000
Fixed production costs	96,000
Direct labour costs	80,000

Problem 1

The normal selling price of product X is RTG\$\$ 22 and production cost for one unit is:

	RTGSS
Raw materials	8
Direct labour	4
Production overhead	8
	20

There is a possibility of supplying a special order for 2000 units of product X at RTGSS\$ 16 each. If the order were accepted the normal budgeted sales would not be affected and the company has the necessary capacity to produce the additional units.

Problem 2

The cost of making component Q, which forms part of product Y, is stated below:

	RTGSS
Raw materials	4
Direct labour	8
Production overhead	16
	28

Component Q could be bought from an outside supplier for RTGSS\$ 20.

Required

- a. State whether the company should:
- (i) accept the special order in Problem 1; (10 marks)
 - (ii) continue making component Q or buy it from outside in Problem 2; (10 marks)

both your statements must be supported by details of cost.

- b. Comment on the principle you have followed in your cost analysis to arrive at your answers to the two problem. (5 marks)

[Total: 25 Marks]

Question Two

'Pricing is defined as the determination of a selling price of the product or service produced. The price of an offering is a key element of an organization's marketing mix which comprises price, product or service, place of distribution and promotion factors that communicate with potential customers and influence the consumer's perception of the offering. In determining price, organisations should be aware of their mission and objectives, together with costs and constraints...'

Required:

- a. List and explain any eight the factors that influence product/ service pricing
(16 marks)
- b. With the aid of diagrams, explain the following:
- i. Perfectly Elastic
 - ii. Perfectly Inelastic
 - iii. Unitary Elastic

(9 marks)

[Total: 25 marks]

Question Three

Double Trouble plc, a company which manufactures pressed steel fitments, commenced trading on 1 December 2017. Summarized below is the statement of profit or loss and statement of financial position after the first year of trading.

	RTGSS\$'000	RTGSS\$'000
Sales		240
Cost of sales:		
Direct materials	60	
Direct labour	48	
Variable overhead	30	
Fixed overhead	70	(208)
Net operating profit		32
Proposed dividends to ordinary shareholders		15
Retained profit		17
		32

Double Trouble plc

Summarised statement of financial position as at 30 November 2018

Non-Current Assets	RTGSS'000	RTGSS'000
Plant and machinery (at cost on 1.12.1981)	120	
Depreciation	(24)	96
Current assets		
Inventory of materials	8	
Trade receivables	40	
Cash	1	49
Total Assets		145
Equity and Liabilities		
Equity		
Issued share capital : 108,000 RTGSS\$1 ordinary shares	108	
Reserves		
Retained profit	17	125
Current liabilities		
Creditors	5	
Dividend	15	20
		145

Shown below are relevant data extracted from the company's budget for the year ended 30 November 2019:

Sales:

1st Quarter RTGSS\$ 66,000

2nd Quarter RTGSS\$ 78,000

3rd Quarter RTGSS\$ 90,000

4th Quarter RTGSS\$ 84,000

The weekly sales in each quarter will be constant and, on average, debtors pay eight weeks after goods have been despatched. The selling prices and product mix will remain the same as the previous year.

Materials:

The price of materials will be 20% lower than the previous year. The weekly purchases of materials in each quarter will be constant, except for the budgeted stock increase in the third quarter shown below. Material suppliers are paid on average four weeks after the goods have been received.

Direct labour:

Wages will be paid at the 1981/82 level of £12000 per quarter plus the following changes:

- i. All direct operatives have been awarded a 15% rate of pay increase with effect from 1 December 2018.
- ii. One additional direct operative will be recruited at the beginning of the second quarter, and another direct operative will be recruited at the beginning of the third quarter. Both operatives will be paid RTGSS\$ 100 per week and will continue to be employed for the remainder of the year.

Wages are paid at the end of the week in which they are earned.

Overheads:

Variable overheads vary directly with production activity and there will be no price increases from the previous year. Fixed overheads will increase by RTGSS\$ 12,000 p.a. and the total amount will be incurred evenly throughout the year. All relevant overheads are paid in cash immediately they are incurred.

Stocks:

Stocks of work in progress and finished goods will not be carried. However, stocks of raw materials will increase by RTGSS\$ 3,000 in the first week of the third quarter and remain at RTGSS\$ 11,000 throughout the remainder of the year.

Capital expenditure:

Additional equipment costing RTGSS\$ 20,000 will be purchased and paid for during the second quarter of the year. Depreciation of this equipment will not commence until the following year.

Dividends:

The dividends outstanding will be paid in the first quarter of the year.

Required:

Prepare the company's quarterly cash budgets for the year ended 30 November 2019.

Note: It should be assumed there are 12 weeks in each quarter and any other assumptions which you consider to be necessary should be clearly stated.

[Total: 20 marks]

End of Paper