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	:	

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. If an initial investment is RTGS$ 765,000, payback period is 4.5 years, then increase in future cash flow will be
   A. RTGS$ 5,645,000
   B. RTGS$ 6,442,500
   C. RTGS$ 3,442,500
   D. RTGS$ 5,442,500

2. The management accounting concepts, additional to the fundamental accounting concepts do not include the
   A. controllability concept
   B. interdependency concept
   C. going concern concept
   D. reliability concept

3. Marginal costing may be preferred to absorption costing because it
   A. complies with the accruals or matching concept
   B. complies with International Accounting Standard (IAS) 2
   C. enables use of the opportunity cost approach
   D. ensures the recovery of total costs in sales pricing

4. Calculate the target cost gap for a new van for a company manufacturing vans with the following information given:

Estimated selling price	RTGS$ 5 000
Target profit required	10% of estimated selling price
Estimated cost	RTGS$ 4 800

   A. RTGS$ 550
   B. RTGS$ 200
   C. RTGS$ 400
   D. RTGS$ 300

5. If net initial investment is RTGS$ 6,850,000 and uniform increases yearly cash flows is RTGS$ 2,050,000, then payback period will be

   A. 3.34 years
   B. 4.34 years
   C. 5.34 years
   D. 6.34 years

6. A concept which explains a received money in present time, is more valuable than money received in future is called

   A. lead value of money
   B. storage value of money
   C. time value of money
   D. cash value of money

7. If actual input price is RTGS $150 and budgeted input price is $80, then price variance will be

   A. RTGS$ 130
   B. RTGS$ 70
   C. RTGS$ 150
   D. RTGS$ 80

8. Process of making long term decisions, for capital investment in projects is called

   A. lead budgeting
   B. lean budgeting
   C. capital budgeting
   D. relevant budgeting

9. Method, which calculates time to recoup initial investment of project in form of expected cash flows is known as

   A. net value cash flow method
   B. payback method
   C. single cash flow method
   D. lean cash flow method

10. If contribution margin percentage is 30%, selling price is RGTG$ 5,000, then contribution margin per unit will be

    A. RGTG$ 900

B. RGTG$ 1,200

C. RGTG$ 1,500

D. RGTG$ 1,600

11. If payback period is 4 years and uniform increases in cash flows per year is RTGS$ 2,750,000, then net initial investment can be

A. RTGS$ 10,511,000

B. RTGS$ 12,105,000

C. RTGS$ 1,100,000

D. RTGS$ 11,000,000

12. If actual price input is $700, budgeted price of input is $400 and actual quantity of input are 50 units, then price variance will be

A. $15,000

B. $13,000

C. $11,000

D. $9,000

13. Difference between budgeted amounts and actual results is classified as

A. standard deviation

B. variances

C. mean average

D. weighted average

14. Deprival value of an assets is depicted as the lower of:

A. Cost and book value

B. Replacement cost and recoverable amount

C. Recoverable amount and NRV

D. NRV and value in use

15. Which of the following is correct regarding units sold?

A. Units Sold = Opening finished units + Ending finished units – Units produced

B. Units sold = Opening finished units + Units produced – Ending finished units

C. Units sold = Opening finished units - Units produced + Ending finished units

D. None of the above

SECTION B
Answer all questions in this section.

Question One
Due to a national wage agreement, you find that wage rates for skilled workers are to increase by 50% over the budget figures. There is a shortage of such skilled workers and it takes over a year to train new recruits adequately. The managing director has asked you for advice as to which order of priority on the product range would give best use of the skilled labour resources available. The cost of unskilled labour, of which there is no shortage, will go up by 20% over budget.

The original budget figures for the next period, before allowing for the increases in labour cost detailed above, were:

Product	V	W	X	Y	Z
Maximum production in units	3,000	4,000	6,000	7,000	9,000
Selling price per unit (RTGS$)	16	15	18	15	30
Variable cost per unit					
Material	3	5	4	7	6
Skilled labour RTGS$ 4/hour	4	4	6	2	8
Unskilled labour RTGS$ 2/hour	2	2	1	1	4

Variable overheads are recovered at the rate of RTGS$ 1 per labour hour. The skilled labour available amounts to 30000 hours in the period and there are fixed costs of RTGS$ 22,800.

Required

a. Define the term limiting factor. **(3 marks)**

b. Calculate the product mix which would result in the maximum profit. **(16 marks)**

c. Comment on the results of the revised budget. **(6 marks)**

[Total: 25 Marks]

Question Two

a. Explain why Net Present Value is considered technically superior to Payback and Accounting Rate of Return as an investment appraisal technique even though the latter are said to be easier to understand by management. Highlight the strengths of the Net Present Value method and the weaknesses of the other two methods. **(8 marks)**

b. Your company has the option to invest in projects T and R but finance is only available to invest in one of them. You are given the following projected data:

Project	T	R
	RTGS$	RTGS$
Initial Cost	70,000	60,000
Profits:		
Year 1	15,000	20,000
Year 2	18,000	25,000
Year 3	20,000	(50,000)
Year 4	32,000	10,000
Year 5	18,000	3,000
Year 6		2,000

Additional information

1. All cashflows take place at the end of the year apart from the original investment in the project which takes place at the beginning of the project.
2. Project T machinery is to be disposed of at the end of year 5 with a scrap value of RTGS$ 10,000.
3. Project R machinery is to be disposed of at the end of year 3 with a nil scrap value and replaced with new project machinery that will cost RTGS$ 75,000.
4. The cost of this additional machinery has been deducted in arriving at the profit projections for R for year 3. It is projected that it will last for three years and have a nil scrap value.
5. The company's policy is to depreciate its assets on a straight line basis.

Required

i. If investment was to be made in project R determine whether the machinery should be replaced at the end of year 3. **(4 marks)**

ii. Calculate for projects T and R, taking into consideration your decision in (i) above:

- Payback period
- Net present value

and advise which project should be invested in, stating your reasons. **(10 marks)**

c. Explain what the discount rate of 14% represents and state two ways how it might have been arrived at. **(3 marks)**

[Total: 25 marks]

Question Three

'Life-Cycle Costs are all the costs associated with the product for its entire life cycle. Product life cycle costing traces costs and revenues of each product over several calendar periods throughout their entire life cycle.'

Required:

Clearly outline the stages involved in the life of a product, the features of each stage, the costs involved at each stage and the costing approaches that can be best utilized by organisations.

[Total: 20 marks]

End of Paper