



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 : 18 NOV 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. 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
2. The point at which the cost line intersects the sales line will be called:
 - A. Budgeted sales
 - B. Break Even sales
 - C. Margin of safety
 - D. Contribution margin
3. 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
4. A forecast set of final accounts is also known as:
 - A. Cash budget
 - B. Capital budget
 - C. Master budget
 - D. Sales budget
 5. _____ is future cost that effects the current management decision.
 - A. Sunk Cost
 - B. Standard Cost
 - C. Relevant Cost
 - D. Irrelevant Cost

6. Method, which calculates time to recoup initial investment of project in form of expected cash flows is known as
- net value cash flow method
 - payback method
 - single cash flow method
 - lean cash flow method

7. CVP is a behaviour of Sales, Variable costs, Fixed costs and _____ Which of the following is appropriate to fill in the blank?
- Factory overhead
 - Cost of goods manufactured
 - Contribution margin
 - Net income

8. The following information is extracted from the statement of financial position of a company:

	RTGSS\$
8% debentures	80,000
Ordinary shares	600,000
6% Preference shares	120,000

The ordinary shareholders have received a dividend of 5% for some years past. The rate of corporation tax is 30%. Calculate the weighted average cost of capital.

- 4.21%
 - 5.31%
 - 4.89%
 - 5.21%
9. Which of the following is the most likely to be a principal budget factor for an oil refinery?
- Demand of refined oil
 - Crude oil sales revenue
 - Supply of crude oil
 - Power or energy utilized in the refining process
10. Which of the following functions does the managerial accounting support?
- Decision making
 - Planning
 - Controlling
 - All of the above
11. Direct material total variance is divided into:
- Direct material usage & Direct material quantity variances
 - Direct material usage & Direct material efficiency variances
 - Direct material usage & Direct material production variances
 - Direct material usage & Direct material price variances

12. Which of the following statements is the most appropriate with reference to one-off contract decisions?
- The decisions whether or not a contract should be revoked
 - The decisions whether or not a product should be produced
 - The decisions whether or not a contract should be accepted
 - The decision whether or not a contract should legally be enforced
13. Which of the following is correct regarding units sold?
- Units Sold = Opening finished units + Ending finished units – Units produced
 - Units sold = Opening finished units + Units produced – Ending finished units
 - Units sold = Opening finished units - Units produced + Ending finished units
 - None of the above
14. In general, which of the following is true regarding production level?
- Practical Capacity < Theoretical Capacity
 - Practical Capacity = Theoretical Capacity
 - Practical Capacity > Theoretical Capacity
 - None of the above
15. Which of the following will increase the margin of safety?
- Increase of variable cost by 10%
 - Increase of actual sales by 10%
 - Increase of fixed cost by 10%
 - Increase of total production cost by 10%

[Total: 30 marks]

SECTION B

Answer all questions in this section.

Question One

- 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)
- 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
	RTG\$\$	RTG\$\$

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 RTGSS\$ 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 RTGSS\$ 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 Two

The Isabella Co. furnishes you the following information:

Year	2017	2018
	RTGSS	RTGSS
Sales	810,000	1,026,000
Profit earned	21,600	64,800

Required:

a. Calculate each of the following:

- (i) Profit /Volume ratio
- (ii) Fixed Cost
- (iii) Profit/ (Loss) when sales are \$648,000
- (iv) Sales required to earn a profit of \$108,000
- (v) Break –even sales
- (vi) Margin of Safety for the year

(15 marks)

b. Outline the various applications of the cost-volume-profit analysis concept.

(10 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