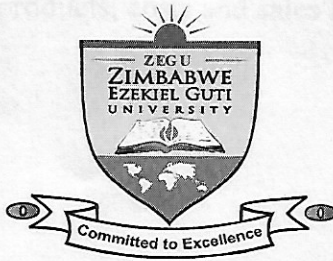


ZIMBABWE EZEKIEL GUTI UNIVERSITY



DEPARTMENT OF ACCOUNTING AND FINANCE

B.COM ACCOUNTING

COURSE: COST AND MANAGEMENT ACCOUNTING

COURSE CODE: CAC205

DURATION: 3 HOURS

30 NOVEMBER 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

WG Ltd wishes to compile an operating budget for the forthcoming period.

Information regarding products, costs and sales levels is given below:

Product	K	B
Materials required:		
X (kg)	1	1,5
Y (litres)	0.5	2
Labour hours required:		
Skilled (hours)	2	1
Semi-skilled (hours)	1	2,5
Sales level (units)	1,000	750
Opening stocks (units)	50	100

Closing inventories of materials finished goods will be sufficient to meet 10% of demand. Opening inventories of material X was 150 kg and for material Y was 500 litres. Material prices are \$3 per kg for material X and \$2 per litre for material Y. Labour costs are \$4 per hour for skilled workers and \$1 per hour for the semi-skilled workers.

Required:

- a. Produce the following budgets:
 - i. Production (units)
 - ii. Materials usage (kg and litres)
 - iii. Materials purchases (kg, litres and \$) and
 - iv. Labour (hours and \$)

(15 marks)

- b. Clearly outline the advantages and disadvantages of activity based budgeting.

(10 marks)

[Total: 25 Marks]

Question Two

ZEGU is considering investing in its own buses to ferry staff and students. Presently, this service is contracted to an outside organization. The expected life of the buses would be five years, after which the buses would be disposed of. In 2017, ZEGU used \$115 000 for renting the transport. This cost is projected to rise at 12% per annum from 2018 to 2022. The cost of the buses would be \$370 000 in total and it is expected that the following ancillary costs would be incurred over the next five years.

Year	Bus crew's costs	Repairs and maintenance	Other costs
	\$	\$	\$
2018	10,500	3,500	52,700
2019	13,500	4,700	55,500
2020	15,000	6,500	63,000
2021	16,500	8,000	64,500
2022	18,000	8,700	72,000

Other costs include depreciation. It is projected that the buses would be sold for \$95 000 at the end of year 5. It has been agreed to depreciate the buses at a rate of 10% reducing balance method.

To raise funds for the project ZEGU is proposing to raise a long-term loan at 12% per annum.

You are told that there is an alternative project that could be invested in using the funds raised, which has the following projected results:

Payback = 3 years

Accounting Rate of Return = 30 % (using average capital employed)

Net present value = \$140 000.

As funds are limited, investment can only be made in one project.

Note: The buses would be purchased at the beginning of the project and all other expenditure would be incurred at the end of each relevant year. Round off balances to the nearest \$1.

Required:

- (a) Prepare a table showing the net cash savings to be made by the University over the life of the project (10 marks)

(b) Calculate the following for acquisition of the buses:

- (i) Payback
- (ii) Accounting rate of return
- (iii) Net present value

(12 marks)

(c) What should be done by ZEGU ?

(3 marks)

[Total: 25 marks]

Question Three

“Target costing originated in the Japanese manufacturing industry in the 1970s as a response to the challenges posed by consumer demand for more diversity and shorter product life cycles. Companies also began to recognize that most of the cost of products was committed at the design stage. Target costing developed as a multidisciplinary approach to managing costs from the earliest stages and was complemented by techniques such as process re-engineering and total quality management.” – CIMA 2005.

- a. Define the term target costing . (2 marks)
- b. With the aid of a diagram, outline the target costing process. (8 marks)
- c. List and explaining the principles that support target costing, applying relevant examples. (15 marks)

[Total: 25 marks]

Question Four

A firm makes 150 000 electric switches selling at \$12 each. Their last operating statement was:

	\$
Sales (150 000 *12)	1 800 000
Less marginal costs:	
Labour	650 000

Materials	<u>525 000</u>	(1 175 000)
Contribution		625 000
Less fixed costs		<u>(450 000)</u>
Profit		<u>175 000</u>

A contract has been offered to sale an additional 60 000 switches at \$10 each. Acceptance of this order will increase fixed costs by \$40 000 and would entail paying an overtime premium of 25 % for the extra labour required. Because of bulk purchasing, a discount of 2% could be obtained for all material purchases.

Required:

- Prepare a differential cost statement and indicate whether or not the contract should be accepted. **(15 marks)**
- List and explain any five pricing strategies of your choice, making use of relevant examples. **(10 marks)**

[Total 25 marks]

End of Paper