



ZIMBABWE EZEKIEL

GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ECONOMICS AND BUSINESS SCIENCES

EXAMINATION PAPER

COURSE CODE	: CAC 205
COURSE TITLE	: COST AND MANAGEMENT ACCOUNTING
SPECIAL REQUIREMENTS	: SCIENTIFIC CALCULATORS IS ALLOWED
DURATION	: 3 Hours
LEVEL	: 1.2
DATE	:

Main paper printed

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Answer ALL questions.
3. Begin each question on new page in section B
4. 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 TWO MARKS)

1. Under which of the following labour remuneration methods will direct labour cost always be a variable cost?

A Day rate B Piece rate C Differential piece rate D Group bonus scheme

2. The following statements relate to the advantages that linear regression analysis has over the high low method in the analysis of cost behaviour: 1. the reliability of the analysis can be statistically tested 2. it takes into account all of the data 3. it assumes linear cost behaviour

Which statements are true?

A 1 only B 1 and 2 only C 2 and 3 only D 1, 2 and 3

3. The purchase price of an item of inventory is \$25 per unit. In each three month period the usage of the item is 20,000 units. The annual holding costs associated with one unit equate to 6% of its purchase price. The cost of placing an order for the item is \$20.

What is the Economic Order Quantity (EOQ) for the inventory item to the nearest whole unit?

A 730 B 894 C 1,461 D 1,633.

4. An organisation operates a piecework system of remuneration, but also guarantees its employees 80% of a time-based rate of pay which is based on \$20 per hour for an eight hour working day. Three minutes is the standard time allowed per unit of output. Piecework is paid at the rate of \$18 per standard hour.

If an employee produces 200 units in eight hours on a particular day, what is the employee's gross pay for that day?

A \$128 B \$144 C \$160 D \$180

5. A company uses an overhead absorption rate of \$3.50 per machine hour, based on 32,000 budgeted machine hours for the period. During the same period the actual total overhead expenditure amounted to \$108,875 and 30,000 machine hours were recorded on actual production.

By how much was the total overhead under or over absorbed for the period?

A Under absorbed by \$3,875

B Under absorbed by \$7,000

C Over absorbed by \$3,875

D Over absorbed by \$7,000

The following scenario relates to questions 6–7

Volt Co generates and sells electricity. It operates two types of power station: nuclear and wind. The costs and output of the two types of power station are detailed below: Nuclear station A nuclear station can generate 9,000 gigawatts of electricity in each of its 40 years of useful life. Operating costs are \$486m per year. Operating costs include a provision for depreciation of \$175m per year to recover the \$7,000m cost of building the power station. Each nuclear station has an estimated decommissioning cost of \$12,000m at the end of its life. The decommissioning cost relates to the cost of safely disposing of spent nuclear fuel. Wind station A wind station can generate 1,750 gigawatts of electricity per year. It has a life-cycle cost of \$55,000 per gigawatt and an average operating cost of \$40,000 per gigawatt over its 20-year life.

6. What is the life-cycle cost per gigawatt of the nuclear station (to the nearest \$'000)?

A \$54,000 B \$73,000 C \$87,000 D \$107,000

7. Which of the following will decrease the total life-cycle cost of a nuclear station?

(1) Increasing the useful life of the station

(2) Reducing the decommissioning cost

A 1 only B 2 only C Both 1 and 2 D Neither 1 nor 2

8. How would the disposal cost of spent nuclear fuel be categorised in environmental management accounting (EMA)?

A A prevention cost

B A detection cost

C An internal failure cost

D An external failure cost

9. If Volt Co sets a price to earn an operating margin of 40% over the life of a wind station, what will be the total lifetime profit per station (to the nearest \$m)?

A \$35m B \$408m C \$560m D \$933m

10. Which of the following are benefits of life-cycle costing for Volt Co?

(1) It facilitates the designing out of costs at the product development stage

(2) It can encourage better control of operating costs over the life cycle

(3) It gives a better understanding of the causes of overhead costs

(4) It provides useful data for short-term decision-making

A 1, 2 and 3 B 1 and 2 only C 1 and 4 D 2, 3 and 4

[TOTAL 20 MARKS]

SECTION B

QUESTION 1

A company makes and sells a single product. The selling price is \$12 per unit. The variable cost of making and selling the product is \$9 per unit and fixed costs per month are \$240,000.

The company budgets to sell 90,000 units of the product a month.

REQUIRED: Calculate

- (a) The breakeven point in units and \$ [8]
- (b) The budgeted profit per month [4]
- (c) The margin of safety? [4]
- (d) The sales to achieve a monthly profit of \$120,000 [4]

[Total 20 marks]

Question two

- a) list any five ways that can be done to reduce target cost gap [5]
- b) explain any 3 problems which are associated with closing target cost gap for services [5]
- c) With the aid of a diagram describe and explain the stages of a product life cycle. [10]

[Total 20 marks]

Question three

ABC Limited is considering two mutually exclusive projects. The firm, which has a 15% cost of capital, has estimated its cash flows as shown on the following table:

YEAR	PROJECT A	PROJECT B
0	(\$7000)	(\$8000)
1	\$2000	\$ 6000
2	\$ 1000	\$ 3000
3	\$ 5000	\$ 1000
4	\$4000	\$ 500

Required

- (a) Calculate the payback period and which project should be accepted and why? [10]
- (b) List and explain any three demerits of payback period [6]
- (c) Identify any four types of capital budgeting [4]

[Total 20 marks]

Question four

- (a) Briefly explain the key difference between fixed and flexible budget. [6]
- (b) State and explain four main uses of budgets. [4]
- (c) List and explain the three types of standards [3]
- (d) Explain the term variance analysis and identify any 4 types of variance analysis. [7]

[Total 20 marks]

[TOTAL 100 MARKS]

THE END OF EXAMINATION QUESTION PAPER