



## ZIMBABWE EZEKIEL GUTI UNIVERSITY

### FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

#### DEPARTMENT OF ACCOUNTING AND FINANCE

#### EXAMINATION PAPER

**COURSE CODE** : CAC 107  
**COURSE TITLE** : INTRODUCTION TO COST AND MANAGEMENT  
ACCOUNTING  
**DURATION** : 3 Hours  
**LEVEL** :  
**DATE** :

ZIMBABWE EZEKIEL GUTI UNIVERSITY  
ADMISSIONS & STUDENT SERVICES

20 AUG 2021

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#### 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.

Select the most appropriate answer

1. Which ONE of the following costs would NOT be classified as a production overhead cost in a food processing company?

- A. The cost of renting the factory building
- B. The salary of the factory manager
- C. The depreciation of equipment located in the materials store
- D. The cost of ingredients

2. An engineering firm operates a job costing system. Production overhead is absorbed at the rate of \$8.50 per machine hour. In order to allow for non-production overhead costs and profit, a markup of 60% of prime cost is added to the production cost when preparing price estimates. The estimated requirements of job number 808 are as follows:

Direct materials \$10,650

Direct labour \$3,260

Machine hours 140

The estimated price notified to the customer for job number 808 will be

- A. \$22,256    B. \$22,851    C. \$23,446    D. \$24,160

3. Which ONE of the following statements is true?

- A. The total variable cost varies with a measure of activity.
- B. A variable cost is an unavoidable cost.
- C. A variable cost is not relevant for decision-making.
- D. A variable cost becomes fixed in the long run.

4. Fixed costs are conventionally deemed to be:

- A. Constant per unit of output
- B. Constant in total when production volume changes

C. Outside the control of management

D. Those unaffected by inflation

5. The primary objective of management accounting is –

A To provide shareholders and potential investors with useful information for decision making

B To provide banks and other creditors with information useful in making credit decisions

C To provide management with information useful for planning and control of operations

D To provide the relevant taxation authorities with information about taxable income

6. In 'make or buy' decision, it is profitable to buy from outside only when the supplier's price is below the firm's own \_\_\_\_\_.

A Fixed Cost

B Variable Cost

C Total Cost

D Prime Cos

7 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

8 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

9. Which of the following statements relating to management information are true?

- 1. It is produced for parties external to the organisation
- 2. There is usually a legal requirement for the information to be produced
- 3. No strict rules govern the way in which the information is presented
- 4. It may be presented in monetary or non monetary terms

- A 1 and 2
- B 3 and 4
- C 1 and 3
- D 2 and 4

10. 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

[Total 20marks]

## SECTION B

Answer all questions in this section

### Question One

You are given the following information:

Maximum usage 800 kgs per day

Budgeted average demand for material X is 400kgs per week and production is maintained for 50 weeks in a year.

The ordering cost is %150 per order

The standard material cost of X is \$6 per kg and the carrying costs are 33.33% per kg per annum.

The maximum usage in any one week is 600kgs and the minimum is 400kgs.

On average the orders take anything from 1-3 weeks to be delivered after they have been placed.

### Required

Calculate the following:

- i) The optimum order quantity (EOQ) [8marks]
- ii) The re-order level for stock X [7marks]
- iii) The minimum level stock X that should be held [5marks]
- iv) State the merits and demerits of holding inventory [5marks]

[Total 25marks]

### Question Two

Derby Ltd manufactures a product called Mula. The following information per unit of Mula was provided.

	\$
Selling Price	60
Direct Material	18
Direct Labour	9
Variable production overhead	3
Annual costs:	
Fixed production overheads	18 000

Fixed selling and administration costs

45 000

Variable selling costs : 10%of annual sales revenue

Normal production : 15 000 per year

Fixed production overheads are absorbed based on normal level.

	2016	2017
	Units	Units
Production	18 000	13 000
Sales	13 500	15 000

There was no opening inventory at 1 January 2016.

### Required

- a) Prepare income statements for 2016 and 2017 using:
  - (i) Marginal costing [10marks]
  - (ii) Absorption costing [10marks]
- b) Prepare a statement to reconcile the profit in a(i) with profit in a(ii). [5marks]
- c) Explain why the absorption costing statement produces a different profit figure to the marginal costing statement. [5marks]

[Total 30marks]

### Question Three

a. Define and give an example of

- (i) Variable costs
- (ii) Fixed costs [10marks]

b. state and explain 5 remuneration methods [15marks]

[Total 25marks]

END OF EXAMINATION QUESTION PAPER