



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
LEVEL : 2.1
DATE : 20 AUG 2021

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: 2.1
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. Bindo Ltd manufactures and sells a single product whose price and cost structures are shown below

Selling price per unit \$20

Variable cost per unit \$15

Budgeted fixed costs are \$100 000 for a standard production of 40 000 units

How much profit or loss can be generated if 50 000 units are produced and sold ?

- A \$125 000 loss
B \$125 000 profit
C \$150 000 loss
D \$150 000 profit
2. What is the master budget?
- A. A budget based on a limited factor
B. A cash budget
C. A flexible budget
3. A set of budgeted final accounts The table below shows a company 's estimated sales.

	Cash	credit
	\$	\$
January	100 000	150 000
February	100 000	250 000
March	100 000	350 000

Debtors are expected to pay as follows;

60% in the month following sale

40% in the second month following sale,

How much cash from sales is expected in March?

- A. \$100 000
- B. \$160 000
- C. \$210 000
- D. \$310 000

4. A company invests in a project which costs \$300 000. The project will yield annual profits of \$90 000 for the next 4 years after providing annual depreciation of \$15 000
What is the payback period?

- A. 2 years
- B. 2,86 years
- C. 3,33 years
- D. 4 years

5. A business uses different investment appraisal techniques for appraising projects.
Which statement is correct?

- a. Projects with a negative net present value should be accepted
- b. The internal rate of return for an acceptable project always gives a net present value of zero
- c. Use of the payback period methods always considers the time value of money
- d. Use of the payback period method can lead to projects with negative net present value being selected

6. Simba Ltd uses the standard costing system. During the month of May 2003 the
]following information was provided

	Standard cost per unit based on a budgeted output of 12 000 units	Actual cost of 12 500 units produced
Direct material	6.1 metres @ \$5.50 per metre	73 750 metres costing \$427 750
Direct labour	2.75 hours @ \$15 per hour	31 250 hours @ \$16.20 per hour

What is the difference between the standard and actual direct labour costs of producing 12 500 units?

- A \$3 125 adverse
- B \$9 375 favourable
- C \$10 250 favourable
- D \$11 250 adverse

7. Following is used as tool for Cost Control

- (a) Marginal cost
- (b) Historical cost
- (c) Standard cost
- (d) All of the above

8. Sunk costs are _____.

- (a) Relevant for decision making
- (b) Not relevant for decision making
- (c) Cost to be incurred in future
- (d) Future costs

9. An estimated price, which is expected to be paid by customers for particular market offering is classified as

- A. target price
- B. target cost
- C. outsource price
- D. off shore price

10. A company manufactures three products for which the following details per unit are available

	Product X	Product Y	Product Z
Sales value	\$24,00	\$24	\$45
Direct material cost			
Direct labour cost	\$10	\$8	\$16
Direct labour hours	\$8	\$12	\$ 9
	4	1,6	6

If the labour hours are restricted in supply, which order of priority should the company adopt when planning its production? •

Order of priority

- . 1 2 3
- A. Y X Z
 - B. Y Z X
 - C. Z X Y
 - D. Z Y X

[Total 20marks]

SECTION B

Answer all questions in this section

QUESTION 1

Blessed Co. produces 3 components with the following information available:

	A	B	C
Production (units)	20,000	40,000	80,000
Direct Material Cost Per unit	0.80	1.00	0.40
Direct Labour Cost Per unit	1.60	1.80	0.80
Direct Overhead Cost Per unit	0.40	0.60	0.20
Fixed cost per unit	0.80	1.00	0.40
Sales Price per unit	4.00	5.00	2.00
Imported Price	2.75	4.20	2.00

Required:

- (i) Should Blessed Co. make or buy each of the components it sells?
- (ii) If the components are all made by Blessed Co. how much profit will be made?
- (iii) If your recommendation in part (i) is taken up how much profit will be made?
- (iv) What other factors should be considered before this decision is made? [20 marks]

[Total 20marks]

QUESTION 2

Sticky Wickets manufactures Cricket Bats. In May 2010 the budgeted sales and production

	Std Cost	Std Cost
Materials (2kg at \$5/kg)	10	
Labour (3hrs at \$12/hr)	36	
Overheads (3hrs at \$1/hr)	3	
Marginal Cost		49
Selling Price		68
Contribution		19

Total fixed costs in the period were budgeted at \$100,000 and were absorbed on the basis of labour hours worked.

In May 2010 the following results were achieved.

40,000kg of wood were bought at a cost of \$196,000, this produced 19,200 cricket bats.

No inventory of raw materials is held. The labour was paid for 62,000 hours and the total cost was \$694,000. Labour worked for 61,500 hours.

Variable overheads in the period were \$67,000.

The sales price was reduced to protect the sales levels. However, only 18,000 cricket bats were sold at an average price of \$65.

Total fixed costs in May were \$107,000.

Required

Calculate the sales, materials, labour, variable overheads, fixed overheads variances and any other appropriate variances in as much detail as possible [20marks]

2b (i) Explain the difference between a fixed budget and a flexed budget.

(ii) Discuss the requirements of an effective budgetary control system.

(iii) State any five possible limitations, on the level of activity of a business, that could be principal's budget factors. Suggest a way of overcoming each limitation. [10marks]

[Total 30marks]

QUESTION 3

Aybee Ltd is considering the following projects:

	Project A	Project B
	\$	\$
Cost	42 000	61 000
Scrap value	2 000	6 000
Useful life	5 years	5 years

Expected annual net cash flows:

	\$	\$
Year 1	14 000	17 000
2	16 000	15 800
3	16 500	14 500

4	14 500	14 400
5	15 000	15 400

Additional information:

- (i) Depreciation is on a straight line basis
- (ii) The cost of capital is 10%
- (iii) The present value of \$1 at 10% is as follows:

Year	1	0,909
	2	0,826
	3	0,751
	4	0,683
	5	0,621

Required

- (a) Calculate
 - (i) The Payback period for each project
 - (ii) the net present value of each project
 - (iii) The accounting rate of return for each project.
- (c). Based on your calculations in (a) which project should be undertaken.
Justify your choice

[30marks]

END OF EXAMINATION QUESTION PAPER