



FACULTY OF BUSINESS SCIENCES AND MANAGEMENT

DEPARTMENT OF ACCOUNTING

BACHELOR OF COMMERCE HONOURS DEGREE IN ACCOUNTING

PART II SECOND SEMESTER EXAMINATION

MANAGEMENT AND COST ACCOUNTING II [BAC2205]

JUNE 2025

DURATION: 3 HOURS

INSTRUCTIONS

1. Answer **ALL** QUESTIONS
2. Begin your answer to each question on a new page.
3. Please indicate the study format (Conventional/Block) on the cover of your answer script.

INFORMATION

1. Marks per question are as indicated.
2. Questions may be attempted in any order.

This paper consists of seven printed pages including the cover page

QUESTION 1 [30 MARKS]

- 1.1. How are abnormal losses treated in process costing?
- A. Added to the process cost
 - B. Transferred from one process to the following process
 - C. Transferred from the process account to cost of sales
 - D. Written off to the profit and loss account. **[2 Marks]**
- 1.2. A principal budget factor is?
- A. Anything which acts as a constraint on the level of activity
 - B. The amount by which current prices must be increased to take account of inflation.
 - C. The biggest item of expenditure in a budget
 - D. The required profit. **[2 Marks]**
- 1.3. The basis on which a sales budget is prepared is?
- A. The expected volume of sales
 - B. The previous year's sales revenue
 - C. The previous year's sales revenue plus an addition for anticipated price increases
 - D. The sales necessary to produce the forecast profit. **[2 Marks]**
- 1.4. A business plans to make 15,000 coats per annum, each taking 1.5 direct labour hours. If the direct labour rate is \$8 per hour and a pay rise of 15% is awarded halfway through the year, what is the total annual direct labour budget?
- A. \$120 000
 - B. \$193 500
 - C. \$180 000
 - D. \$207 000 **[2 Marks]**
- 1.5. What is meant by an incremental budget?
- A. A budget prepared from first principles
 - B. The variable elements of a budget excluding fixed costs
 - C. A budget that is based on the previous year, adjusting for known changes
 - D. A budget that breaks even **[2 Marks]**
- 1.6. A firm has produced the following budget for an activity level of 200,000 units:
- | | |
|-----------------|----------|
| Direct material | \$15 000 |
| Direct labour | \$40 000 |
| Fixed expenses | \$77 000 |
- What would be the total cost for a level of activity of 225,000 units?

- A. \$133 875
- B. \$148 500
- C. \$125 889
- D. \$138 875

[2 Marks]

1.7. A company operates a standard absorption costing system. Details of budgeted and actual figures for February are given below:

	Budget	Actual
Production (units)	29,000	26,000
Direct labour hours per unit	3.0	2.8
Direct labour cost per hour	\$10.00	\$10.40

The labour rate variance for the period was:

- A. \$34,800 A
- B. \$34,800 F
- C. \$29,120 A
- D. \$31,200 A

[2 Marks]

1.8. Using the information in question 1.7. above, the labour efficiency variance for the period was:

- A. \$58,000 F
- B. \$60,320 F
- C. \$52,000 F
- D. \$54,080 F

[2 Marks]

1.9. Standards that can only be attained under the best circumstances are referred to as:

- A. Ideal standards
- B. Best standards
- C. Basic standards
- D. Practical standards

[2 Marks]

1.10. Who is most likely to be responsible for material usage variances?

- A. Line workers
- B. Production supervisors
- C. Purchasing managers
- D. Marketing managers

[2 Marks]

1.11. A company has just secured a new contract which requires 500 hours of labour. There are 400 hours of spare labour capacity. The remaining hours could be worked as overtime paid at time-and-a-half, or labour could be diverted from the production of Product X. Product X

currently earns a contribution of \$4 in two labour hours and direct labour is currently paid at a rate of \$12 per normal hour.

What is the relevant cost of labour for the contract?

- A. \$2000
- B. \$1,200
- C. \$1,400
- D. \$1,800.

[2 Marks]

1.12. Which of these are **not** relevant costs?

- A. Incremental and sunk
- B. Sunk and committed
- C. Committed and incremental
- D. Opportunity and committed.

[2 Marks]

1.13. A supermarket is considering running a promotion on one of its washing powder brands. By doing this, it will not be able to run a campaign on its shampoo brands, which would have generated a contribution of \$50,000.

What type of cost is this \$50,000?

- A. Marginal cost
- B. Direct cost
- C. Activity cost
- D. Opportunity cost.

[2 Marks]

1.14. Which of the following is a disadvantage of divisionalisation?

- A. Improves the quality of decisions because divisional managers have good knowledge of local conditions
- B. Decisions should be taken more quickly because information does not have a long chain of command to and from top management
- C. The authority to act to improve performance should motivate divisional managers
- D. The business will divide into a number of self-interested segments, each acting, at times, against the wishes and interests of other segments.

[2 Marks]

1.15. A responsibility centre for which the designated manager is responsible for profit in relation to the capital invested is called a:

- A. Revenue centre
- B. Cost centre
- C. Profit centre
- D. Investment Centre.

[2 Marks]

QUESTION 2 [20 MARKS]

Marginal Products Ltd produces variable grommets under license and its budget for the month of September 2022 is as follows:

	\$	\$
Production: 1 000 variable grommets.		
Direct materials		56 000
Direct labour		84 000
Royalties		<u>10 000</u>
Prime cost		150 000
Other production costs:	12 000	
Variable		
Fixed	<u>30 000</u>	42 000
Selling and distribution costs:	10 000	
Variable		
Fixed	<u>25 000</u>	35 000
Administration expenses (Fixed)		<u>55 000</u>
Total cost		282 000
Budgeted net profit		<u>148 000</u>
Budgeted sales		<u>430 000</u>

Frog Ltd approaches Marginal Products Ltd with a proposal for a contract that will require an additional production of 300 variable grommets per month and sold to them at \$390 for each of the variable grommets produced.

At the same time, Bird Ltd require Marginal Products to produce an additional 200 variable grommets per month for which they will be prepared to pay \$160 per grommet.

Required:

a) A statement showing the effect on profit of each of the potential orders from Frog Ltd and Bird Ltd, and your opinion as to whether or not Marginal Products should accept either or both of the orders. **[16Marks]**

d) What are the four elements of the budgeting cycle. **[4 Marks]**

QUESTION 3 [25 MARKS]

The following are projected sales of BE Ltd for the first half of 2024

	\$
January	200 000
February	250 000
March	250 000
April	300 000
May	150 000
June	150 000
July	150 000

Additional Information:

1. All sales are on credit and on average, 80% is collected in the month of sale and 15% in the next month. The remainder is uncollectible.
2. Overheads are \$60 000 per month and are paid as incurred
3. Goods are purchased in anticipation of sales in the month preceding the month of sale. Sales are invoiced at cost plus 20%
4. Suppliers are paid one month after the goods are received
5. General expenses are paid at \$15 000 per month

Required:

Prepare;

- i. A schedule of cash collection from customers for the period January to June 2024. **[5 Marks]**
- ii. A schedule showing monthly purchases and payments to suppliers for the period January to June 2024. **[10 Marks]**
- iii. A cash budget for the period April to June 2024, assuming the cash balance as at 31 March 2024 was \$20 000. **[10 Marks]**

QUESTION 4 [25 MARKS]

ABC Ltd. has just introduced a new standard marginal costing system to assist in the planning and control of the production activities for the single product which the company manufactures, The Stand. The system became operational on 1st of March 2023. The Management Accountant has consulted with the Senior Engineer and they have agreed the following standard specifications to manufacture one unit of the product known as 'The Stand'.

Direct materials 4 kg @ \$1.75 per kg

Direct Labour 2 hours @ \$10 per hour
Variable overhead 2 hours @ \$8.25 per hour

The Marketing Director has advised that in ABC Ltd.'s industry, the budgeted selling price is normally calculated to achieve a mark-up of 30% on cost. The budgeted level of production and sales activity has been agreed with both production managers and sales staff at 24,000 units per month.

The actual results for the month of March 2023 are as follows:

- Sales 22,000 units yielding total revenue of \$1,276,000.
- Production 23,000 units
- Direct Materials 90,000 kgs at a cost of \$162,000.
- Direct labour 48,000 hours at a cost of \$576,000
- Variable overhead \$350,000

Required:

- a. Identify and briefly explain three types of standards that a Management Accountant may consider when introducing a Standard Costing system. **[6 Marks]**
- b. Calculate the standard selling price of one unit of 'The Stand' and prepare a summary budgeted profit statement for ABC Ltd. for the month of March 2023. **[3 Marks]**
- c. Calculate the following variances:
 - i. Sales Price **[2 Marks]**
 - ii. Sales Volume **[2 Marks]**
 - iii. Materials Price **[2 Marks]**
 - iv. Material Usage **[2 Marks]**
 - v. Labour rate **[2 Marks]**
 - vi. Labour efficiency **[2 Marks]**
 - vii. Overhead efficiency **[2 Marks]**
 - viii. Overhead expenditure **[2 Marks]**

END OF EXAMINATION PAPER