



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]

APRIL 2024

DURATION: 3 HOURS

INSTRUCTIONS

1. Answer **ALL** QUESTIONS
2. Begin 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.
3. Candidates may bring silent non-programmable calculators into the examination

This paper consists of 10 printed pages including the cover page

SECTION A: MULTIPLE CHOICE: [30 Marks]

Each question in this section carries 2 marks

1. A product is manufactured using two processes (process 1 followed by process 2). What is the cost of the materials used in process 2?

- A. the cost of materials added in process 2
- B. the cost of materials used in process 1 and materials added in process 2
- C. the cost of materials, labour, and overhead transferred from process 1
- D. the cost of materials, labour and overhead transferred from process 1 plus the cost of materials added in process 2**

2. A company manufactures products W, X, Y and Z using a common material.

	W	X	Y	Z
Contribution per unit	\$10	\$12	\$14	\$16
Units of material required	5litres	4 litres	6 litres	7 litres

If there is only enough material to make three of the products, which product should be discontinued?

- A. product W
- B. product X
- C. product Y
- D. product Z

3. How are abnormal losses treated in process costing?

- A. added to the process cost
- B. transferred from the 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**

4. Which figures would not be incorporated into a budgeted Profit and Loss Account?

- A. cash budgets
- B. overhead budget
- C. purchases budget
- D. wages budget

5. What should a company prepare to forecast its state as a going concern at the end of next year?

- A. cash budget
- B. cash flow statement
- C. forecast Balance Sheet
- D. forecast Profit and Loss Account

6. Which of the following is not a purpose of a budget?

- A. to communicate strategies and objectives downwards to staff at all levels
- B. to design an action plan to help achieve the next year's objectives
- C. to develop a long-term strategy
- D. to prepare an operational plan for the immediate future

7. A sales budget for one product was based on 500 units at \$10 per unit. The actual sales were 600 units for total sales revenue of \$5850.

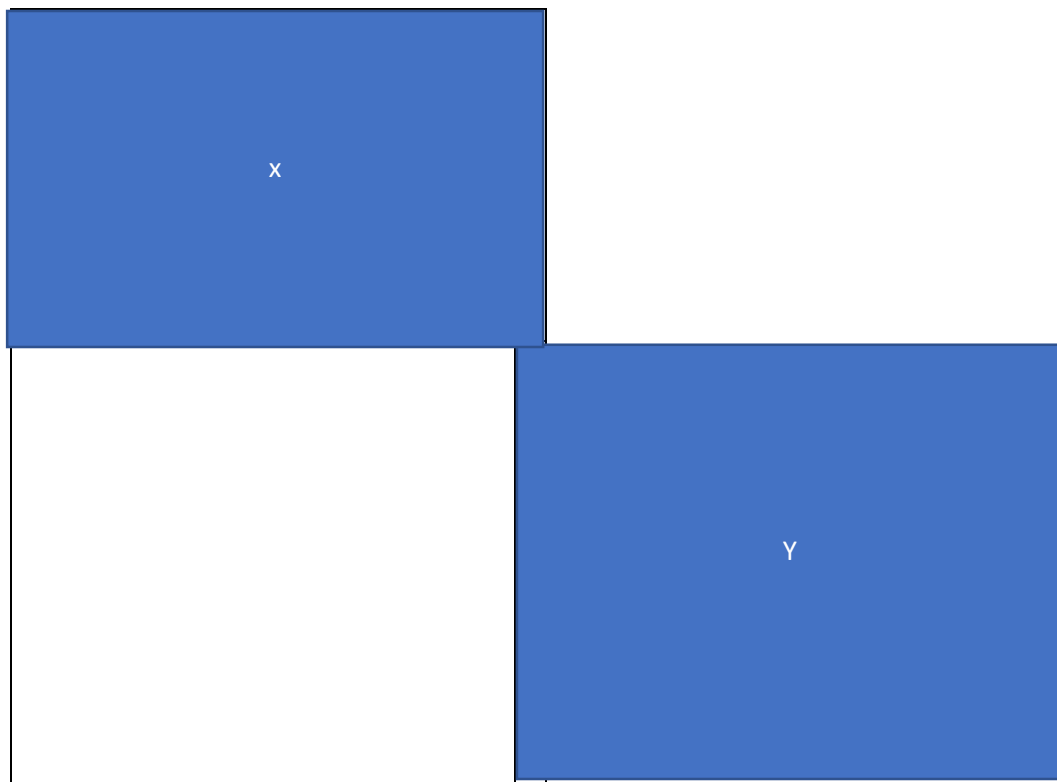
What are the volume and price variances?

	Volume /\$	Price /\$
A	150 favourable	850 favourable
B	850 favourable	150 favourable
C	1000 favourable	150 adverse
D	1000 adverse	150 favourable

8. The table shows unit material costs of a product.

Standard		Actual	
Quantity (kg)	Price (\$)	Quantity (kg)	Price (\$)
3	5	2.50	5.50

The material costs and quantities are shown in the graph



Kilograms

What do areas X and Y represent?

	X	Y
A	Favourable price variance	Favourable usage variance
B	Favourable price variance	Unfavourable usage variance
C	Unfavorable price variance	Favourable usage variance
D	Unfavourable price variance	Unfavourable usage variance

9. For what purpose might management undertake sensitivity analysis?

- A. to calculate employees' bonuses
- B. to determine levels of depreciation
- C. to determine the effect of dividends on profit
- D. to determine the selling price of a product

10. When should a manufacturing company purchase its products from an outside supplier? When the price is:

- A. Less than the selling price but more than the total cost.
- B. Less than the marginal cost of production.
- C. Less than the marginal cost of sales but more than the marginal cost of production.
- D. Less than the total cost but more than the marginal cost of sales.

11. A company has forecast the following sales for the first three months of next year. Month 1- 2000 units; month 2- 2100 units; month 3- 2400units. At the start of month 1 there were 300 units in stock. The company requires that the closing stock at the end of each month should be equal to 1/3 of the sales for the following month. How many units must be produced in month 2?

- A. 2000 units
- B. 2200 units
- C. 2400 units
- D. 2900 units

12. A businessman starts trading with a bank balance of \$124 000. The budget for the first three months shows the following:

	Month 1	Month 2	Month 3
	\$	\$	\$
Cash sales in month	30 000	40 000	35 000
Credit sales (terms 30 days)	20 000	22 000	24 000
Purchases (terms 60 days)	25 000	28 000	30 000
Expenses paid in month	12 000	13 000	64 000

What is the budgeted opening balance at the start of month 3?

- A. \$123 000 B. \$158 000 C. \$164 000 D. \$189 000

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

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

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

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

15. Mable Company's Harare Division earned operating income last year as shown in the following income statement:

Sales	\$480 000
Cost of goods sold	\$222000
Gross Margin	\$258 000
Selling and administrative expenses	\$ 210 000
Operating income	\$ 48000

At the beginning of the year, the value of operating assets was \$277 000. At the end of the year, the value of operating assets was \$323 000.

Calculate the division's return on investment

- A. 16% B. 25% C. 15% D. 20%

SECTION B: 70 MARKS

QUESTION 1

B Ltd is split into two divisions, A and B, each with its own cost and income streams. Each of them is managed by a divisional manager who has the power to make all investment decisions within the division. The cost of capital of both divisions is 12%. Historically, investment decisions have been made by calculating the return on investment (ROI) of any opportunities and present, the return on investment of each division is 16%. A new manager who has been appointed in division A has argued that using residual income (RI) to make investment decisions would result in “better goal congruence” throughout the company. Each division is currently considering the following separate investments:

Division	A	B
Capital required	\$82,8 m	\$40,6m
Sales generated by investment	\$44,6m	\$21,8m
Net profit margin	28%	33%

Required

- Calculate the return on investment for each division. (5 marks)
- Calculate the residual income for each division. (5 marks)
- Comment on the results, taking into consideration the managers’ views about residual income (4 marks)
- State and briefly explain three(3) objectives of transfer pricing (6 marks)

Question 2

A company manufactures chemical dynamite, using two components: Flash and Bang. The standard material usage and cost of one unit of Dynamite are as follows:

	\$
Flush:5kg @\$2 per kg	10
Bang :10 kg @ \$3 per kg	30
	40

In a particular period, 80 units of Dynamite were produced from 500 kg of Flush and 730 kg of Bang,

Required

Calculate the following variances:

- a) Material usage (4 marks)
- b) Material mix (6 marks)
- c) Material yield (5 marks)

Question 3

Budgeted information for Amani Ltd for the following period analyzed by product is shown below:

Product	I	II	III
sales (units)	225	376	190
selling price per unit (\$)	11.00	10.50	8.00
variable cost per unit (\$)	5.80	6.00	5.20
attributable fixed costs (\$)	275	337	296

General fixed costs which are apportioned to products as a percentage of sales, are budgeted at \$1 668.

Required

- a) Calculate the budgeted profit for each product and in total (12 marks)
- b) Recalculate the budgeted profit on the assumption that product III is discontinued, with no effect on the sales of the other two products, assuming attributable fixed costs are avoidable while general fixed costs are unavoidable (6 marks)
- c) Advise management on whether product III should be discontinued or not. (2 marks)

Question 4

Some commentators argue that the adoption of the participatory budgeting system is the solution to solve budgetary problems in many organizations rather than the use of zero based budgetary system and incremental budgetary approach. Discuss. (15 marks)

END OF QUESTION PAPER