

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**DEPARTMENT OF ACCOUNTING**

**FIRST SEMESTER SUPPLIMENTARY EXAMINATION MARCH 2010**

**MANAGEMENT AND COST ACCOUNTING II CAC 2105**

**TIME ALLOWED: 3 HOURS**

**INSTRUCTIONS TO CANDIDATES**

- i. Answer all **four** questions
- ii. Begin each question on a new page

QUESTION	TOPIC	MARKS
1	ACTIVITY BASED COSTING	25
2	COST BEHAVIOUR	25
3	OVERHEADS	25
4	MATERIAL COSTINGI	25

### QUESTION 1 (25 MARKS)

Redmires Lt had identified the following activities, costs and activity drivers for the coming year.

Activity	Expected cost	Activity driver	activity capacity
Set up costs	60 000	Number of set up	300
Ordering costs	45 000	Number of orders	4 500
Machine costs	90 000	Machine hours	18 000
Receiving costs	25 000	Number of parts	50 000

The following two jobs were completed during the year

	Job 600	Job 700
	\$	\$
Direct materials	750	850
Direct labour (50hours per job)	600	600
Units completed	100	50
No of set ups	1	1
No of orders	4	2
Machine hours	20	30
Parts used	20	40

The company's normal activity is 4 000direct labour hours

Required

- Determine the unit cost for each job using direct labour hours to apply overheads. (6 marks)
- Determine the unit cost for each job using the four cost drivers. (12 marks)
- What are the advantages and disadvantages of using the method used in (b) above (7 marks)

### QUESTION 2 (25 MARKS)

A company manufactures and retails clothing

- You are required to group the costs which are listed below and numbered 1 to 20 into the following classifications (each cost is intended to belong to one classification).
  - Direct materials
  - Direct labour
  - Direct expenses
  - Indirect production overhead
  - Research and development costs

- (vi) Administration costs
- (vii) Finance costs

1. Lubricant for sewing machines
2. Floppy disks for general office computer
3. Maintenance contract for general office photocopying machine
4. Telephone rental plus metered calls
5. Interest on bank overdraft
6. Performing rights society charge for music broadcast throughout the factory
7. Market research undertaken prior to a new product launch
8. Wages of security guards for factory
9. Carriage on purchases of basic raw material
10. Royalty payable on number of units of product XY produced
11. Road fund licenses for delivery vehicles
12. Parcels sent to customers
13. Cost of advertising products on television
14. Audit fees
15. Chief accountant's salary
16. Wages of operatives in the cutting department
17. Cost of painting advertising slogans on delivery vans
18. Wages of storekeepers in materials store
19. Wages of forklift truck drivers who handle raw materials
20. Developing a new product in the laboratory (15 mark)

- b) Explain why it is necessary to classify costs by their behavior. (5 marks)
- c) Explain and show by drawing two separate diagrams what is meant by the following
  - (i) A semi-variable cost
  - (ii) A stepped fixed costGive one example of each (5 marks)

### **QUESTION 3 (25 MARKS)**

- (a) Explain the difference between the terms overhead allotment, apportionment and absorption (3 marks)
- (b) Why are estimated figures used in calculating overhead absorption rates? (2 marks)
- (c) The following information relates to New manufacturing company for the six months ended 31 December 2009

	Production Departments			Service departments	
	A	B	C	X	Y
Overheads (\$)	14 000	12 000	8000	4000	3000
Service costs to be apportioned as:					
Dept X (%)	35	30	20	-	15
Dept Y (%)	30	40	25	5	-

Required

- (i) Use the repeated distribution method to apportion the service department's overheads. (9 marks)
- (ii) Use the elimination method to apportion the service department's overheads. (9 marks)
- (iii) State how far it is true to say that the elimination method produces an inaccurate answer and is therefore not recommended. (2 marks)

#### QUESTION 4 (25 MARKS)

- (a) Briefly describe the material control process and the two main control categories (10 marks)
- (b) .In stores control there are 3 critical quantities
  - The maximum level
  - The minimum level
  - The reorder level

Required:

- (i) Define these three terms
  - (ii) What factors should be considered when determining them. (5 marks)
- (c) State three methods of pricing stores requisitions and discuss their respective merits. (8 marks)
  - (d) What are the advantages of keeping stores by the perpetual inventory system? (2 marks)

