



National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

FIRST SEMESTER EXAMINATION: 2013

DATE: JANUARY 2013

SUBJECT: ACCOUNTING 2A: CAC 2106

TIME ALLOWED: THREE (3) HOURS

MARKS: 100

INSTRUCTIONS TO CANDIDATES

1. Answer **all** questions
2. Begin each Full question on a new page

INFORMATION FOR CANDIDATES

1. All workings should be shown
2. All answers should be presented in good style

Question 1 [25 marks]

Westgate Ltd supplies makes 4 components, data collected for the next year is as follows:

	Component			
	A	B	C	D
Production (units)	15 000	30 000	60 000	45 000
Variable costs (per unit)	\$	\$	\$	\$
Material	60	75	30	60
Labour	120	135	60	90
Overhead	30	45	15	30

Additional information

- i. Fixed costs arising directly from manufacturing component are:

Component	\$
A	15 000
B	75 000
C	90 000
D	120 000
- ii. General fixed costs of manufacture will be \$450 000.
- iii. A reliable subcontractor has submitted an offer to manufacture the components at the following prices:

Component	\$
A	180
B	315
C	150
D	210

Required

- (a) Calculate the cost of manufacturing the components and indicate the components to be manufactured and those which should be subcontracted. [10]
- (b) Highlight the extra cost or savings that would arise from subcontracting. [5]
- (c) State the qualitative factors that would influence the decision as to whether to make or buy? [5]
- (d) The term "relevant" is important in decision making .Explain what "Relevant costs" are: [5]

Question 2 [25 marks]

- (a) The following cost classification are used in costing
- i. Period costs
 - ii. Product costs
 - iii. Variable costs
 - iv. Opportunity costs

Required:

Elaborate on each of these classifications and support them with examples of the types of costs that may be included. [12]

- (b) The following transactions were recorded during the month of May by the Stores Company.

		Quantity	Unit cost
		Units	\$
1 May	Opening balance	100	2.00
3 May	Receipts	400	2.10
4 May	Issues	200	
9 May	Receipts	300	2.12
11 May	Issues	400	
18 May	Receipts	100	2.40
20 May	Issues	100	
31 May	Closing balance	200	

Required

Calculate the cost of goods issued to production and the value of closing stock for the month of May using the following methods:

- (i) First in first out (FIFO)
- (ii) Last in last out (LIFO)
- (iii) Average cost [13]

Question 3 [25 marks]

Dot Com Industries PLC operates a factory with four Departments. Two of the departments A and B are production departments, whereas maintenance and power house provide service. For the coming year the budgeted costs are as follows:

	A \$	B \$	Maintenance \$	Power House \$	Total \$
Indirect costs					
Indirect materials	1 491	2 414	665	760	5 330
Indirect labour	3 534	4 581	11 410	3 365	22 890
Rent and rates					7 130
Supervision					3 300
Plant depreciation					<u>8 250</u>
					<u>46 900</u>

You ascertain the following information:

	A	B	Maintenance	Power house
No. of employees	20	40	10	5
Area (sq. metres)	1 500	2 500	500	100
Plant valuation (\$000)	6 500	2 500	1 200	800
Direct labour hours	1 600	2 400		
Machine hours	5 540	1 160		
Maintenance hours	900	300	-	-
Units of power used	2 100	600	300	-

Required

- Analyse the above indirect costs between the four departments showing the basis of apportionment you have used. [15]
- Re-apportion the costs of the Service Department over the two Production Departments using the appropriate basis. [4]
- Calculate an overhead absorption rate for department A based on machine hours and an overhead absorption rate for department B based on direct labour hours. [3]
- Explain the meaning of the term 'overhead absorption' [3]

Question 4 [25 marks]

- a) As the manager for Nice Food restaurant with a take away service, you have been asked to prepare a budget for next year. To help you with this you need to know the fixed and the variable cost elements of delivery cost to customers' homes. The following information is available from the monthly accounts

Month	No of deliveries	Total delivery cost \$
July	403	662.70
August	291	561.90
September	348	613.20
October	364	627.60
November	521	768.90
December	387	648.30

Required

- (i) Calculate the fixed and the variable cost elements using the high – low method [5]
- (ii) Describe the advantages and disadvantages of finding the fixed and variable costs using the high-low method [5]
- b) A company produces a single product with the following budget:
- | | |
|-------------------------------|-----------------------|
| Selling price | \$10 |
| Direct materials | \$3 per unit |
| Direct wages | \$2 per unit |
| Variable production overheads | \$1 per unit |
| Fixed production overheads | \$10,000 per month |
| Budgeted production | 5,000 units per month |

Required:

Show the operating statement for the month when 4,800 units were produced and sold using:

- (a) Absorption costing [8]
(b) Marginal costing [7]

Assume that all costs were as budget.

END OF EXAMINATION PAPER