National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

1st SEMESTER SUPPLEMENTARY EXAMINATION: 2013

DATE: **SEPTEMBER 2013**

SUBJECT: **ACCOUNTING 2A: CAC 2I06**

TIME ALLOWED: **3 HOURS**

TOTAL 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]
Afric Ltd is a small company which undertakes a variety of jobs for its customers. The budgeted information is provided below:

	$	$
Sales		1 500 000
Costs		
Direct material	200 000	
Direct labour	100 000	
Prime cost	300 000	
Fixed production overhead	600 000	
Production cost	900 000	
Selling and distribution and admin	320 000	1220 000
Profit		280 000

Budgeted data

Labour hours for the year	50 000
Machine hours for the year	30 000
Number of jobs for the year	600

An enquiry has been received and the production department has produced estimates of the prime cost involved and of the hours required to complete job no 57

Direct materials	$500
Direct wages	$400
Prime cost	$900
Labour hours required	160
Machine hours required	100

Required

(a) Calculate the overhead absorption rates using six methods [9]
(b) Comment briefly on the suitability of each method calculated in (a) above [6]
(c) Calculate cost estimates for job 57 using in turn each of the six overhead absorption rates calculated in (a) above [10]

Question 2 [25 marks]

Industrial Tools manufactures a single product. Which has a variable cost of $16 per unit and is currently sold for $40 per unit, the reported profit this year was $800 000 after charging overheads of $400 000. The newly appointed general manager suggested that if the selling prices of the product were reduced, the sales would increase. He suggests that one of the following policies should be pursued for next year.

Policy	Reduce selling price by	Volume increase
1	5%	10%
2	7.5%	20%
3	10%	30%

Required

a) Calculate the volume sold during the year [2]
b) Calculate the forecasted profit from each of the policies [10]
c) Calculate the contribution to sales ratio for each policy [3]
d) Calculate the margin of safety as a percentage for each policy [8]
e) State which policy you would recommend and why [2]

Question 3 [25 marks]

(a) What are the characteristics of factory direct and indirect labour cost? [2]
(b) Explain the treatment of factory overtime and holiday pay [7]
(c) Describe the general features of time based and the piece rate remuneration systems. [10]
(d) Outline the relative merits of each system [6]

Question 4 [25 marks]

Owen Ltd uses a standard costing system. The standard cost card for one product is shown below:

Direct Material	4 kg	at	$4.50 per kg
Direct Labour	2 hours	at	$9.60 hour

Actual results for period 1 were as follows:

Total produced 38 000 units

Direct Material - purchased 180 000kg for $756 000
- issued to production 154 000kg

Direct Labour 78 000hours at a cost of $819 000

Required:

(a) Calculate the following variances
  (i) Total direct material cost
  (ii) Direct material price (based on issues to production)
  (iii) Direct material usage
  (iv) Direct labour rate
  (v) Direct labour efficiency [15]

(b) Assuming the Purchasing manager by obtaining bulk quantities has purchased materials at less than the standard price, give three explanations for the variances calculated in(a) [6]

(c) What are the advantages and disadvantages of standard costing? [4]

END OF EXAMINATION PAPER