

**UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF COMMERCE
BANKING DEPARTMENT
BACHELOR OF COMMERCE HONOURS DEGREE IN BANKING
MANAGEMENT ACCOUNTING FOR BUSINESS CAC 2207
FINAL EXAMINATION AUGUST 2008**

TIME 3 Hours

INSTRUCTIONS TO CANDIDATES

Answer **any four** questions.

Begin a full question on a fresh page.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [] at the end of each question or part question.

All accounting statements are presented in good style. Workings should be shown.

You may use a calculator.

The businesses in this question paper are intended to be fictitious.

This paper consists of 6 printed pages

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QUESTION 1

- (a) Give two components of prime cost. [2 marks]
- (b) Identify three examples of indirect costs. [3 marks]
- (c) Define 'value added' as used in costing. [2 marks]
- (d) Explain how managerial accounting differs from financial accounting. [18 marks]
- TOTAL [25 MARKS]**

QUESTION 2

- (a) What is job order manufacturing? [2 marks]
- (b) The following information reflects Tifundza Manufacturing Company's job order manufacturing activities for May:

Raw materials purchases	\$16,000
Factory payroll cost	15,400
Overhead costs incurred	
Indirect materials	5,000
Indirect labor	3,500
Other factory overhead	9,500

The predetermined overhead rate is 150% of direct labor cost. These costs are allocated to the three jobs worked on during May as follows:

	Job 401	Job 402	Job 403
Balances on April 30			
Direct materials	\$3,600		
Direct labor	1,700		
Applied overhead	2,550		
Costs during May			
Direct materials	3,550	\$3,500	\$1,400
Direct labor	5,100	6,000	800
Applied overhead	?	?	?

Status on May 31 **Finished (sold) Finished (unsold) In Process**

Required

Determine the total cost of:

- (i) The April 30 inventory of jobs in process. [2 marks]
 - (ii) Materials used during May. [4 marks]
 - (iii) Labor used during May. [4 marks]
 - (iv) Factory overhead incurred and applied during May and the amount of any over- and underapplied overhead on May 31. [6 marks]
 - (v) Each job as of May 31, the May 31 inventories of both goods in process and finished goods, and the goods sold during May. [7 marks]
- TOTAL [25 MARKS]**

QUESTION 3

Sport Caps Co. manufactures and sells caps for different sporting events. The fixed costs of operating the company are \$150,000 per month, and variable costs for caps are \$5 per unit. The caps are sold for \$8 per unit. The fixed costs provide a production capacity of up to 100,000 caps per month.

Required

- (a) Use formulas to compute the following:
 - (i) Contribution margin per cap. [1 marks]
 - (ii) Break-even point in terms of the number of caps produced and sold. [2 marks]
 - (iii) Amount of net income at 30,000 caps sold per month (ignore taxes). [2 marks]
 - (iv) Amount of net income at 85,000 caps sold per month (ignore taxes). [2 marks]
 - (v) Number of caps to be produced and sold to provide \$45,000 of after-tax income, assuming an income tax rate of 25%. [3 marks]

(b) Draw the CVP chart for the company, showing cap output on the horizontal axis. Identify (i) the break-even point and (ii) the amount of pretax income when the level of cap production is 70,000. (Omit the fixed cost line.) [5 marks]

(c) Use the formulas to compute:

- (i) Contribution margin ratio. [2 marks]
- (ii) Break-even point in terms of sales dollars. [2 marks]
- (iii) Amount of net income at \$250,000 of sales per month (ignore taxes). [2 marks]
- (iv) Amount of net income at \$600,000 of sales per month (ignore taxes). [2 marks]
- (v) Dollars of sales needed to provide \$45,000 of after-tax income, assuming an income tax rate of 25%. [2 marks]

TOTAL [25 MARKS]

QUESTION 4

(a) What is meant by participatory budgeting? [2 marks]

(b) In preparing monthly budgets for the third quarter, a company budgeted sales of 120 units for July and 140 units for August. Management wants each month's inventory to be 60% of next month's sales. The June 30 inventory consists of 50 units. How many units of product for July acquisition should the merchandise purchases budget specify for the third quarter? [5 marks]

(c) Niblick supplies golf equipment. Ten percent of his sales are for cash; the remainder is on one month's credit. He receives one month's credit on all purchases. Sales and purchases are as follows:

	Sales	Purchases
	\$	\$
December 2007	30,000	16,000
January 2008	25,000	14,000
February	18,000	20,000
March	22,000	25,000

April 28,000 30,000

Niblick pays wages of \$2,000 per month. He pays rent of \$10,000 per annum; he paid one year's rent in advance on 1 January 2008. Other expenses, \$1,500 per month, are paid currently. On 6 February 2008, Niblick plans to sell a van for \$2,300 and to buy a new one for \$6,000 on 15 March 2008.

Niblick draws \$1,000 a month for living expenses.

At 31 December 2007, Niblick's bank balance was \$7,000 (in hand). His father will lend the business \$4,000 on 1 April 2008.

Required

Niblick's cash budget for the four months to 30 April 2008. [18 marks]

TOTAL [25 MARKS]

QUESTION 5

(a) Distinguish between a fixed budget and a flexible budget. [6 marks]

(b) Examine three different levels of activity, which may be used when setting activity levels for standard costing. Identify the strengths and weaknesses of each. [7 marks]

(c) Calculate material and labour variances from the following:

	Standard	Actual	
Price of material (\$ tonne)	6.40	6.30	
Usage of material (tonnes)	570	610	
Wage rate (\$ per hour)	3.42	3.22	
Direct labour hours	120	140	[12 marks]

QUESTION 6

(a) Identify four techniques of capital investment appraisal. [4 marks]

(b) Evaluate each of the four techniques you identified in part (a). [21 marks]

TOTAL [25 MARKS]

