



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY
FACULTY OF MANAGEMENT SCIENCES**

DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE

QUALIFICATION : BACHELOR OF ACCOUNTING	
QUALIFICATION CODE: 07BOAC	LEVEL: 6
COURSE CODE: CMA611S	COURSE NAME: COST AND MANAGEMENT ACCOUNTING 201
SESSION: JULY 2019	PAPER: THEORY AND CALCULATIONS
DURATION: 3 HOURS	MARKS: 100

SECOND OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER(S)	Mr. Kuhepa Tjondu, Ms. E. Kangootui, and Mr. G. Sheehama
MODERATOR:	Mr. K. Boamah

INSTRUCTIONS	
<ol style="list-style-type: none">1. Answer ALL questions in blue or black ink only2. Write clearly and neatly.3. Start each question on a new page and number the answers clearly.4. No programmable calculators are allowed.5. Questions relating to the paper may be raised in the initial 30 minutes after the start of the paper. Thereafter, candidates must use their initiative to deal with any perceived error or ambiguities & any assumption made by the candidate should be clearly stated.	

This QUESTION PAPER CONSISTS OF 4 PAGES (Excluding the front page)

Question 1**(25 marks)**

Huge Limited produces a product using 1.75 machine hours per product. In a typical month, Huge produces 6 000 units. Budgeted fixed manufacturing overheads are N\$136 500 per month. The company absorbs manufacturing overhead at a rate of N\$22.75 per product.

During April 2019, Huge limited produced 5 900 products. The following additional actual information is available:

Units in closing inventory	900
Selling price per unit	N\$95
Direct material cost per unit	N\$11
Direct labour cost per unit	N\$21.50
Variable manufacturing overheads per unit	N\$5
Over-applied manufacturing overheads	N\$6 025
Total fixed marketing cost	N\$120 000
Total sales revenue	N\$494 000
Commission paid (vary with sales)	5%
Packaging cost per unit	N\$3.20

Each unit produced must be wrapped in special packaging.

Required:	
1.1 Determine the actual fixed manufacturing overheads.	(3)
1.2 Determine the unit cost using marginal and absorption costing approaches.	(2)
1.3 Compile income statements using the marginal and reconcile the profit/ loss to the absorption costing approaches.	(15)
1.4 Mention five points why absorption costing approaches is widely used.	(5)

Question 2**(30 marks)**

Kaizy Co manufactures three products, X, Y and Z. Demand for products X and Y is relatively elastic whilst demand for product Z is relatively inelastic. Each product uses the same materials and the same type of direct labour but in different quantities. For many years, the company has been using full absorption costing and absorbing overheads on the basis of direct labour hours. Selling prices are then determined using cost plus pricing. This is common within this industry, with most competitors applying a standard mark-up.

Budgeted production and sales volumes for X, Y and Z for the next year are 20,000 units, 16,000 units and 22,000 units respectively.

The budgeted direct costs of the three products are shown below:

Product	X	Y	Z
	N\$ per	N\$ per unit	N\$ per unit
Direct materials	25	28	22
Direct labour (N\$12 per hour)	30	36	24

In the next year, Kaizy Co also expects to incur indirect production costs of N\$1,377,400, which are analysed as follows:

Cost pools	N\$	Cost drivers
Machine set up costs	280,000	Number of batches
Material ordering costs	316,000	Number of purchase orders
Machine running costs	420,000	Number of machine hours
General facility costs	<u>361,400</u>	Number of machine hours

The following additional data relate to each product:

Product	X	Y	Z
Batch size (units)	500	800	400
No of purchase orders per batch	4	5	4
Machine hours per unit	1.5	1.25	1.4

Kaizy Co wants to boost sales revenue in order to increase profits but its capacity to do this is limited because of its use of cost plus pricing and the application of the standard mark-up. The finance director has suggested using activity based costing (ABC) instead of full absorption costing, since this will alter the cost of the products and may therefore enable a different price to be charged.

Required:

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|---|------|
| 2.1 Calculate the budgeted full production cost per unit of each product using Kaizy Co's current method of absorption costing. All workings should be to two decimal places. | (4) |
| 2.2 Calculate the budgeted full production cost per unit of each product using activity-based costing. All workings should be to two decimal places. | (18) |
| 2.3 Discuss the impact on the selling prices and the sales volumes OF EACH PRODUCT which a change to activity-based costing would be expected to bring about. | (3) |
| 2.4 Briefly explain the disadvantages or limitations of using Activity-based costing (ABC). | (5) |

Question 3**(20 marks)**

Randolph manufactures two joint products, J and K, in a common process. A by-product X is also produced.

Data for the month of December 2018 were as follows:

Opening inventories	nil	
Costs of processing	direct materials \$25,500	direct labour \$10,000

Production overheads are absorbed at the rate of 300% of direct labour

	<i>Production</i> Units	<i>Sales</i> Units
Output and sales consisted of: product J	8,000	7,000
product K	8,000	6,000
by-product X	1,000	1,000

The sales value per unit of J, K and X is \$4, \$6 and \$0.50 respectively. The saleable value of the by-product is deducted from process costs before apportioning costs to each joint product. Costs of the common processing are apportioned between product J and product K on the basis of sales value of production. Product K could be processed further into product Z. There company will incur additional material cost of \$0.5 and selling and marketing costs of \$0.5 per unit

Required:

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|--|------|
| 3.1 Prepare a statement showing each individual product's profit or loss for the year December 2018. | (15) |
| 3.2 An individual has approached the business to buy product Z for \$7.5, mention five qualitative factors that should be considered before accepting the offer. | (5) |

Question 4**(25 marks)**

Chip-e (Pty) Ltd manufactures salted baked potato chips. Production takes place in three sequential processes – Preparation, Baking and Packaging.

Information regarding the preparation process:

Potatoes are kept in the raw material storeroom and transferred to Preparation when requested per requisition.

Potato opening stock – 10 000 kg worth N\$2 per kg

Purchased during the month – 100 000 kg at N\$2.30 per kg Stock at the end of the month – 15 000 kg

Five labourers are employed to sort and select good quality potatoes as input for the process. Each of them work 160 hours per month and is paid N\$30 per hour.

Machines peel, wash and slice selected potatoes, after which it is transferred to the baking process.

Overheads are absorbed on the basis of 50% of labour cost.

Work in progress at the beginning of the month – 2 000 kg (worth N\$4 703) were 100% complete for material and 70% converted. Work in progress at the end of the month – 6 800 kg, were 100% complete for materials and 40% converted.

Required:	
4.1 Explain the accounting treatment of normal and abnormal losses.	(4)
4.2 Prepare the equivalent production units for the FIFO and CWA valuation method	(12)
Based on the information above, assuming it is expected that 5% of (raw material) potatoes will be lost when peeled at the beginning of the process. The peels can be sold to farmers for N\$0.50 per kilogram. Actual losses (occurred in total at the beginning of the process) amounted to 5 000 kg for the month.	
4.3 What value will be credited to the process account for the scrap value of the normal loss?	(2)
4.4 Assuming the cost per good unit is N\$2.65. What value will be credited or debited to the process account for the scrap value of the abnormal loss or gain?	(1)
4.5 Describe three of the characteristics which distinguish process costing from job costing.	(6)

END OF EXAMINATION