



NAMIBIA
UNIVERSITY
OF SCIENCE AND
TECHNOLOGY

HP-GSB
HAROLD PUPKEWITZ
Graduate School of Business

FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION

HAROLD PUPKEWITZ GRADUATE SCHOOL OF BUSINESS

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DURATION: 3 HOURS	MARKS: 100

SECOND OPPORTUNITY EXAMINATION QUESTION PAPER

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INSTRUCTIONS

1. This question paper is made up of four (4) questions.
2. Answer **ALL** the questions in blue or black ink only. **NO** pencil
3. Start each question on a new page in your answer booklet and **show all workings**.
4. Round off only final answers to two (2) decimal places unless otherwise stated.
5. Questions relating to this examination 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.

PERMISSIBLE MATERIALS

Silent, non-programmable calculators

THIS QUESTION PAPER CONSISTS OF 10 PAGES (including this front page)

QUESTION 1**(28 Marks)**

Answer this question ON the Answer Sheet on Page 8 of this question paper.

In each of the following questions, ON THE PROVIDED ANSWER SHEET, only write down the letter that, in your opinion, represents the correct answer:

1. New - Life Ltd has a maximum capacity of 15 000 units of a certain product per year. Other details regarding this product are as follows:

Sales (selling price per unit N\$50)	N\$225 000
Contribution margin per unit	N\$20
Fixed costs	N\$52 500 per year

The number of units to be sold to earn a target net income of N\$15 500 is:

- A. 2 625
 - B. 4 500
 - C. 3 400
 - D. 3 500
2. New - Life Ltd has a maximum capacity of 15 000 units of a certain product per year. Other details regarding this product are as follows:

Sales (selling price per unit N\$50)	N\$225 000
Contribution margin per unit	N\$20
Fixed costs	N\$52 500 per year

Break-even point in N\$ is:

- A. N\$131 250
 - B. N\$130 250
 - C. N\$130 500
 - D. N\$131 500
3. New - Life Ltd has a maximum capacity of 15 000 units of a certain product per year. Other details regarding this product are as follows:

Sales (selling price per unit N\$50)	N\$225 000
Contribution margin per unit	N\$20
Fixed costs	N\$52 500 per year

The number of units New-Tura Ltd should sell to break-even are:

- A. 2 525
- B. 2 565
- C. 2 600
- D. 2 625

4. New - Life Ltd has a maximum capacity of 15 000 units of a certain product per year. Other details regarding this product are as follows:

Sales (selling price per unit N\$50)	N\$225 000
Contribution margin per unit	N\$20
Fixed costs	N\$52 500 per year

Variable cost ratio to sales is:

- A. 100%
- B. 60%
- C. 40%
- D. 25%

5. New - Life Ltd has a maximum capacity of 15 000 units of a certain product per year. Other details regarding this product are as follows:

Sales (selling price per unit N\$50)	N\$225 000
Contribution margin per unit	N\$20
Fixed costs	N\$52 500 per year

Contribution margin ratio to sales is:

- A. 40%
- B. 60%
- C. 50%
- D. 100%

6. New - Life Ltd has a maximum capacity of 15 000 units of a certain product per year. Other details regarding this product are as follows:

Sales (selling price per unit N\$50)	N\$225 000
Contribution margin per unit	N\$20
Fixed costs	N\$52 500 per year

Number of units sold during the period are:

- A. 15 000
 - B. 4 500
 - C. 5 400
 - D. 3 500
7. Fast-But-Sure Ltd. makes a high-quality wooden birdhouse; and during the month of May 2022 there were 4 000 units sold. The firm had generated a revenue of N\$180 000, during the month of May 2022. Contribution margin ratio to sales is 40%, and fixed costs total N\$50 000 per month.
- Break-even point in N\$ is:
- A. N\$150 000
 - B. N\$180 000
 - C. N\$125 000
 - D. N\$145 000
8. Fast-But-Sure Ltd. makes a high-quality wooden birdhouse; and during the month of May 2022 there were 4 000 units sold. The firm had generated a revenue of N\$180 000, during the month of May 2022. Contribution margin ratio to sales is 40%, and fixed costs total N\$45 000 per month.
- Break-even point in units are:
- A. 2 500
 - B. 2 000
 - C. 3 000
 - D. 4 500

9. Nawa CC produces and sells only one product. The following budgeted data is available:

Inventory levels (2022)	1 May	31 May
Raw material (kilograms)	2 000	1 200
Finished products (units)	????	1 500
Sales sold 3 600 units at N\$150 per unit		
Production units 3 800		

The units of opening inventory (finished goods) are.....

- A. 2 000
- B. 1 000
- C. 1 500
- D. 1 300

10. Wana CC produces and sells only one product. The following budgeted data is available:

Inventory levels (2022)	1 June	31 June
Raw material (kilograms)	2 000	1 000
Finished products (units)	1 000	1 200
Budgeted sales 3 800 units		

The budgeted production in units are.....

- A. 4 000
- B. 4 500
- C. 5 300
- D. 4 300

11. Standard direct materials are 10kg at N\$300 per kg; and actual direct materials are 12kg at N\$250 per kg. Budgeted production units and actual production units are 600 units and 500 units, respectively.

The direct material price variance is

- A. N\$25 000 (F)
- B. N\$35 500 (F)
- C. N\$25 000 (A)
- D. N\$25 500 (A)

12. The following data relates to the Assembly Department of Katutura Manufacturer Limited:

Standard direct materials are 10kg at N\$30 per kg; and actual direct materials are 12kg at N\$25 per kg. Budgeted production units and actual production units are 600 units and 500 units, respectively.

The actual direct materials (kgs) used in production process are.....

- A. 6 800
- B. 6 000
- C. 6 500
- D. 6 200

13. The following data relates to the Assembly Department of Katutura Manufacturer Limited:

Standard direct materials are 5kg at N\$30 per kg; and actual total direct materials are 3 000kg at N\$25 per kg. . Budgeted production units and actual production units are 600 units and 500 units, respectively. The direct material usage variance is....

- A. N\$15 500 (A)
- B. N\$15 000 (F)
- C. N\$12 500 (F)
- D. N\$15 000 (A)

14. Vinia CC produces and sells only one product.

The following information is available

Standard cost:

Direct Labour 2 hours per unit @ N\$20 per hour

Actual direct labour production:

Direct labour cost N\$275 000

Direct labour rate per hour N\$25

Actual production units 15 000

The actual direct labour hours are.....

- A. 12 000
- B. 12 500
- C. 11 000
- D. 11 500

QUESTION 2**(20 Marks)**

- 1.1 Explain what you understand by the term “internal rate of return”. (2)
- 2.2 Explain two reasons why you would not recommend the payback method as a good technique for the evaluation of a capital investment. (4)
- 2.3 The management of Wetland Ltd expects a return of at least 14% on all capital investments. The company presently considers investing in a new machine.

Forecasts relating to this machine are as follows:

Purchase price	N\$400 000
Estimated economic life	3 years
Annual cash inflows:	
End of year 1	N\$150 000
2	N\$225 000
3	N\$180 000
4	N\$100 000

REQUIRED:

Make a recommendation to the management of Wetland as to the viability of investing in this new machine. Use Net Present Value (NPV) method.

(14)

QUESTION 3**[27 MARKS]**

Fragrance Ltd manufactures perfume. Perfume is sold in bottles of 100 ml. The standard cost per unit is given below:

Direct material 0.1 litre @ N\$520 per litre

Direct labour 1.5 hour @ N\$60 per hour

Variable manufacturing overheads @ N\$6 per direct labour

The selling price per 100 ml bottle is N\$320. Fragrance Ltd expected to manufacture and sell 1 500 bottles of perfume during the period. Actual information is given below:

Direct material price	N\$525 per litre	
Direct material used in production	153 litres	
Direct labour rate	N\$61	
Direct labour hours	2 224	
Variable manufacturing rate	N\$4	1 390 bottles of perfume were

manufactured

REQUIRED: Calculate the following variances:

(3 marks each)

- Material price variance
- Material usage variance
- Material total variance
- Labour rate variance
- Labour efficiency variance
- Labour total variance
- Variable overhead expenditure variance
- Variable overhead efficiency variance
- Variable overhead total variance

QUESTION 4**(25 Marks)**

P Care CC. is a specialist laboratory carrying out tests on blood samples. At present, the laboratory carries out 10 000 tests each period.

You are the newly appointed junior management accountant for P Care, and you have been informed that the organisation wants to increase its tests by 6 000 tests a period. An independent marketing research firm has been consulted to do a feasibility study.

The current cost of carrying up a full test is:

	<u>N\$</u>
Material	120
Technician's wages	40
Variable overhead	12
Fixed overhead	400 000

The findings of the feasibility study revealed the following;

- i) Variable overhead costs will increase by N\$2 per test
- ii) Quantity discount of 10% will be given for all materials if an order is placed to cover 16 000 tests
- iii) Additional premises should be rented for N\$600 000 per period
- iv) The fee per test will be increased by 20%.

The current fee per test is N\$300

Requirements:

- a) Calculate the current break-even point in units and in sales value (4 marks)
- b) Calculate the margin of safety ratio (2 marks)
- c) Comment on the ratio you have calculated in question (b) above (2 marks)
- d) Prepare a profit statement for the current 10 000 capacity (5 marks)
- e) Prepare a profit statement if the new proposal has been adopted and 16 000 tests were to be carried out. (9)
- f) Comment on whether the new proposal of carrying the additional 6 000 tests should be adopted. (1 mark)
- g) In your opinion state 2 (two) factors other than the calculation that should be considered before any decision is taken. (2 marks)

END OF EXAMINATION PAPER

APPENDIX TABLE 1

Present Value Tables

Number of Years	Interest Rate per Year														
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%
1	.990	.980	.971	.962	.952	.943	.935	.926	.917	.909	.901	.893	.885	.877	.870
2	.980	.961	.943	.925	.907	.890	.873	.857	.842	.826	.812	.797	.783	.769	.756
3	.971	.942	.915	.889	.864	.840	.816	.794	.772	.751	.731	.712	.693	.675	.658
4	.961	.924	.888	.855	.823	.792	.763	.735	.708	.683	.659	.636	.613	.592	.572
5	.951	.906	.863	.822	.784	.747	.713	.681	.650	.621	.593	.567	.543	.519	.497
6	.942	.888	.837	.790	.746	.705	.666	.630	.596	.564	.535	.507	.480	.456	.432
7	.933	.871	.813	.760	.711	.665	.623	.583	.547	.513	.482	.452	.425	.400	.376
8	.923	.853	.789	.731	.677	.627	.582	.540	.502	.467	.434	.404	.376	.351	.327
9	.914	.837	.766	.703	.645	.592	.544	.500	.460	.424	.391	.361	.333	.308	.284
10	.905	.820	.744	.676	.614	.558	.508	.463	.422	.386	.352	.322	.295	.270	.247
11	.896	.804	.722	.650	.585	.527	.475	.429	.388	.350	.317	.287	.261	.237	.215
12	.887	.788	.701	.625	.557	.497	.444	.397	.356	.319	.286	.257	.231	.208	.187
13	.879	.773	.681	.601	.530	.469	.415	.368	.326	.290	.258	.229	.204	.182	.163
14	.870	.758	.661	.577	.505	.442	.388	.340	.299	.263	.232	.205	.181	.160	.141
15	.861	.743	.642	.555	.481	.417	.362	.315	.275	.239	.209	.183	.160	.140	.123
16	.853	.728	.623	.534	.458	.394	.339	.292	.252	.218	.188	.163	.141	.123	.107
17	.844	.714	.605	.513	.436	.371	.317	.270	.231	.198	.170	.146	.125	.108	.093
18	.836	.700	.587	.494	.416	.350	.296	.250	.212	.180	.153	.130	.111	.095	.081
19	.828	.686	.570	.475	.396	.331	.277	.232	.194	.164	.138	.116	.098	.083	.070
20	.820	.673	.554	.456	.377	.312	.258	.215	.178	.149	.124	.104	.087	.073	.061

Discount factors: Present value of \$1 to be received after t years = $1/(1 + r)^t$.

Note: For example, if the interest rate is 10% per year, the present value of \$1 received at year 5 is \$.621.