NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION

DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE

QUALIFICATION CODE: 07BHOM & 07BOTM	**LEVEL**: 6
COURSE CODE: CAH610S	**COURSE NAME**: COST & MANAGEMENT ACCOUNTING FOR HOSPITALITY & TOURISM
DATE: NOVEMBER 2023	**PAPER:** THEORY AND CALCULATIONS
DURATION: 3 HOURS	**MARKS:** 100

FIRST OPPORTUNITY EXAMINATION 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. Work with four (4) decimal places in all your calculations and only 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.

NON – PROGRAMMABLE CALCUTOR

1. Examination paper
2. Examination script

THIS QUESTION PAPER CONSISTS OF 7 PAGES (INCLUDING THIS FRONT PAGE)

QUESTION 1 **(30 MARKS)**

Each of the following questions (1.1 – 1.15) has only ONE correct answer. Please answer this question ON the answer sheet provided. E.g., 1. D

1.1 A company has fixed costs of N$60 000 per annum. It manufactures a single product which it sells for N$20 per unit. Its contribution to sales ratio is 40%. The company's break-even point in **N$** is:

A. N$240 000

B. N$260 000

C. N$160 000

D. N$150 000

1.2 A company manufactures a single product which it sells for N$160 per unit. Fixed costs are N$76 800 per month and the product has a contribution to sales ratio of 40%. In a period when actual sales were N$224 000, the company's margin of safety was:

A. N$192 000

B. N$32 000

C. N$96 000

D. N$128 000

1.3 Fast-Food Ltd supplied the following details regarding its product:

Selling price per unit	N$60.00
Variable production cost per unit	N$12.00
Variable selling cost per unit	N$4.00
Fixed production cost per year	N$35 800
Fixed selling costs per year	N$6 000

Contribution margin per unit is:

A. N$16

B. N$56

C. N$44

D. N$48

The following details refer to questions 1.4 and 1.5:

Jairus Ltd currently sells 2 500 pairs of shoes per year. Other details for the past year are as follows:

Selling price per pair of shoes	N$400
Purchase cost per pair of shoes	N$250

Annual fixed costs:	
Salaries	N$130 000
Advertising	N$40 000
Miscellaneous	N$70 000

1.4 The company's break-even in number of shoes is:

A. 1 200

B. 1 400

C. 1 600

D. 960

1.5 Assume that for the next year an additional fixed advertising campaign costing N$17 400 is proposed, whilst at the same time selling price is increased by 12%. In this case the new contribution margin per pairs of shoes will be:

A. N$150

B. N$198

C. N$155

D. N$195

1.6 A company that manufactures a single product supplied the following budgeted details:

	N$
Selling price per unit	150
Variable costs per unit:	
Direct material	30
Direct labour	40
Variable overheads	20
Fixed overheads per month	40 000

During the past month, 3 000 units were manufactured while only 2 400 units were sold.

The net income for the month was:

A. N$360 000

B. N$144 000

C. N$140 000

D. N$104 000

1.7 A company that manufactures a single product supplied the following budgeted details:

	N$
Selling price per unit	150
Variable costs per unit:	
Direct material	30
Direct labour	40
Variable overheads	20
Fixed overheads per month	40 000

During the past month, 3 000 units were manufactured while only 2 400 units were sold.

Total contribution margin for the month was:

A. N$360 000

B. N$144 000

C. N$140 000

D. N$104 000

1.8 A company that manufactures a single product supplied the following budgeted detai

	N$
Selling price per unit	150
Variable costs per unit	
Direct material	30
Direct labour	40
Variable overheads	20
Fixed overheads per month	40 000

During the past month, 3 000 units were manufactured while only 2 400 units were sold.

Total variable cost per unit for the month was:

A. N$95

B. N$70

C. N$90

D. N$20

1.9 Neumeister Ltd has a maximum capacity of 20 000 units of a certain product per year.

Other details regarding this product are as follows:

Selling price	N$250 per unit
Variable manufacturing cost	N$50 per unit
Variable marketing and administrative costs	N$120 per unit
Total fixed costs	N$105 000 per year

Because of a material shortage, only 2 000 units are expected to be sold this year. Management has also estimated that total fixed costs will increase by N$20 000 per annum. Sales price will remain at N$250 per unit. In order to earn a net income of N$35 000.

The new total contribution margin must be:

A. N$105 000

B. N$140 000

C. N$160 000

D. N$150 000

1.10 Neumeister Ltd has a maximum capacity of 20 000 units of a certain product per year. Other details regarding this product are as follows:

Selling price	N$250 per unit
Variable cost	N$170 per unit
Variable marketing and administrative costs	N$120 per unit
Fixed factory overheads	N$60 000 per year
Fixed marketing and administrative costs	$45 000 per year

Because of a material shortage, only 2 000 units are expected to be sold this year. Management has also estimated that total fixed costs will increase by N$20 000 per annum. Variable cost per unit will remain at N$250 per unit. In order to earn a net income of N$35 000.

The new selling price per unit must be:

A. N$250 per unit

B. N$340 per unit

C. N$240 per unit

D. N$255 per unit

1.11 A firm's telephone account would normally be classified into the following category:

A. Fixed cost

B. Variable cost

C. Stepped fixed cost

D. Semi-variable/mixed cost

Questions 1.12 and 1.13 are based on the following:

Bushbuck Ltd supplied the following figures regarding the number of units produced during the past six months together with the corresponding production cost:

Production units	Production cost (N$)
2 000	64 500
1 000	60 000
3 000	68 000
2 000	65 000
4 000	72 000
5 000	75 000

1.12 According to the high-low method of separating fixed and variable costs, the variable cost rate is:

A. N$1.75 per unit

B. N$4.75 per unit

C. N$2.75 per unit

D. N$3.75 per unit

1.13 According to the high-low method of separating fixed and variable costs, the fixed cost is:

A. N$56 250

B. N$42 250

C. N$37 500

D. N$47 500

1.14 The following statement is NOT true:

A. Selling expense is an example of a non-manufacturing cost.

B. Prime cost consists of direct material plus direct labour

C. If production increases, total fixed costs will remain constant but will decrease per unit.

D. If production increases, total fixed costs will remain constant but will increase per unit.

1.15 Under-recovery of overheads occurs when:

A. The basis of allocating overheads has changed during the period

B. Actual overheads have fallen in relation to what they were expected to be

C. The amount of budgeted overheads is less than the actual overheads incurred.

D. The amount of overheads charged to production is lower than the actual overheads incurred.

QUESTION 2 **(20 MARKS)**

The Patio is a manufacturer of garden furniture that has consistently used weighted average costing (AVCO) in valuing inventory. The management of the Patio are now interested in knowing the effect of using FIFO in valuing inventory instead of using AVCO. The following transactions for the Patio were recorded for the period:

2 August	Opening inventory	100 units	@N$50 per unit
5 August	Received	120 units	@N$57.50 per unit
6 August	Issued/sales	200 units	
7 August	Received	180 units	@N$60 per unit
8 August	Issued/sales	150 units	
9 August	Return to supplier units purchased on 7 August	20 units	

REQUIRED:		**MARKS**
a)	Prepare an inventory ledger card of the Patio for the month of August using four columns showing the date, receiving, issuing, and balancing columns. Each column contains quantity, unit price and the total amount	**14**
b)	Calculate the gross profit of the Patio. Assume that the selling price is N$300 per unit.	**6**

QUESTION 3 **(24 MARKS)**

Chick McFarm has developed a new recipe to cook whole chickens and decides to open a take-way restaurant in Katutura. Chick McFarm asks NUST for help with the market research. The University finds that Chick McFarm should sell 700 chickens per month, on average selling price of N$190.

The following total monthly costs are available:

Cost per chicken N$45

Other ingredients on average per chicken used in cooking process.

Salt	N$0.50
Onion powder	N$1.00
Garlic powder	N$1.50
Olive oil	N$2.00

Chick McFarm provides you with total fixed costs to be occurred in take-way restaurant for the month as follows:

Chef salary	N$25 000
Supervisor salary	N$50 000
Depreciation of cooking equipment	N$15 000
Cleaner salary	N$5 000

REQUIREMENT	MARKS
Prepare the statements of profit or loss for the period for management using the direct costing method.	**24**

QUESTION 4 **(26 MARKS)**

Tech Solutions CC sells "esms" software product for small and medium enterprises. Total sales revenue for 2023 is N$300 000 based on a selling price of N$300. Variable costs of producing the software are N$120 per unit sold. Tech Solutions CC annual fixed costs are N$126 000.

The company is planning the following changes:

- to increase the current selling price of its product by 5%.
- A market survey indicates that volume will decrease by 10% at this new price, but that the lower volume of production will cause fixed costs to decrease by N$6 000 per year.

REQUIREMENTS		MARKS
a)	Advice management whether the company should proceed with the changes or not. Support your advice with necessary calculations and reasons for your answer.	**20**
b)	The precision and reliability of CVP analysis are limited by several underlying assumptions. Identify at least three (3) of these assumptions.	**6**

END OF EXAMINATION PAPER