



"Investing in Africa's Future"

COLLEGE OF BUSINESS AND MANAGEMENT SCIENCES

NMAC201: COST ACCOUNTING

END OF FIRST SEMESTER EXAMINATIONS

NOVEMBER 2025

LECTURER: N. E CHIRIMA

TIME: 3 HOURS

INSTRUCTIONS

ANSWER ***ALL*** QUESTIONS on the Africa University answer booklet provided

MARKS ALLOTTED TO EACH QUESTION ARE SHOWN

CLEAR AND NEATLY PRESENTED WORK WILL BE AWARDED MARKS FOR
PRESENTATION

QUESTION ONE (25 possible marks)

a. Explain the relationship between the cost accounting function and the management function. **2 marks**

b. Define the following terms:

- i. Cost Object **1 mark**
- ii. Cost Unit **1 mark**
- iii. Cost Center **1 mark**
- iv. Expense **1 mark**
- v. Cost **1 mark**

c. A medium sized manufacturing company listed on the Zambian Stock Exchange has been incurring losses over the past five years. Since the company is 'top heavy', a decision to reduce administrative staff has been made. The company has a Chief Financial Officer heading the finance office which has four departments each headed by a qualified accountant – financial reporting department headed by a Chartered Accountant, management accounting as well as the cost accounting departments each headed by a CIMA qualified accountant and the finance and investment department headed by a chartered financial analyst. Several views have been brought to the table for discussion as follows:

The Operations Director is of the view that the department heads should be retrenched as one accountant is sufficient for the company.

The Marketing Director's opinion is that the management and cost accounting departments should be merged.

The general manager feels that the CFO and the CFA qualified head of finance and investment should be retrenched while at the same time merging the cost and management accounting departments.

Required: Discuss each of the three alternatives; giving and justifying your opinion on the best option. **18 marks**

QUESTION TWO (25 possible marks)

J Ltd manufactures four products: Ho, Jo, Ko and Lo. Details of the products and relevant information is as follows:

Product	Ho	Jo	Ko	Lo
Output in Units	120	100	80	120
Cost per unit:				
Direct Material	\$40	\$50	\$30	\$60

Direct Labor	\$28	\$21	\$14	\$21
Machine hours per unit	4 hours	3 hours	2 hours	3 hours

The four products are similar and are produced in production runs of 20 units and sold in batches of 10 units. The production overhead is currently absorbed by using a machine hour rate and the total of the production overhead for the period has been as follows:

	\$
Machine department costs (rent, rates, depreciation and supervision)	10 430
Set up costs	5 250
Stores receiving	3 600
Inspection/ quality control	2 100
Materials handling and dispatch	4 620

You have ascertained the cost drivers to be used for the overhead costs as follows:

Cost	Cost Driver
Set up Costs	Number of production runs
Stores receiving	Requisitions raised
Inspection/ quality control	Number of production runs
Materials handling and dispatch	Orders executed

The number of requisitions raised was 20 for each product. The number of orders executed was 42, each order being for a batch of 10 of a product.

You are required:

- To compute the total cost of each product if all overheads are absorbed on a machine hour basis **5 marks**
- To compute the total cost for each product using Activity Based Costing (ABC) **10 marks**
- Based on an analysis of your answers to (a) and (b) above, comment briefly on any conclusions which may be drawn which may have pricing and profit implications. **5 marks**
- Distinguish between Batch Costing and Job Order Costing methods. **5 marks**

QUESTION THREE (25 possible marks)

Below is a copy of Jeje's appliance division budget report for the month ended 30 November 2025:

	Budgeted	Actual	Variance
Sales and Production volumes (units)	5 000	5 500	?
	\$	\$	
Sales revenue	1 000 000	1 078 000	?
Direct Material	(250 000)	(286 000)	?
Other manufacturing costs	(300 000)	(308 000)	?
Profit	?	?	?

The following additional information is provided.

- i. Budgeted selling price is \$200 per unit and actual selling price was \$190 per unit.
- ii. Direct material is a variable cost.
- iii. Budgeted direct labor cost has a fixed element of \$30 000 per month, the balance is variable.
- iv. Other manufacturing costs are semi variable. Budgeted cost and output for the previous two months have been as follows:

Month	October 2025	September 2025
Budgeted Output (units)	4 000	3 000
Budgeted Cost	210 000	170 000

There is a fixed set up cost of \$50 000 for volumes in excess of 4 500 units.

Required

- a. Fill in the missing amounts in the table above. **5 marks**
- b. Explain why budget variances should be computed using flexed and budget amounts. **3 marks**

- c. Prepare a flexed budget for the appliances division for November 2025 and recompute budget variances. **9 marks**
- d. Discuss four factors that should be considered before deciding whether to investigate the causes of a variance. **8 marks**

QUESTION FOUR (25 possible marks)

The following demand forecasts for Bee Ltd's new personal music player product have been provided:

Proposed Selling Price	\$250	\$350	\$450
Sales units per year	10 000	8 000	6 000
Fixed costs per year	\$800 000	\$500 000	\$200 000
Variable costs are forecast at \$220 per unit at any activity level.			

Required:

- a. For each proposed selling price, compute:
- i. The budgeted profit **3 marks**
 - ii. The break-even point **3 marks**
 - iii. The margin of safety **3 marks**
- b. Draw and label a break-even chart for a selling price of \$350 for activity levels between 0 and 8 000 units. **11 marks**
- c. Explain how target costing can be used by Bee Ltd in the design, manufacture and sale of the personal music player product. **5 marks**

END OF PAPER