



***"Investing in Africa's Future"***

**COLLEGE OF BUSINESS PEACE LEADERSHIP AND GOVERNANCE**

**NMAC 201: COST ACCOUNTING**

**END OF FIRST SEMESTER EXAMINATIONS**

**NOVEMBER 2021**

**LECTURER: I. RARAMI**

**DURATION: 5 HOURS**

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### ***INSTRUCTIONS***

Answer one question

The marks allocated to each question are shown at the end of the question

Show all your workings where it is required

Credit will be given for presentations that are neat, logical and grammatically well constructed.

## **QUESTION ONE [100 MARKS]**

**A.** Tinoziva Mabharani has been asked to deliver a presentation to Cost Accounting students interested in pursuing careers in accountancy. Tinoziva has already been alerted to the fact that these students are confused regarding the difference between management accounting and financial accounting. He has also been advised that they wish to learn more about management accounting in service organisations.

**Required:**

Draft a briefing note to assist Tinoziva in his preparation of the presentation which:

- (a) Outlines the key differences between financial accounting and management accounting; **(4 marks)**
- (b) Describes the role of the management accountant; **(5 marks)**
- (c) Explains the key differences between service costing and other costing methods. **(4 marks)**

**B.** You and your colleague attended another Cost Accounting presentation, where the presenter presented on semi variable costs. The presenter said that these are a sort of mixed or hybrid costs, partly fixed and partly variable costs. For example Telephone expenses, include a fixed portion of annual charge plus variable charge according to the calls. Thus total telephone expenses are semi-variable.

He also explained that Semi-variable overheads are of two types:

(i) The expenses which change with the change in volume of output, but the variation cost is less than proportionate to change in output. Examples are power & fuel, lighting, repairs and maintenance of buildings, etc.

(ii) The costs tend to remain constant within certain range of output, then jump up and remain constant for another range and so on. So semi variable costs need to be classified into variable costs and fixed costs.

After the presentation your colleague had many questions he failed to ask during the presentation and he is asking you to explain.

Explain to him giving reasons why semi variable costs need to be classified into fixed costs and variable costs. **(12 marks)**

**C.)** You senior Cost Accountant explained to you that cost may be classified in a number of ways including by behaviour, by function, by expense type, by controllability and by relevance. He also said that management accounting should assist in EACH of planning, control

and decision making process in an organisation. Your colleague, is confused on the relationship between the two statements. Discuss with him the ways in which relationship between the two statements are relevant in the design of an effective management accounting system. **(30 marks)**

**D).** You have been to a cost accounting seminar hosted by the Department of Business Sciences at Africa University. The presenter presented on the behavior of costs. You were asked by the senior Cost accountant with the aid of graphs, to illustrate the behaviour of the following instances and explaining the importance of knowing each cost behaviour.

- i). Variable cost and variable cost per unit as output increases **(10 marks)**
- ii). Fixed cost and fixed cost per unit as output increases. **(10 marks)**
- iii). Step variable cost **(8 marks)**
- iv). Step fixed cost **(8 marks)**
- v). Mixed costs **(9 marks)**

## **QUESTION TWO (100 MARKS)**

One of your neighbours has a business and is concerned that the management and control of stocks is not receiving sufficient attention within her organisation and is keen to learn more about it. She has both perishable and non-perishable inventory. She also had a problem with her mixed costs. She heard that you are studying Cost Accounting at Africa University. She asked for your assistance.

**Required: Draft a report which:**

- (a) Describes the costs associated with holding stock. **(15 marks)**
- (b) Outlines to her the advantages and disadvantages of the following methods of valuing stock and advise on the best method to use.
  - (i) FIFO method;      (ii) LIFO method. **(50 marks)**
- (c) Describes the key features of a Just-in-Time system. **(15 marks)**
- d). Describe the methods that are used in separating the mixed costs their advantages and disadvantages and advise her on the best method to use. **(20 marks)**

### **QUESTION THREE [100 MARKS]**

**A).** Mr. Passmore, a Certified Public Accountant, is in the process of preparing the budget for Chiyadzwa Diamond Mine Ltd for the forthcoming financial period. The company currently uses an incremental approach to budgeting but in the current economic environment Mr. Passmore would like to investigate other budgeting systems, which may improve both the planning and control processes within the organisation. One of Chiyadzwa Ltd's main competitors, Alaska Ltd, has recently introduced Zero Based Budgeting (ZBB) to their organisation. Mr Passmore would like to develop a better understanding of Zero Based Budgeting before deciding on whether to recommend to the Board of Directors the adoption of this budgeting technique.

**Required:**

You are required to prepare a memorandum for Mr. Passmore outlining the following issues:

(i) The stages involved in Zero Based Budgeting (ZBB) relating it to Chiyadzwa Diamond Mine Ltd . **(20 marks)**

(ii) The advantages and disadvantages of adopting a system of Zero Based Budgeting (ZBB) for Chiyadzwa Diamond Mine Ltd. **(20 marks)**

(iii) The problems that Mr. Passmore may face, from current employees, from changing the budgeting system to one based on Zero Based Budgeting principles. **(10 marks)**

**B).** Your junior Cost Accountant is aware that the direct and indirect costs classifications are based on the traceability of costs to products. He is not sure how the indirect or production overhead costs are charge out to production. Explain to him the three main ways in which indirect production costs are incurred and explain the five steps taken to attribute overhead costs to cost units. Also explain to him the four methods that can be used for secondary apportionment of service costs centres to productive cost centres. **(50 marks)**

**END OF PAPER**