



ZIMBABWE

**MINISTRY OF HIGHER AND TERTIARY EDUCATION,
INNOVATION, SCIENCE AND TECHNOLOGY
DEVELOPMENT**

**HIGHER EDUCATION EXAMINATIONS COUNCIL
(HEXCO)**

HIGHER NATIONAL DIPLOMA

IN

BUSINESS STUDIES

MODULE: Cost and Management Accounting 2 PAPER NO: 707/24/M05

DURATION: 4 Hours

JUNE 2026 EXAMINATION

REQUIREMENTS

Financial tables

INSTRUCTIONS TO CANDIDATE

- 1) Answer all questions.
- 2) Show all relevant workings.
- 3) A silent non programmable calculator may be used.
- 4) Begin each answer to a question on a fresh page.
- 5) Present your work in the most acceptable format.

This paper consists of 6 printed pages.

QUESTION 1

The following information relates to the products, cost and sales levels for Mucheke (Pvt) Limited for the following year.

	Product Omega	Product Amanda
<u>Raw amterials required</u>		
RM A (kg)	4	6
RM B(kg)	3	5
Cost per kg is \$6/kg		
<u>Labour hours required</u>		
Skilled labour (hours)	6	3
Unskilled labour (hours)	4	4
Rate per hour		\$8/hour
Sales in units	5000	6000
Selling price per unit	\$240	\$220
<u>Finished goods</u>		
Opening inventory	1000	1500
Closing inventory	1500	2000
<u>Raw materials</u>		
Opening inventory	19000	14000
Closing inventory	22000	17000

Mucheke (ltd) is intending to prepare operational budgets for the forthcoming period.

Required

Prepare the following functional budgets for Mucheke (Pvt) Limited

- Sales budget (3 marks)
- Production budget (4 marks)
- Material utilisation budget (3 marks)
- Material purchases budget (6 marks)
- Labour cost budget (4 marks)

QUESTION 2

Chisumbanje (Pvt) Limited company produces an animal feed known as molasses which is made by mixing and heating three ingredients: Alpha, Beta and Gamma. The company uses a standard costing system to monitor its costs:

The standard material cost for 100kg of molasses is as follows:

Input	kg	Cost per kg	Cost per 100kg of molasses
		\$	\$
Alpha	40	2	80
Beta	60	5	300
Gamma	20	1	20
			400

The previous month 4600kg of molasses was produced using the following inputs

Input	Kg	Cost/kg	Total cost
Alpha	2200	\$1,80	\$3960
Beta	2500	\$6,00	\$15000
Gamma	920	\$1.00	\$920
	<u>5620</u>		<u>\$19880</u>

Required

Compute the following variances

- Material price variance (4 marks)
- Material usage variance (4 marks)
- Material mix variance (4 marks)
- Material yield variance (4 marks)
- Total material cost variance (4 marks)

QUESTION 3

The following information applies to companies that are operating in the same industry

	Company X	Company Y
	\$	\$
Sales	3000000	4000000
Net operating income	60000	75000
Average operating assets	400000	375000
Minimum rate of return	12%	12%

Required

- Calculate the return on investment for each of the two (2) companies and comment. (6 marks)
- Calculate the imputed interest charge for each company. (4 marks)
- Calculate the residual income for each of the two companies and comment. (4 marks)
- Assume that company X and company Y are presented with an investment opportunity to invest in a project costing \$50000 and the project will generate profits of \$25 000.

Required

Which company would probably accept or reject the proposed investment opportunity if measurement is by Return on Investment (ROI). (6 marks)

QUESTION 4

Gezani (Pvt) Limited is a Harare based manufacturing company that produces three products A, B and C. The following information is provided relating to the anticipated demand and production for the next /period:

Product	A	B	C
Selling price per cent	\$30	\$24	\$20
Variable costs/unit			
Material cost	\$12	\$8	\$8
Labour cost	\$8	\$6	\$6
Variable overheads	\$4	\$6	\$4

Machine hours required per unit	2 hours	1 hour	3 hours
Estimated demand	1800 units	1800 units	1800 units

One of the machines used in production is not working and it is not possible to meet the required demand as machine hours are now limited to 7200hours.

Required

- Determine the shortfall in machine hours to establish whether machine hours are a limiting factor. (4 marks)
- Advise Gezani (Pvt) limited on the optimum product mix to be produced using limited machine hours. (12 marks)
- Calculate the total contribution based on the recommended product mix in (b) above. (4 marks)

QUESTION 5

Dangamvura (Pvt) limited is contemplating buying a new machine at a cost of \$500 000. The new machine will last for 5 years after which it will have a salvage value of \$150000. Part of the factory will need to be modified at a cost of \$40000 in order to accommodate the new machine. The new machine will generate \$300000 in extra revenue annually and it will also cause a reduction in labour costs equal to \$60000 per annum. The new machine will require an investment of \$30000 in extra working capital. The new machine is replacing an old machine bought 4 years ago for \$200000 but can be sold today for \$80000. The tax rate is 35% and special initial allowance (SIA) is at 25% per annum.

Required

Calculate the following:

- | | | |
|----|--|-----------|
| a) | Initial investment | (5 marks) |
| b) | Annual cashflow | (5 marks) |
| c) | End of project cashflows | (4 marks) |
| d) | Net present value (NPV) if the cost of capital is 12%. | (6 marks) |

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