

SECTION A [10 MARKS]

Answer **all** questions

Question I

For each question, there are **FOUR** responses: **A, B, C** and **D**. Choose the corresponding letter of your response and **CIRCLE** it. If you change your answer, cross out the previous response clearly and circle your new answer. **NO** score will be awarded if you circle more than **ONE** letter.

[10]

1. Which assumption is fundamental to the validity of a basic cost-volume-profit (CVP) analysis?
 - A Efficiency and productivity levels change as output increases.
 - B Fixed costs per unit remain constant over the relevant range.
 - C Selling price remains constant regardless of the volume sold.
 - D Total variable costs remain constant as production levels change.
2. Which statements describe a feature of marginal costing?
 - 1 Contribution is calculated as sales revenue minus variable costs.
 - 2 Fixed production overheads are treated as period costs.
 - 3 Fixed production overheads are included in inventory valuation.
 - 4 Under and over absorption of overheads must be calculated at year-end.
 - A 1 and 2
 - B 1 and 3
 - C 2 and 4
 - D 3 and 4
3. Which statements describe the primary purpose of management accounting?
 - 1 To assist managers in controlling and monitoring business operations.
 - 2 To ensure compliance with international financial reporting standards.
 - 3 To provide information for internal planning and decision-making.
 - 4 To report financial performance to external stakeholders such as banks.
 - A 1 and 3
 - B 1 and 4
 - C 2 and 3
 - D 2 and 4

4. A business has two production departments, Machining and Assembly. The Machining department has budgeted overheads of Nu 150,000 and uses a machine hour rate. The following data is provided:

Item	Budget	Actual
Overheads	Nu 150,000	Nu 164,000
Machine hours	10,000	11,000
Labour hours	2,000	2,500

What is the under or over absorption of overheads for the machining department?

- A Nu 1,000 over-absorbed
 - B Nu 1,000 under-absorbed
 - C Nu 14,000 over-absorbed
 - D Nu 14,000 under-absorbed
5. A company produces a single product with the following data:

- 1 Selling price per unit: Nu 25
- 2 Variable cost per unit: Nu 15
- 3 Total fixed costs: Nu 50,000

What is the sales revenue required to achieve a target profit of Nu 20,000?

- A Nu 70,000
 - B Nu 125,000
 - C Nu 175,000
 - D Nu 200,000
6. A company currently buys a component for Nu 25 per unit. It is considering making the component itself. The following estimated costs per unit are provided:

- 1 Direct materials: Nu 10
- 2 Direct labour: Nu 8
- 3 Variable overheads: Nu 4
- 4 Allocated fixed overheads: Nu 6

The company has surplus capacity.

What is the financial impact of making the component?

- A Nu 3 per unit increase in profit
- B Nu 3 per unit decrease in profit
- C Nu 9 per unit increase in profit
- D Nu 9 per unit decrease in profit

7. A business calculates total cost as Nu 200,000 at 4,000 units. It is later found that:
- 1 Fixed costs were understated by Nu 20,000.
 - 2 Variable cost per unit was overstated by Nu 5.
- What is the correct total cost?
- A Nu 180,000
 - B Nu 200,000
 - C Nu 220,000
 - D Nu 240,000
8. The following information is extracted from a company's financial records:
- 1 Revenue: Nu 500,000
 - 2 Cost of sales: Nu 350,000
 - 3 Average inventory: Nu 50,000
- What is the days sales of inventory?
- A 37 days
 - B 53 days
 - C 73 days
 - D 105 days
9. A business is operating at its break-even point. It is considering an increase in the selling price of its product. All other costs remain constant. What will be the effect of this change?
- A Both the break-even point and the margin of safety will decrease.
 - B Both the break-even point and the margin of safety will increase.
 - C The break-even point will decrease and the margin of safety will increase.
 - D The break-even point will increase and the margin of safety will decrease.
10. A company has a current ratio of 2:1. It uses cash to pay one of its trade payables. What is the effect on the current ratio and the liquid (acid test) ratio?
- A Current ratio decreases and liquid ratio decreases.
 - B Current ratio decreases and liquid ratio increases.
 - C Current ratio increases and liquid ratio decreases.
 - D Current ratio increases and liquid ratio increases.

SECTION B (60 MARKS)Answer **all** questions**Question II**

1. Punakha Textiles has two production departments (weaving and dyeing) and one service department (maintenance). The following budgeted overheads for the year are:

- Rent: Nu 40,000
- Electricity: Nu 15,000
- Supervision: Nu 25,000
- Machine Depreciation: Nu 10,000

Basis data	Weaving	Dyeing	Maintenance	Total
Floor area (sq m)	600	300	100	1,000
Machine value (Nu)	60,000	30,000	10,000	100,000
Number of employees	12	8	5	25

Prepare the statement of overhead analysis sheet to show the apportionment of these overheads to all departments. You must clearly state the basis used for each apportionment and then re-apportion the maintenance department's costs to weaving and dyeing in a 60:40 ratio.

[8]

Particulars	Basis	Weaving (Nu)	Dyeing (Nu)	Maintenance (Nu)	
Rent					
Electricity					
Supervision					
Depreciation					
Re-apportionment					
Total Overheads					
Workings:					

--	--

Additional Information:

The following data relates to the two production departments:

Item	Weaving	Dyeing
Machine hours	4,000	1,500
Direct labour hours	2,000	6,000

2. Calculate a suitable overhead absorption rate for weaving departments. Give your answer to two decimal places.

[2]

Additional Information:

Punakha Textiles has been approached by a customer to quote for a special order of traditional fabric. This will require the following:

- Direct materials: 20 kilos at Nu 50 per kilo
- Direct labour: 8 hours at Nu 90 per hour

The time required in each department for this order will be:

Item	Weaving	Dyeing
Direct labour	3 hours	5 hours
Machine time	2 hours	20 minutes

It is the company's policy to achieve a gross margin of 40% on all its products.

3. Calculate the total price to quote to the customer.

[6]

Additional Information

The customer has said they will buy the goods from Punakha Textiles, but at a price which will earn the company a gross margin of 25%.

4. Advise the directors whether or not they should accept the offer. Use both financial and non-financial information in your answer.

[7]

Additional Information

Punakha Textiles operates a second factory in Pasakha. The cost accountant has suggested that instead of using departmental rates, a single factory-wide (blanket) overhead absorption rate should be used to save administrative time.

5. State **three** differences between a cost centre and a cost unit.

[3]

6. Explain **two** disadvantages for Punakha Textiles if they change from departmental rates to a single factory-wide overhead absorption rate.

[4]

Question III

Druk Highlands Tea (DHT) has a maximum capacity of 15,000 packs. They currently produce and sell 10,000 packs at Nu 150 each. Variable costs are Nu 90 per pack and fixed costs are Nu 300,000. This data could be used by DHT for break-even analysis.

A hotel has offered a special order for 3,000 packs at Nu 110 each. Alternatively, the company could export 3,000 packs to a new market at Nu 125 each, but this would incur additional export shipping costs of Nu 40,000. The company can only choose one of these two options due to capacity limits.

1. State **four** limitations of using break-even analysis as a tool for financial planning and decision making.

[4]

2. Calculate the total profit if the company accepts the hotel's special order.

[4]

3. Evaluate whether DHT should accept the hotel's special order or pursue the export market option. Use both financial and non-financial information in your answer.

[7]

Question IV

Druk Trading House uses a **periodic** inventory system to value its tea stock at the end of each month. Below are the transactions for April:

Date	Transaction	Units	Cost per Unit (Nu)
Apr-01	Opening inventory	200	50
Apr-10	Purchase	300	60
Apr-15	Sale	400	—
Apr-20	Purchase	100	70

1. State **three** differences between the periodic inventory system and the perpetual inventory system.

[3]

2. Calculate the value of the closing inventory as of April 30 using AVCO method. Use the **periodic** system.

[4]

Additional Information:

The company has calculated its financial ratios for 2026 and compared them to the results of 2025:

Ratio	2025	2026
Gross profit margin	45%	37.50%
Current ratio	1.5 : 1	2.0 : 1
Liquid (acid test) ratio	1.1 : 1	1.2 : 1
Inventory turnover	10 times	5 times

3. Analyse **two** possible reasons for the decrease in the gross profit margin despite the increase in the current ratio.

[4]

4. Analyse the decrease in the inventory turnover ratio and its impact on the company's efficiency and cash flow.

[4]
