



TECHNICAL UNIVERSITY OF MOMBASA
Faculty of Business & Social Studies

DEPARTMENT OF BUSINESS STUDIES

DIPLOMA IN PROCUREMENT AND MATERIALS MANAGEMENT
DIPLOMA IN HUMAN RESOURCE MANAGEMENT
DIPLOMA IN BUSINESS ADMINISTRATION
DIPLOMA IN BUSINESS MANAGEMENT
DIPLOMA IN ACCOUNTANCY

BAC 2110: COST ACCOUNTING

SPECIAL/SUPPLEMENTARY EXAMINATIONS

SERIES: FEBRUARY 2015

TIME: 2 HOURS

INSTRUCTIONS:

- This paper consists of **FIVE** questions.
- Answer question **ONE (Compulsory)** and any other **TWO** questions.

This paper consists of Four printed pages.

QUESTION 1 (Compulsory)

From the information below relating to component 'tunda' you are required to calculate the following:

- a) Re-order level (2 marks)
- b) Re-order quantity (2 marks)
- c) Minimum stock level (2 marks)
- d) Average stock held (2 marks)

Maximum stock has been set at 5,500 units

Usage per month : Maximum 1100 units

Minimum 900 units

Estimated delivery period; Maximum 4 months

Minimum 2 months

- e) A company previously paid its direct labour workers on a time basis but is now contemplating moving over to an incentive scheme.

Draft a memo to the Chief Accountant outlining **FOUR** advantages of employing a successful incentive scheme. (8 marks)

- f) Your company is considering installing a costing system and is examining ways in which different classifications of cost can assist management.

Required:

Outline how costs can be classified.

(8 marks)

- g) Define the following terms:

i) Cost unit

(3 marks)

ii) Cost centre

(3 marks)

QUESTION 2

Utanitambua chemicals produces product 'Kumi Kumi by putting it through a single process. The following information is provided:

Input costs

Material 25,000 kilos at £2.48 per kilo

Labour 8,000 hours at £5.50 per hour

Overheads £61,600

You are also told the following:

- i) Normal loss is 4% of input
- ii) Scrap value of normal loss is £2.00 per kilo
- iii) Finished output amounted to 21,000 units
- iv) There was no opening or closing work-in-progress.

Required:

- i) Prepare the process account. (12 marks)
- ii) Prepare an abnormal loss account. (3 marks)
- iii) Distinguish between a joint product and a by product. (5 marks)

QUESTION 3

- a) “Since fixed cost per unit of output tend to diminish as output increases, the concept of fixed cost is fundamentally flawed”. Explain this statement. (4 marks)
- b) List **TWO** main reasons as to why we have over or under absorbed overheads. (4 marks)
- c) What are the limiting assumptions of break-even analysis (cost-profit-volume graph). (12 marks)

QUESTION 4

A company uses an item of stock as follows:

- Purchase price : £96 per unit
- Annual demand : 4,000 units
- Ordering cost : £300
- Annual holding cost : 10% purchase price

Required:

- a) Economic Order Quantity. (6 marks)
- b) Calculate total ordering and holding cost using EOQ. (6 marks)
- c) Advise management whether the company should order 1,000 units at a time in order to secure an 8% discount. Manager Alif says the order size should be 500 units while manager B says it should be 1000 units. (8 marks)

QUESTION 5

Kunazi, Viazi and Nazi Ltd makes cakes, for which the standard cost card is as follows:

	£
Materials	2
Labour	3
Variable production overhead	3
Fixed production overhead	4
Variable selling overhead	1
Fixed selling overhead	2
Profit	<u>5</u>
Selling price	<u>£20</u>

Both types of fixed overheads were based on a budget of 10,000 cakes a year.

In the first year of production the only difference from the budget was that Kunazi, Viazi and Nazi Ltd produced 11,000 cakes and sold 9,000.

Required:

- a) Marginal costing profit statement. **(8 marks)**
- b) Absorption costing profit statement. **(8 marks)**
- c) Explain the reasons for the difference in the two profits. **(4 marks)**