



**TECHNICAL UNIVERSITY OF MOMBASA**  
***School of Business***

DEPARTMENT OF BUSINESS ADMINISTRATION

DIPLOMA IN PROCUREMENT AND MATERIALS MANAGEMENT  
DIPLOMA IN HUMAN RESOURCE MANAGEMENT  
DIPLOMA SALES AND MARKETING  
DIPLOMA IN BUSINESS ADMINISTRATION  
DIPLOMA IN BUSINESS MANAGEMENT

**BAC 2110: COST ACCOUNTING**

SPECIAL/SUPPLEMENTARY EXAMINATIONS

**SERIES:** JUNE/JULY 2015

**TIME:** 2 HOURS

**INSTRUCTIONS:**

- This paper consists of **FIVE** questions.
- Answer question **ONE (Compulsory)** and any other **TWO** questions.
- Do not write on the question paper

***This paper consists of Five printed pages.***

### QUESTION 1 (Compulsory)

Expo Company Ltd makes a chemical that passes through three production processes 1, 2 and 3. In the month of August, 6,000 litres of the basic raw material priced at sh. 240,000 were introduced into Process I. Subsequently, the following costs were incurred.

	Process I	Process II	Process III	Total
Direct material	30,000	40,000	17,500	87,500
Direct labour	40,000	50,000	20,000	110,000
Direct expenses	6,000	1,600	9,300	16,900

Normal loss per process was estimated as follows:

Process I	10%
Process II	5%
Process III	8%

Output of each process was

Process I	5,300
Process II	5,000
Process III	4,700

The loss in each process represented scrap which could be sold of the following values:

Process I	Sh. 20 per unit
Process II	Sh. 44 per unit
Process III	Sh. 55 per unit

There was no stocks of materials or work in progress at the beginning or end of the month. The output of each process passes directly to the next process and finally to the finished stock. Production overhead is absorbed by each process on a basis of 50% of the cost of direct labour.

#### Required:

- Prepare separate process accounts for each of the three processes. **(21 marks)**
- Prepare the abnormal loss and abnormal gain accounts. **(9 marks)**

## QUESTION 2

A manufacturing company produces tyres. In the year 2007; 100,000 tyres were produced but only 90,000 of them were sold. There was no opening and closing stock of work in progress.

Production costs were as under:

	<b>Sh.</b>
Materials	28,000,000
Labour	8,000,000
Production overheads	<u>10,000,000</u>
	<b><u>46,000,000</u></b>

60% of production overhead is fixed. The average selling price for each tyre was sh. 600. Selling and administration expenses for the year amounted to sh. 3,000,000 of which sh. 1,200,000 were fixed.

- a) Profit and loss account on marginal costing basis. **(10 marks)**
- b) Calculate the break-even level of output in units and shillings. **(5 marks)**
- c) Suppose the company intended to make a profit of sh. 6,300,000 then find out the level of output in units.

## QUESTION 3

XYZ Co. produces tubes for motor cycles. The following information was provided for 2006:

	<b>Sh.</b>
Production	20,000
Sales	15,000
<b>Production costs</b>	
Direct materials	2,400,000
Direct labour	600,000
Variable overheads	500,000
Fixed overheads	900,000
<b>Selling &amp; administration</b>	
Sales commission	250,000
General expenses	160,000
Overheads (fixed)	240,000

The company sells each tube at a price of sh. 300

**Required:**

Profit and loss account on the basis of absorption costing.

**(20 marks)****QUESTION 4**

- a) Explain the assumption of CVP analysis. **(8 marks)**
- b) Define the following terms:
- i) Re-order level **(2 marks)**
  - ii) Buffer stock **(2 marks)**
  - iii) Holding costs **(2 marks)**
  - iv) Ordering cost **(2 marks)**
  - v) Variable costs **(2 marks)**
  - vi) Abnormal gain **(2 marks)**

**QUESTION 5**

Easy Ltd manufactures two products namely X & Y. The company uses 2 materials A and B in the manufacture of these products. The following information is given for the year 2007.

- i) Budgeted sales

Product	Quantity	Price
X	10,000	40
Y	8,000	30

- ii) Materials used

	<b>A</b>	<b>B</b>
	<b>Sh.</b>	<b>Sh.</b>
Unit cost	5	8
<b>Quantities used</b>		
X	5	3
Y	4	4

There were no stocks at the beginning of the year. Stocks at the end of the year are expected to be: X 1,000 units, Y 500 units

**Required:**

- a) Sales budget (5 marks)
- b) Production budget (5 marks)
- c) Material usage in quantities budget (5 marks)
- d) Material purchase in quantity and value (5 marks)