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 SALES AND MARKETING

BAC 2110: COST ACCOUNTING

END OF SEMESTER EXAMINATIONS

SERIES: APRIL 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 Four printed pages.

QUESTION 1 (Compulsory)

a) It is essential that any one preparing or interpreting CVP information is aware of the underlying assumptions on which the information has been prepared. If these assumptions are not recognized, serious errors may result and incorrect conclusions may be drawn from the analysis.

Required:

i) List the assumptions related to the above. **(10 marks)**

ii) Draw a cost-volume-profit graph; label the relevant curves and show other useful information. **(10 marks)**

b) Tonnepankirako Ltd manufactures a single product. As cost and management accountant you have determined the following information per unit

		£
Direct materials		200
Direct labour		100
Direct expense		100
Factory expenses – Variable		100
	Fixed	200
Non manufacturing costs – Variable		150
	Fixed	150
Profit is 25% of total cost		

Required:

i) What is the final selling price? **(2 marks)**

ii) What is the stock valuation figure under marginal costing. **(2 marks)**

iii) What is the stock valuation figure under absorption costing? **(2 marks)**

iv) What is contribution per unit figure? **(2 marks)**

v) What is the prime cost figure? **(2 marks)**

QUESTION 2

Fumba Fumbua Ltd is planning to use 200 units per month of a component used in the manufacture of its products for the whole of next year. Ordering cost is £100 per order. Unit cost is £30 and holding cost is 10% of unit cost.

Required:

a) Economic order quantity. **(6 marks)**

b) Total ordering plus holding cost if EOQ size is placed. **(6 marks)**

c) Total ordering plus holding cost if Miss Sungura places only 2 orders during the year. **(6 marks)**

d) "A particular cost can be relevant in one situation but irrelevant in another". Explain. **(2 marks)**

QUESTION 3

Write brief explanatory notes on:

a) Fixed and flexible budget. **(4 marks)**

b) Cost centre and cost unit. **(4 marks)**

c) Normal loss and Abnormal loss. **(4 marks)**

d) Over and under absorption of overheads. **(4 marks)**

e) Labour rate and labour efficiency variance. **(4 marks)**

QUESTION 4

a) Distinguish between overhead allocation, overhead apportionment and overhead absorption. **(6 marks)**

b) A manufacturing company uses three production departments to make its product. The following factory costs are expected to be incurred for next year

	£	£
Indirect materials		
Machining	10,000	
Assembly	20,000	
Finishing	30,000	
		60,000
Indirect wages:		
Machining	25,000	
Assembly	40,000	
Finishing	30,000	
		95,000
Factory rent		450,000
Supervision		90,000
Heating and lighting		140,000
Machinery power		50,000
Depreciation		140,000
Canteen subsidy		180,000

Other information is available as follows:

	Machining	Assembly	Finishing
No. of employees	30	10	5
Floor area (m^2)	30,000	15,000	30,000
House power of machinery	2,000	2,000	1,000
Value of machinery (£ 000)	6,000	6,000	2,000

Required:
Overhead distribution summary. **(14 marks)**

QUESTION 5

a) A company manufactures a single product and has produced the following flexed budget for the year:-

	Level of activity	
	X	**Y**
	70%	80%
	£	**£**
Direct materials	17,780	20,320
Direct labour	44,800	51,200
Production overhead	30,500	32,000
Administration overhead	17,000	17,000
Total cost	**£110,080**	**£120,520**

Required:
Prepare a budget flexed at the 90% level of activity. **(10 marks)**

b) The basic working week of a company is fourty hours and is paid at £20 per hour. Any time worked in excess is paid at "Time and a half". Last week Otonglo worked for 45 hours. Calculate his earnings for the week showing clearly:
   i) Basic earnings
   ii) Over-time pay split into basic plus premium
   iii) Total pay for Otonglo

(5 marks)

c) A product has a selling price of £20 and a variable cost of £10. Fixed costs are £3,000.

Required:
   i) Break-even point in units. **(2 marks)**
   ii) PV ratio (or contribution margin). **(1 mark)**
   iii) Break- even point in sales value **(2 marks)**