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	5
Selling price	**£20**

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)**