



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

END OF SEMESTER EXAMINATIONS

SERIES: APRIL 2014

TIME: 2 HOURS

INSTRUCTIONS:

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

QUESTION 1 (Compulsory)

- a) Expo Company Ltd makes a chemical that passed through production processes 1,2 and 3 in the month of August 6000 litres of basic raw material priced at shs. 240,000 were introduced into process 1. Subsequently, the following costs were incurred:

| Elements of costs | Total | Process | | |
|---------------------------------|----------------|---------|--------|--------|
| | | 1 | 2 | 3 |
| Direct material (additional) | Shs. 87,500 | 30,000 | 40,000 | 17,500 |
| Direct labour | 110,000 | 40,000 | 50,000 | 20,000 |
| Direct expenses | 16,900 | 6,000 | 1,600 | 9,300 |

Normal loss per process was estimated as

| | |
|-----------|-----|
| Process 1 | 10% |
| Process 2 | 5% |
| Process 3 | 8% |

Output of each process was:

| | |
|-----------|-------|
| Process 1 | 5,300 |
| Process 2 | 5,000 |
| Process 3 | 4,700 |

Production overhead is absorbed by each process on a basis of 50 per cent of the costs of direct labour

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

| | |
|-----------|-----------------|
| Process 1 | Sh. 20 per unit |
| Process 2 | Sh. 44 per unit |
| Process 3 | Sh. 65 per unit |

Required:

- i) Prepare separate process accounts for each of the three processes.
ii) Prepare the abnormal loss and abnormal gain accounts. (10 marks)
- b) What factors affect the stock levels in organisation. (5 marks)

c) Write short notes on the following:

- i) Cost unit
- ii) Cost centre
- iii) A profit centre
- iv) Costs object
- v) Responsibility centre
- vi) Controllable cost
- vii) Period costs
- viii) Uncontrollable costs

(15 marks)

QUESTION 2

A manufacturing company produce tyres. In the year 2009, 100,000 tyres were produced by only 90,000 of them were sold. There was no opening and closing stock of work in progress

Production costs were as under

| | |
|----------------------|--------------------------|
| Materials | 28,000,000 |
| Labour | 8,000,000 |
| Production overheads | <u>10,000,000</u> |
| | <u>46,000,000</u> |

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.

Required

- a) Profit and loss account on marginal and absorption on costing basis. **(15 marks)**
- b) A company has the forecasted demand of 2,000 units per month, the ordering costs is sh. 450 per order, the unit costs sh. 16 each and it is estimated that carrying costs are 15% per annum.

Required

E.O.Q.

(5 marks)

QUESTION 3

- a) The following information is extracted from the books of ABC Ltd for the year ending 31st December 2013.

| | Shs. |
|---------------------------|---------|
| Opening stocks: | |
| Raw materials | 17,500 |
| Finished goods | 12,500 |
| Closing stocks: | |
| Raw materials | 14,000 |
| Finished goods | 22,500 |
| Salaries: | |
| Sales department | 170,000 |
| Office and general | 55,000 |
| Purchase of raw materials | 210,000 |
| Carriage: | |
| Inwards | 2,500 |
| Outwards | 4,000 |
| Power and light: | |
| Factory | 4,000 |
| Office general | 1,000 |
| Direct wages | 70,000 |
| Sales | 680,000 |

Required: Prepare a statement to show:

- i) Costs of raw materials used
 - ii) Costs of goods manufactured
 - iii) Costs of goods sold
 - iv) Profit or loss made during the year. **(15 marks)**
- b) Distinguish between direct material cost and indirect material costs. **(4 marks)**

QUESTION 4

- a) Briefly explain the economic order quantity assumptions. **(5 marks)**
- b) The following information relates to stores ledger card for product B

| | | |
|---------|------------------|-------------------------|
| January | 1 st | Received 500 units @ 20 |
| | 9 th | received 300 units @ 22 |
| | 10 th | Issued 400 units |
| | 15 th | Received 200 units @ 25 |
| | 25 th | Issued 300 units |
| | 27 th | Received 200 units @ 26 |
| | 31 st | Issued 100 units |

Required:

Prepare a stores ledger card and show the value of closing stock and cost of sales on 31st January under the Weighted Average Method. **(5 marks)**

- c) Total output of A. Baker for one week was 480 units. He was allowed 8 minutes per unit. He completed these units in 52 hours. His wage rate per hour is sh. 18

Required: A Baker's total wage according to:

- i) Halsey scheme
- ii) Rowan scheme
- iii) Halsey weir scheme **(10 marks)**

QUESTION 5

- a) Citing suitable examples explain how costs can be classified on cost behaviour. **(5 marks)**
- b) What are assumptions of break-even charts? **(5 marks)**
- c) Kasanga Consumer Products Ltd manufactured products S and T and the following information is available from its records

| | |
|------------------------------------|-------------|
| Product S | Shs. |
| Selling price per unit | 20 |
| Variable cost per unit | 4 |
| Fixed costs of operation per month | 100,000 |
| Product T | Sh. |
| Selling price per unit | 24 |
| Variable costs per unit | 16 |
| Fixed costs of operation per month | 68,000 |

Required:

- i) Break-even point of each product in both units and sales
- ii) Profit of each product if sales in units are 30% above break-even point. **(7 marks)**
- d) What is the purpose of cost accounting? **(3 marks)**