



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

BACHELOR OF COMMERCE II

BACHELOR OF IN BUSINESS ADMINISTRATION II

BAC 4201: COST ACCOUNTING

END OF SEMESTER EXAMINATION

SERIES: AUGUST, 2019

TIME: 2HOURS

DATE: AUGUST, 2019

Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

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

Do not write on the question paper.

Question One

- a) Mbano Ltd. manufactures and retails three products namely; A, B and C. The company employs 60 direct workers who work under a group bonus scheme. The company engages three grades of workers who are paid a bonus on the excess of time allowed over time taken. The bonus is paid at 75% of time saved at the workers' base rate and is shared by the workers in proportion to the time spent on the work.

The following production data has been extracted from the company's records for the month of October 2018:

Product	Units produced	Time allowed per unit (minutes)
A	320	63
B	640	120
C	1,200	100

Grade of worker	Number of direct workers	Rate	Hours worked per worker
1	20	300	30
2	8	270	64
3	32	240	50

Required:

- i) Percentage of hours saved to hours worked **(4 Marks)**
- ii) Bonus due to the group **(4 Marks)**
- iii) Gross earnings due to the group **(4 Marks)**

(b) The following details were extracted from the stores ledger card of a small manufacturing company during the month of November 2018.

Date

- 1 Opening stock - 400 units valued at sh.1600
- 4 Received 200 units @sh.5 each
- 10 Issued 500 units @sh.12
- 16 Received 300 units @sh.6 each
- 20 Issued 300 units @sh.14
- 24 Received 400 units @sh.7 each
- 30 Issued 200 units @sh.15

Required:

- (i) Prepare a stores ledger card for the month of November 2018 using FIFO method.
 - (ii) Prepare a trading account for the month. **(12 marks)**
- (c) Discuss **SIX** factors that are considered when setting stock levels. **(6 marks)**

Question Two

(a) Safari Ltd manufactures three products namely; X, Y and Z. Each product is started in the machine area completed in the finishing shop.

The direct costs associated with each product forecast for the financial period ending 30th June 2017 are as follows:

	X	Y	Z
	Sh.	Sh.	Sh.
Materials	37	30	45
Wages:			
Machine area Sh. 10 per hour	20	10	20
Fishing shop Sh. 8 per hour	<u>12</u>	<u>8</u>	<u>16</u>
Total	<u>69</u>	<u>48</u>	<u>81</u>

Additional information:

1. There are machines in both departments and machine hours required to complete one of each product as follows:

Product	Machine Area Hours	Fishing shop Hours	Budget output Units
X	8	1	12,000
Y	3	1	16,000
Z	<u>6</u>	<u>2</u>	<u>4,000</u>
	<u>17</u>	<u>4</u>	<u>32,000</u>

2. The fixed overheads for the machine area amount to Sh. 202,600.
3. The fixed overheads for the finishing shop amount to Sh. 189,000.

Required:

For each department, compute:

- a) fixed overheads absorption rate using:

- i) Labour hours (5 Marks)
ii) Machine hours (5 Marks)

- b) The total cost for each product using :

- i. The labor rate (5 Marks)
ii. The machine hour rate (5 Marks)

- (b) Discuss **five** differences between cost accounting and financial accounting (10 Marks)

Question Three

- (a) Maendeleo Clothing Factory has three production departments A, B and C and one service department D. The following costs were provided by the costing department as incurred for the year ended 31 December 2018.

	Sh.
Rent	20,000
Repairs to plant	12,000
Depreciation of plant	9,000
Lighting	2,000
Supervision	30,000
Repairs to buildings	8,000

The following additional information is also provided.

	Departments			
	A	B	C	D
Area of Sq. metres	1,500	1,100	900	500
Number of employees	20	15	10	5
Wages in sh.	120000	80000	60000	40,000

Value of plant	300,000	180,000	120,000	-
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Required:

Prepare an overhead analysis sheet to apportion the costs.

(10 marks)

- (b) SK Ltd has never operated a system of stock control. You have recently been appointed as the management accountant and tasked to develop a system of stock control.

From your investigations, you establish the following consumption pattern for a component number G007 during the year 2015:

Month	Monthly consumption (units)
January	800
February	900
March	1,000
April	1,200
May	1,300
June	1,400
July	1,400
August	1,200
September	1,000
October	800
November	600
December	400

Additional information:

1. The lead time for G007 is a minimum of 3 months and a maximum of 5 months.
2. The cost of ordering was found to be Sh. 20 per order.
3. The cost price per unit of G007 is Sh. 30.
4. The inventory holding cost is 10% of the cost price.

Required:

- i) Economic order quantity (EOQ) (1 mark)
- ii) Total costs associated with stock (5 marks)
- iii) Re-order level (1 mark)
- iv) Maximum stock level (2 marks)
- v) Frequency of ordering (1 mark)

Question Four

Handshake Ltd. won the contract for building Amani Bridge priced at sh.120m. For the year ended 31 March 2019 the data relating to the contract were as follows:

	Sh.000
Material issued to the site	43,000
Cost of labour engaged on contract	7,200
Plant purchased and installed	36,000
Direct expenses	9,600
General management charges	3,500

Material returned to the store	5,000
Work certified	80,000
Cost of work not certified	14,000
Cost of material on site 31/3/2019	4,000
Progress payment received	72,000

Required:

- (i) The contract account **(14 Marks)**
- (ii) Contractee account **(4 Marks)**
- (iii) Valuation of work in progress. **(2 Marks)**

Question Five

- (a) Discuss the following concepts:
 - i) Product costs **(2 Marks)**
 - ii) Period costs **(2 Marks)**
 - iii) Relevant costs **(2 Marks)**
 - iv) Differential costs **(2 Marks)**
- (b) Write brief notes on joint products and explain any three methods of apportioning common costs to the joint products. **(8 Marks)**
- (c) Write two distinguishing features between job costing and process costing **(4 Marks)**