TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF HUMANITIES AND SOCIAL SCIENCES

DEPARTMENT OF HOSPITALITY & TOURISM MANAGEMENT

UNIVERSITY EXAMINATION FOR THE:

BACHELOR OF SCIENCE IN TOURISM MANAGEMENT (BSTM S22)

BAC 4302: COST ACCOUNTING IN HOSPITALITY AND TOURISM

END OF SEMESTER EXAMINATION

SERIES: APRIL 2025

TIME:2HOURS

DATE:APRIL2025

Instructions to Candidates

You should have the following for this examination

-*Answer Booklet, examination pass and student ID*

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

Do not write on the question paper.

SECTION A (Answer all the questions) **30 POINTS**

QUESTION ONE

a) **Define Cost accounting and Explain the following terms:** **(10 Marks)**

i) Cost object/Cost Unit

ii) Cost Analysis

iii) Cost Center

iv) Responsibility Center

v) Cost benefit Approach

b) Cost accounting is useful and applicable in business organizations and its environment in many ways. State and briefly discuss 5 purposes and usefulness of cost accounting. **(10 Marks)**

c) Define the following key terms **(10 Marks)**

i) Prime costs

ii) Variable costs

iii) Fixed costs

iv) Direct costs

v) Indirect costs

vi) Marginal costs

QUESTION TWO

a) A firm manufactures a product AC169 for sale in the market. The firm has a capacity of producing 250,000 units per annum. The annual demand for the product is 50,000 units, annual carrying costs per unit per annum is Shs15. Labour and other cost incurred every time in setting the machine for production equals Shs1,500.

Required: Calculate the Economic batch quantity **(5 Marks)**

b) distinguish between the following:

1. ABC Costing and absorption costing. 4mks
2. Service center and production center **(4 Marks)**

c) Highlight three reasons why overheads are absorbed. **(3 Marks)**

d) Explain how Activity Based Costing differs from traditional absorption costing, giving an example. **(4 Marks)**

QUESTION THREE

a) Define cost estimation and state the cost estimation function for linear relationships and also explain its variables. **(5 Marks)**

b) Briefly discuss the methods of cost estimation clearly highlighting their advantages and disadvantages. **(10 Marks)**

c) Highlight the assumptions of regression analysis **(5 Marks)**

QUESTION FOUR

a) Jamline Ltd, which manufactures and sells a single product, is currently producing and selling 102,000 units per month, which represents 85% of its full capacity. Total monthly costs are £619,000 but at full capacity these would be £700,000. Total fixed costs would remain unchanged at all activity levels up to full capacity. The normal selling price of the product results in a contribution to sales ratio of 40%.

A new customer has offered to take a monthly delivery of 15,000 units at a price per unit 20% below the normal selling price. If this new business is accepted, existing sales are expected to fall by one unit for every six units sold to this new customer.

Required:

(a) For the current production and sales level, calculate: **(5 Marks)**

(i) the variable cost per unit;

(ii) the total monthly fixed costs;

(iii) the selling price per unit;

(iv) the contribution per unit

b) A company has just purchased a new machine, costing Sh150,000, for a contract. It has an installation cost of Sh25,000 and is expected to have a scrap value of Sh10,000 in five years' time. The machine will be depreciated on a straight line basis over five years.

What is the relevant cost of the machine for the contract? (5 Marks)

c)ABC Ltd has an aggregate demand of 1.2 million units. Each time they place an order,

there is an ordering cost of Shs.1,000, holding cost is Shs.100 per unit. **Determine:**

i. EOQ

ii. No. of order to be made based on EOQ

iii. Total cost of stocks based on the EOQ **(5Marks)**

d) Assume the constant annual sales demand for a product is 4500 unit; set up costs amounting to Shs450. The holding cost is Shs20 per unit per year. Assume 250 working days throughout the course of the year. The company produces 200 units per day during the production period.

Required: Calculate the Economic Batch Quantity (EBQ) (5 Marks)

QUESTION FIVE

a) Assume the following purchases were made in ABC Ltd

Date of purchase Units purchased Price/unit

Date of purchase	Units Purchased	Price per Unit
1st January	500	100
2nd January	600	200
3rd January	800	400

Units used on 4th January are 900.

Required:

Determine the cost of units used by using and the value of the closing stocks by using

i. **FIFO,** **(5Marks)**

ii. **LIFO and** **(5 Marks)**

iii. **Weighted Average Methods.** **(10 Marks)**

b) The following information was extracted from the book of Happy Ltd for the year ended 31/12/2001

Output 100,000 units

Production Costs

Direct labour costs	5 Million
Direct material costs	2 million
Variable overheads	2 million
Fixed overheads	4 Million
Units sold	90,000
Selling Price per Unit	Shs.100,000

Assume closing stocks at the end of the previous period were nil.

Required

Using both absorption and marginal costing determine

i. Cost per unit

ii. Prepare the income statement **(10 Marks)**