MACHAKOS UNIVERSITY COLLEGE

(A Constituent College of Kenyatta University)
University Examinations for 2015/2016 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES

SECOND SEMESTER EXAMINATION FOR DEGREE IN

BACHELOR OF COMMERCE (ACCOUNTING OPTION)

BAC 404: COST ACCOUNTING II

Date: 12/8/2016 **Time: 8:30 – 10:30 AM**

INSTRUCTIONS

Answer Question One and Any Other Two Questions

1. (a) Explain FOUR factors to be considered before introducing machines in the Accounting Department. (8 marks)

(b) Usafi limited operates a single process to manufacture soap. The process costs for the month of February 2014 were as follows;

	Sh."000"
Material input 20,000 kilogrammes	5,000
Labour	4,500
Overheads	2,500

Additional information:

i) The normal output of the process is 95% of material input. The loss from the process is sold for sh. 60 per kilogram

ii) The output for the month of February 2015 was as follows:
Finished goods 18,800 kilograms
Closing Work in Progress 1000 kilograms

iii) The degree of completion of closing work in progress was 50% for labour and overheads and 100% for materials.

Required:

i) Process Account

ii) Abnormal gain account (10 marks)

(c) Differentiate between the following sets of terms.

i) Sunk cost and Opportunity cost

ii) Cost center and profit center

iii) Direct labour cost and indirect labour cost

iv) Prime cost and manufacturing overheads. (8 marks)

(d) In practice, there is no cost that can be described as entirely and always "variable" or "fixed". Comment on this statement. (2 marks)

(e) Distinguish between cost accumulation and cost allocation. (2 marks)

2. (a) Biashara Ltd maintains separate cost and financial accounts. In the financial accounts for the three months ended 31st October 2013, the manufacturing, trading and profit and loss accounts were as follows:

Raw materials :		Sh. "000"	Sh. "000"
Opening stock			976
Purchases			2,160
			3,136
Closing stock			(1,040)
Raw materials consumed			2,096
Direct wages		804	
Production overheads		1,218	2,022
Production cost			4,118
Work in Progress:			
Opening	1280		
Closing		1,160	120
Cost of goods produced			4,238
Sales			8,800
Opening stock		2,400	
Cost of goods produced		4,238	
		6,638	
Closing stock		(2,438)	
Cost of goods sold			4,200
Gross profit			**4,600**

The following information was extracted from the cost accounting system:

Control account balances	1 August 2013	31 October 2013
	Sh. "000"	Sh. "000"
Raw materials stores	990	1022
Work in progress	1202	1139.4
Finished goods	2268	2516

Production overheads amounted to sh. 1,487,400
The profit as per the cost accounting system amounted to sh. 4,566,000

Required: A statement reconciling the cost accounting profit with the financial accounting profit. (10 marks)

(b) Explain FIVE possible causes of differences between reported profits in cost accounting and financial accounting under the non- integrated cost accounting system. (10 marks)

3. (a) Pakawa limited employs five processes to manufacture a hybrid fertilizer branded "Sunshine". The data below relates to process C for the month of October 2015

Opening work in progress	**Sh.**
Transferred from process B	112,000
Labour costs from Process B	76,500
	Units
Beginning work in progress	8,500(50% complete)
Transferred from process B during the month	62,500
Completed during the month	56,000
Ending work in progress	9,000(75% complete)
Current costs	**Sh.**
Transferred in from process B	1,250,000
Material costs	750,400
Labour costs	491,000

Material costs are added to the product at the end of the process and conversion costs are assumed to be incurred uniformly throughout the process. Manufacturing overheads are applied to the product on the basis of 50% of labour costs.

Additional information:

1. Units lost during processing are considered to be a normal occurrence unless the numbers of lost units exceed 5% of total units accounted for. The cost of normal loss is absorbed by the cost of total units accounted for.
2. Lost units in excess of 5% are considered abnormal. This cost is separately identified and written off as a loss. The company cost accounts follow a policy of assigning only transferred in costs to abnormally lost units,

Required: Using the FIFO method of valuing inventory, prepare process C statement for the month of October 2015 showing:

i) Total cost assigned to good units and transferred to process D
ii) Total loss due to abnormal lost units
iii) Valuation of closing work in progress in total and by elements of cost. (14 marks)

(b) State and explain THREE causes of losses in process costing. (6 marks)

4. (a) ArapTeta general hospital hires doctors from private hospitals. The following data relate to the total labour hours and indirect labour costs for the year ended 31 October 2014.

Month	**Labour cost Sh. "000"**	**Labour hours**
November 2013	13090	748
December 2013	13321	968
January 2014	11044	682
February 2014	10087	792
March 2014	8470	660
April 2014	16060	1056
May 2014	1980	858
June	7810	506
July 2014	14476	902
August 2014	11352	1034
September 2014	8272	748
October 2014	10593	528

Required:

i) Eqution in the form; Y= a + bX using the regression method.

ii) Total labour cost for outsourcing 1078 labour hours using the equation obtained inabove (12 marks)

(b) "Understanding of cost behavior patterns is important in making financial planning and cost control decisions". In relation to this statement, describe three types of costs. (6 marks)

5. (a) Explain three differences between job costing and batch costing. (6 marks)

(b) Smarta limited manufactures flower pots for sale. The company does not carry any stock of finished goods as it manufactures specifically to customers' orders. Howeverthe company holds a range of raw materials in the stores.
The following information relates to the company's operations for the months of August and September 2012.

1. As at 31 August 2012, there were two incomplete jobs in progress whose details were as follows.

	Job J14	Job J15
Direct materials	2500	1444
Direct labour	1640	1200
Factory overheads	3230	2400

2. During the month of September 2012, the company accepted three more jobs; J16, J17 and J18 and incurred additional costs as follows

	Job J14	Job J15	Job J16	Job J17	Job J18
Direct materials issued	840	1396	3800	2442	1032
Direct materials returned	240	-	140	-	-
Direct labour	520	780	3120	1510	580

3. During the month of September 2012, direct materials worth sh. 200 were transferred from job J14 to job J16
4. During the month of September 2012 job J14, J15 and J16 were completed.
5. The factory production overheads are absorbed at the rate of 200% of direct labour cost

6. On completion of a job, the company adds 20% to the total factory production cost in order to recover its selling ,distribution and administrative costs
7. The amounts invoiced to customers during the month of September 2012. Were as follows;

	Job J14	Job J15	Job J16
Amount invoiced (Sh)	12500	12000	15800

Required:

i) Compute the total costs for the work done as at September 2012.

ii) Compute the profit or loss for the jobs completed and invoiced to customers as at 30 September 2012 (14 marks)