



MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT
SCIENCES

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR DEGREE IN

BACHELOR OF COMMERCE

BAC 404: COST ACCOUNTING II

DATE: 2/6/2017

TIME: 8:30 – 10:30 AM

INSTRUCTIONS:

- i) Answer question one and any other two questions.
- ii) Marks allocated for each question are shown at the end of the question.
- iii) Show your working where necessary.

1.
 - (a) Understanding cost behavior is important in making financial planning and cost control decisions. In relation to this statement, describe THREE ways in which costs might be classified. Give one example in each case. (6 marks)
 - (b) Explain FOUR salient characteristics of process costing. (6 marks)
 - (c) Suppose a company has the following costs with a value of 7000 units;

	Amount (Ksh.)	Variable cost (Ksh.)	Fixed cost (Ksh.)
Direct labour	150,000	150,000	-
Materials	125,000	125,000	-
Repairs and Maintenance	5,000	5,000	-
Depreciation	15,000	-	15,000
Administration			
Overheads	1,000	-	1,000
Indirect labour	4,000	-	4,000
	<u>300,000</u>	<u>280,000</u>	<u>20,000</u>

Required:

Determine the cost equation (in the form of $Y = a + bX$) using account classification method and determine the cost of producing 1,400 units. (5 marks)

- (d) Mtwapa Limited sells Rollum at the rate of 500 per day throughout a working year of 250 days. The product is normally purchased by Mtwapa Ltd ready for sale at Ksh. 70 per unit. Investigations have shown that Rollum can be made at the rate of 800 units per day in a part of the factory presently unoccupied. The direct costs per unit are as follows:

	Ksh.
Direct materials	12.50
Labour cost	5.00
Variable overheads	22.50

The set-up cost per batch is estimated to be Ksh. 6,000, and stock holding cost percentage is 25% per annum.

Required: Calculate;

- Economic Batch Quantity (EBQ) for the company
 - The total cost associated with the EBQ computed in (i) above
 - State TWO major assumptions of EBQ (7 marks)
- (e) Discuss THREE differences between Cost reduction and Cost control. (6 marks)

2. Oxfam limited produces product Jay in three processes. During the month of August 2009, 5,000 units were transferred from process one at a cost of sh. 37 per unit
In addition the following costs were incurred in process two;-

	Sh.
Direct materials	44,906
Labour cost	86,400
Variable overheads	61,800

At the beginning of the month there was opening stock of work in progress of 600 units which were complete as follows;-

Materials from process I	100%	18,900
Material added	60%	3,600
Labour	30%	8,100
Overheads	30%	2,700

Work in progress at the end was 1000 units complete as follows

Materials from process I	100%
Materials added	75%
Labour	40%
Overheads	20%

While normal loss is expected to be 10% of input, 800 units were actually scrapped and were sold for sh. 10 per unit

The company uses first and first out (FIFO) method of accounting for work in progress

Required; Prepare process 2 account (20 marks)

3. At the start of the year, no jobs were in process. During the year, job number 2.1, 2.2 and 2.3 were started; materials were purchased at a cost of sh. 100,000. Materials worth Sh. 75,000 were used of which Sh. 70,000 were direct. (Sh. 10,000 on job 2.1, Sh. 40,000 on job 2.2 and the balance on job 2.3). Labour costs worth Sh. 250,000 were incurred of which Sh. 220,000 was direct labour (Sh. 80,000 on job 2.1, Sh. 75,000 on job 2.2 and the balance on job 2.3). Other manufacturing overhead costs of Sh. 72,800 were incurred; manufacturing overheads are applied to production on the basis of direct labour costs. Estimated manufacturing overhead for the year was Sh. 100,000 and estimated direct labour cost for the year was Sh. 200,000. Jobs 2.2 and 2.3 were completed with job 2.3 being sold for Sh. 200,000.

Required:

- a) Pass the necessary journal entries to record the above transactions.
b) Prepare a costing, profit and loss account for the period above. (20 marks)
4. More Ltd is a medium sized manufacturing company which maintains separate cost and financial accounting books. The financial accountant provided the following statement for the year ended 31 December 2016.

More Limited

Manufacturing, trading and Profit and Loss Account for the year ended 31 December 2016

	Sh. "000"	Sh. "000"
Direct Materials:		
Opening stock	150	
Purchases	<u>1,800</u>	
	1,950	
Closing stock	<u>200</u>	
Direct material cost	1,750	
Direct wages	<u>250</u>	
Prime cost		2,000
Factory overheads		<u>300</u>
		2,300
Opening work - in – progress		<u>125</u>
		2,425
Closing stock		<u>130</u>
Production cost		<u>2,295</u>
Sales		4,500
Cost of goods sold:		
Opening stock	240	
Production cost	<u>2,295</u>	
	2,535	
Closing stock	<u>255</u>	
Gross profit		2,220
Other incomes:		
Discount received	45	
Income from investment	1,094	<u>1,139</u>
		3,359
Expenses:		
Depreciation	280	

Interest on loan	36
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Debenture interest	25	
Administrative expenses	<u>600</u>	<u>941</u>

Net Profit		<u>2,418</u>
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The records from cost accounts showed the following:

1. Stock valuation as at 31 March were as follows:

	2015	2016
	Sh. "000"	Sh. "000"
Raw Materials	160	196
Work- in – Progress	121	125
Finished goods	258	260

2. Factory overheads were absorbed at 15% of direct material cost

3. Other costs included:

	Sh. "000"
Interest on capital	140
Notional rent	420
Administration expenses over-absorbed	32
Selling & Distribution expense over- absorbed	25
Depreciation	242

4. Profit as per cost statement was Sh. 2,328,400.

Required:

Prepare a profit reconciliation statement for the year ended 31 December 2016. (20 marks)

5. a) ABC Dental Clinic outsources specialized dental surgeons from private hospitals. The following relates to the total labour hours and labour costs for the year ended 31 December 2016.

Month	Labour Cost (Sh.)	Labour hours
January	11,900	680
February	12,110	880
March	10,040	620
April	9,170	720
May	7,700	600
June	14,560	960
July	11,800	780
August	7,100	460
September	13,160	820
October	10,320	940
November	7,520	680
December	9,630	480

Required:

- i) Equation in the form of $Y = a + bX$ using the regression method.
- ii) Total labour cost for outsourcing 980 labour hours (10 marks)

- b) Explain TWO functions of a cost accountant. (4 marks)

- c) Explain THREE preliminary arrangements to be made in the cost accounting department before installing machines. (6 marks)