MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

FOURTH YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 404: COST ACCOUNTING II

DATE: 26/7/2019 **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.

Q1. (a) Amdany Ltd uses a part branded "Maxi" whose demand tends to be constant at an annual rate of 4.4 million units. The cost per unit for this part is sh. 220 and the cost of placing an order is sh. 550. Amdany Ltd estimates that the annual inventory carrying cost of the part expressed as a percentage of cost of average inventory is 20%.

Required:

i) Compute the Economic Order Quantity (EOQ) (3 marks)

ii) Compute the annual number of orders. (2 marks)

(b) Fixed costs are actually variable costs. With reference to this statement explain whether you agree or disagree. Give reasons. (3 marks).

(c) Outline THREE features of Job Costing. (3 marks)

(d) Explain THREE possible causes of differences between reported profits in cost accounting and financial accounting under the non- integrated cost accounting system. (6 marks)

(e) A production process has joint costs of Sh. 12,000 for the input of 1000 kilograms of material. Two products are produced from this:

Product A: 600 kgs. Selling price = Sh. 25 per unit. Separate costs = Sh. 4,000

Product B: 400 kgs. Selling price = Sh. 40 per unit. Separate costs = Sh. 7,000

Required: Calculate the inventory value of the production using;

i) Weight to apportion the joint costs (3 marks)
ii) Net realizable value to apportion the joint costs (3 marks)

(f) The following information relates to Brutes Ltd which manufactures a single type of chemical. Overhead processing costs for the last eight months are as follows.

Month	Machine Hours	Overhead Costs (Sh. "000"
1	10,600	120
2	17,000	180
3	4,000	70
4	21,000	184
5	19,000	178
6	7,800	100
7	14,000	172
8	12,000	154

Required: Equation in the form of Y= a + b X using the Regression method. (7 marks)

Q2. (a) Kobo bearings Ltd is committed to supply 24,000 bearings per annum to Deluxe fans on a steady daily basis. It is estimated that it costs sh. 10 as inventory holding cost per bearing per month and that the set up cost per run of bearing manufacture is sh. 3240.

Required:

i) Economic Batch Quantity (EBQ) (2 marks)
ii) Minimum Inventory Cost per annum. (2 marks)

(b) Discuss FIVE factors to be considered before introducing machines accounting department of an organization. (10 marks)

(c) Differentiate between the following sets of terms. Give ONE example in each case.

i) Cost center and profit center (2 marks)
ii) Direct labour cost and indirect labour cost (2 marks)
iii) Prime cost and manufacturing overheads (2 marks)

Q3. Clayworks Ltd is a manufacture of earthware products. The products undergo two processes A and B. The following information relates to process A for the month of September 2017.

	Process A
Opening Work in Progress (units)	10,000
Stage of completion	2/5
Material cost (Sh.)	6,000,000
Conversion cost (Sh.)	1,500,000
Units started in the period	40,000
Material cost in the month	22,600,000
Conversion cost in the month	18,000,000

Units completed in the month	44,000
Closing Work in Progress (units)	2000
Stage of completion	½

Additional information:
Conversion costs are applied uniformly throughout the process
Normal loss is 5% of total units to be accounted for.
Scrap value of normal loss is Sh. 250 per unit.
Required:

a) Statement of equivalent units (6 marks)
b) Statement of cost (4 marks)
c) Statement of valuation (4 marks)
d) Process A account (6 marks)

Q4. (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. (14 marks)

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

Q5. (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. However the 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)