MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

SECOND YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 202: COST ACCOUNTING 1

DATE: 25/9/2019 **TIME: 2:00 – 4:00 PM**

INSTRUCTIONS: Attempt Question One and any other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

a) Machakos manufacturing company provides the following information for the month of January 2019.

Stock on 1st January 2019	Shs
Raw materials	20,000
Work-in-progress	6000
Finished goods	10,000
Stock on 31st Jan 2019	
Raw materials	17,500
Work-in-progress	8,500
Finished goods	11,500
Purchases of raw materials for January	125,000

Factory wage	40,000
Salaries of supervisors	15,000
Factory rent	5,000
Power	2,500
Sundry factory expenses	7,500
Office salaries	6,500
Sundry office expenses	3,500
Salesman's salaries	9,000
Sundry selling expenses	3,000
Sales	250,000

Required:

i) Prepare a production cost statement (10 marks)

ii) Prepare a profit statement (10 marks)

b) Outline the procedure that may be followed in installing a cost accounting system. (5 marks)

c) Explain various classifications of overheads. (5 marks)

QUESTION TWO (20 MARKS)

a) Makonkolo company has three production departments, P, Q and R and two service departments M1 and M2. The following overheads for the company for the month of August 2019 were as follows;

Production Departments	**Shs.**
P	14,500
Q	10,000
R	14,500
Service Departments	
M1	5,000
M2	3,900

The service departments expenses are charged on a percentage basis as follows;

Service department	P	Q	R	M1	M2
M1	30%	30%	20%	-	20%
M2	40%	30%	20%	10%	-

Prepare a statement showing the total overhead chargeable to the three production departments by using simultaneous equation method (12 marks)

b) Explain four disadvantages of piece rate method of computing wage. (8 marks)

QUESTION THREE (20 MARKS)

a) The following information on manufacturing overheads relates to Maneno company for the year 2018.

Month	Output level (units)	manufacturing overhead (shs)
January	2,300	29,000
February	2,250	28,000
March	2,750	30,000
April	4,000	49,000
May	2,600	32,000

Using High-low method calculate the total cost to be incurred if 4500 units were produced in the month of June, 2018. (10 marks)

b) Explain five bases of cost classification in cost accounting. (10 marks)

QUESTION FOUR (20 MARKS)

a) The following information relates to SASA manufacturers that produces only one product;

	Kshs.
Fixed production cost	20
Variable production cost	90
Variable selling expenses	50
Selling price	260
Fixed selling cost	25

The fixed costs are usually based on a production level of 100,000 units and are expected to increase by kshs. 80,000 for every year increase in production of 22,000 units.

The budget below relates to the year ended 31st December 2018;

	Units
Production	
Stocks (1.1.2018)	133,000
Stocks (31. 1. 2018)	27,000

Prepare a profit statement using marginal costing method. (10 marks)

b) Explain five objectives of stock control. (10 marks)

QUESTION FIVE (20 MARKS)

a) Explain the difference between the following terms;

i. Cost centre and cost unit

ii. Direct and indirect cost (4 marks)

b) List four objectives of stock control in an organization. (4 marks)

c) Explain six advantages of cost accounting. (12 marks)

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BACHELOR OF COMMERCE

BAC 203: BUSINESS FINANCE 1

DATE: **TIME:**

INSTRUCTIONS: Attempt Question One and any other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

a) Discuss the main problems sole traders' encounter in a bid to raise finance on Kenya's financial markets. (5 marks)

b) Differentiate between Debt Finance from Ordinary Share Capital (Equity Finance) (10 marks)

c) Why do different sources of finance have different costs? (5 marks)

d) A company offers to start a pension plan for its workers, and the plan is to place kshs. 15,000 for each worker at the end of each year in their accounts that earns 6% annually. Calculate the amount that will be in the account of a worker at his retirement age of 60 years, if he is now 40 years old at the time of the start of this pension plan. (5 marks)

e) James intends to raise kshs. 990,000 in three years time. At the beginning of the first year, James deposited kshs. 350,000, and another kshs. 380,000 in the second year in Hekima bank that pays 10% interest on deposits. Calculate the amount that James need to deposit into the account in order to raise the required amount. (5 marks)

QUESTION TWO (20 MARKS)

The following relates to two securities (security Z and Y) being offered for subscription with their respective characteristics.

State of the Economy	Possibility of occurrence	Security Z	Security Y
U	0.15	10%	25%
V	0.25	15%	10%
W	0.2	30%	15%
X	0.25	25%	40%
Y	0.15	20%	10%

(a) Calculate the expected return on each security. (6 Marks)

(b) Calculate the standard deviation of the returns on security Z and Y (10 Marks)

(c) Which security do you recommend for the company to invest in and why? (4Marks)

QUESTION THREE

The executive director of Mapema Ltd has circulated the following information as part of board paper:

Mapema Ltd.
Financial Performance for the year ended 31 March:

		2017	**2018**
i)	Return on investment	12%	10%
ii)	Gross profit on sales	25%	20%
iii)	Number of days credit given	30 days	45 days
iv)	Administrative cost of sales	7%	10%

Required

a) Brief report on each of the above 4 ratios indicating the reservation, if any, you may have or judging them as improvement in performance. (8 marks)

b) Taifa Ltd has sales of Sh.20,000,000 in 2015. Beginning and closing stock was Sh.800,000 and Sh.2,200,000 respectively. G.P. margin is usually 25% of sales.

Required

i) Stock turnover ratio (3 marks)

ii) Number of days stock held (3 marks)

iii) Brief explanation on how the ratio computed in (i) above can be improved and financial Consequences of such action. (6 marks)

QUESTION FOUR (20 MARKS)

a) The capital of Salama Co. Ltd. is all Equity and consists of 800,000 shares of Shs.120. each. The anticipated growth rate is 10% and last years dividend was Shs.4 per share. What is the cost of Equity? (3 marks)

b) Salama Co. Ltd has decided to adjust its capital structure proportions to 25% debt of 36,000 irredeemable debentures, 25% preferred stock in form of 200,000 preference shares and 50% equity while maintaining the same level of capital. The company anticipates the same growth rate as above and its preferred stock and 10% and 6% respectively. The corporate income tax rate is 30%.

i) Calculate the cost of equity. (4 marks)

ii) Calculate the dividend per share of preferred stock. (3 marks)

iii) Calculate the cost of debt. (3 marks)

c) What is Salama`s Co. Ltd. Weighted Average cost of Capital(WACC) ? (7 marks)

QUESTION FIVE (20 MARKS)

a) Explain the meaning of “ time value of money” (4 marks)

b) Mrs. Luke deposited kshs. 900,000 in a savings account that pays 12% interest compounded semi-annually. Calculate the amount that shall be in her account at the end of 10 years. (6 marks)

c) The company and its shareholders as agents may take some actions that might prejudice the position or interest of the government as the principal. Explain five of these actions. (10 marks)