MACHAKOS UNIVERSITY

University Examinations for 2021/2022 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

SECOND YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 202: COST ACCOUNTING 1

DATE: **TIME:**

INSTRUCTIONS:

Answer question one, and any other two questions

QUESTION ONE (COMPULSORY) (30 MARKS)

a) Explain the need for stock control in an organization. (8 marks)

b) Based on performance, you have been provided with the following information regarding PQW Ltd for the year ended 30 November, 2021 :

	Labour hours	**Service cost (Shs)**
Highest activity level	800	200,000
Lowest activity level	300	150,000

Required

Develop a total cost function based on the above data using the high-low method.

(8 marks)

c) Using the cost function developed in b above, estimate the total costs when the activity level is 1000 labour hours. (4 marks)

d) Explain the challenges that may be encountered in an organization when installing a cost accounting system (10 marks)

QUESTION TWO (20 MARKS)

a) The Blank Manufacturing Company Ltd. Consists of four production departments and two service departments. For the month of September, 2021 the direct departmental expenses were as follows:

Production Departments -	A, Shs.800;	B, Shs.5,600;	C, Shs.800;	D,Shs.400
Service Department-	X, Shs1,800	Y, Shs2,400		

The cost of service departments X and Y are allocated to the other departments on a percentage basis viz:

	A	B	C	D	X	Y
X	30	20	25	15	-	10
Y	20	30	10	25	15	-

Required

Prepare a statement showing the distribution of the service department expenses. (12 marks)

b) Briefly describe the purpose of Cost Accounting. (8 marks)

QUESTION THREE (20 MARKS)

a) From the following, prepare a schedule highlighting;

Prime cost
Production cost
Total cost

			Sh.
(i)	Expenses of the administration function		60,000.00
(ii)	Materials used in producing products		220,000.00
(iii)	Depreciation in	Sh.	
	Office equipment	5,000.00	
	Machinery (production)	29,000.00	
	Delivery vans	18,000.00	
	Show rooms	6,000.00	58,000.00
(iv)	Direct labour costs incurred		155,000.00
(v)	Indirect factory expenses		17,000.00
(vi)	Wages of truck driver		30,000.00
(vii)	Salaries and expenses of salesmen		100,000.00

(viii)	Salaries of the administration staff	40,000.00
(ix)	Salaries of the production staff	30,000.00
(x)	Expenses of delivering goods	50,000.00

(12 marks)

b) Explain the advantages of regression analysis as a method of cost estimation. (8 marks)

QUESTION FOUR (20 MARKS)

A Factory issues a job employee A to produce 35 articles; it takes two standard hours to produce each article. Another job is given to employee B to produce 60 articles; it takes one and half standard hours to produce each article. For every hour saved, a bonus is paid at 50% of the base, which is Sh.200 per hour. The factory works a 40-hour week and overtime is paid at a rate of one and a third. At the end of the week, A's articles and B's clock cards show 49 and 46 hours respectively and the work is complete. However, three of A's articles and three B's articles failed to pass inspection. This was due to defective material and in view of this all the articles produced were paid for, although as scrap they have no saleable value.

Required

For both A and B:

a) Bonus due (8 marks)

b) Total gross wages due (8 marks)

c) Wages cost per unit of articles passing inspection (4 marks)

QUESTION FIVE (20 MARKS)

The following information relates to item PQR4 stocked by Nzuri products Ltd for the month of November, 2021:

	Receipts	**Issues**	
Date	**Units**	**Units**	**Unit cost (Sh)**
Nov.2	2,400		14
4		3,200	
8	1,600		16
10		1,700	
14	2,000		18
15	3,800		19
17		6,200	
18	1,600		20
20		2,800	
24	1,100		21
26	1,500		24
28	2,200		30
30		4,900	

The closing balance for October, 2021 was a batch of 4,000 units received at a unit price of Sh 12.

Required:

a) Stores perpetual inventory record for item PQR4 for November, 2021 under LIFO system of stores issues. (14 marks)

b) Closing stock valuation. (6 marks)