



# **MURANG'A UNIVERSITY OF TECHNOLOGY**

## **SCHOOL OF BUSINESS AND ECONOMICS**

DEPARTMENT OF COMMERCE

UNIVERSITY ORDINARY EXAMINATION

2020/2021 ACADEMIC YEAR

**SECOND YEAR FIRST SEMESTER EXAMINATION FOR DIPLOMA IN  
BUSINESS MANAGEMENT  
BCA 051– COST ACCOUNTING**

**DURATION: 2 HOURS**

### **Instructions to candidates:**

1. Answer question One and Any Other Two questions.
2. Mobile phones are not allowed in the examination room.
3. You are not allowed to write on this examination question paper.

**SECTION A: ANSWER ALL QUESTIONS IN THIS SECTION**

**QUESTION ONE (30 MARKS)**

- a) Explain the following terms as used in the cost accounting
- i. Cost centre (1mark)
  - ii. Service department (1mark)
  - iii. Production department (1mark)
  - iv. Prime cost (1mark)
  - v. Production costs (1mark)
- b) XYZ ltd produces an item and sells the item at a cost of Sh 100. The marginal cost of production is Sh 60 and the total fixed cost is Sh 4000 per annum. Calculate
- i. The break-even quantity and sales (3marks)
  - ii. The sales in order to earn a profit of Sh 5000 (2marks)
- c) Given:
- i. Total budgeted overheads =240,000
  - ii. Production budget is as follows

Product	A	B
Units	20,000	10,000
Labour hours	20,000	20,000
Labour cost (Sh)	17,500	22,500
Machine hours	45,000	15,000
Material cost Sh	15,000	25,000

**Required**

Compute the overheads absorption rate per unit of A and B using the following methods.

- i. Unit output (2marks)
  - ii. Labour hours (2marks)
  - iii. Machine hours (2marks)
  - iv. Percentage on direct labour cost (2marks)
- d) Giving an example in each, differentiate between direct costs and indirect costs (4marks)
- e) Discuss types of budgets used in budgetary control (4marks)
- f) State four importance's of cost accounting (4marks)

**SECTION B – ANSWER ANY TWO QUESTIONS IN THIS SECTION**

**QUESTION TWO (20 MARKS)**

- a) Discuss 5 limitations of cost accounting (10marks)
- b) The manufacturer of products X involves three processes 1, 2 and 3 in the month of January 2020, 8000 units valued at Sh 25 were introduced to process I costs and output of the three processes were as follows.

Cost element	Process 1	Process 2	Process 3
Direct material	60,000	80,000	40,000
Direct labour	150,000	120,000	80,000
Direct expenses	25,000	6000	-----
Overheads	26,000	24,000	20,000
Output(units)	7,360	6,630	5,960
Normal loss	8%	10%	10%

Required: Prepare process accounts (10marks)

**QUESTION THREE (20 MARKS)**

- a) Discuss 5 ways of classifying costs (10marks)
- b) The following information relates to ABC Ltd for the year ended 31<sup>st</sup> December 2020.

Production	30,000 units
Sales	22,500 units
Production costs	Sh.....
Direct material	1,800,000
Direct labour	900,000
Overheads Production(fixed)	750,000
Overheads Production (variables)	600,000
<b>Selling and administration costs</b>	
Sales commission	150,000
Advertising	200,000
Delivery van expenses	360,000
Selling price	200

Require:

Prepare a cost statement using absorption technique (10marks)

**QUESTION FOUR (20 MARKS)**

- a) Discuss 4 methods of costing (8marks)
- b) Explain the steps involved in standard costing (4marks)
- c) Discuss four advantages of standard costing system in an organization (8marks)