



**MURANG'A UNIVERSITY COLLEGE (MRUC)**  
**(A Constituent College of Jomo Kenyatta university of Agriculture & Technology)**  
**SCHOOL OF BUSINESS AND ECONOMICS**  
**DEPARTMENT OF COMMERCE**  
**SPECIAL/SUPPLEMENTARY EXAMS**  
**HPS 2108: COST AND MANAGERIAL ACCOUNTING (Y2S1)**  
**HBC2203: COST AND MANAGERIAL ACCOUNTING (Y1S1)**  
**HEH 2103: COST AND MANAGERIAL ACCOUNTING (Y1S1)**

**MAIN /TOWN CAMPUS**

**YEAR 1/2, SEMESTER I, (BCom,BBIT,BPS,HEH)**

**2014/2015 ACADEMIC YEAR**

**DATE: 6<sup>TH</sup> AUGUST 2015**

**TIME: 2.00-4.00PM**

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**INSTRUCTIONS**

Answer Question *ONE* and any *OTHER TWO* Questions.

**COMPULSORY QUESTION (30 MARKS)**

**Question One**

(a) Differentiate between the following cost accounting terminologies:

- |  |           |
|--|-----------|
| i) Normal and abnormal process costs     | (2 marks) |
| ii) production centre and service centre | (2 marks) |
| (iii) Period costs and product costs     | (2 marks) |
| (iv) Sunk cost and standard cost         | (2 marks) |
| (v) Prime cost and conversion cost       | (2 marks) |

(b) Distinguish between “absorption costing” and “marginal costing” system (4 Marks)

(c) Explain circumstances under which the marginal costing technique would be applicable (4 Marks)

(d) Trade wind's Ltd. company makes a chemical that passes through three production process 1, 2 and 3. In the month of October 2012, 5000 litres of the basic raw material priced atsh 120,000 were introduced into process I subsequently, the following cost were incurred.

**Process 1**

Direct labour	sh 80,000
Direct expenses	sh 30,000

At the end of the process, 4,800 litres were passed onto process 2.

**Process 2**

Direct material (additional)	sh 66,300
Direct labour	sh 60,000
Direct expenses	sh 24,000

At the end of the process, 4,700 litres were passed onto process 3.

**Process 3**

Direct materials (additional)	sh 25,680
Direct labour	sh 20,000
Direct expenses	sh 4,800

At the end of the process, 4,680 litres were passed onto the finished goods store.

Normal process losses for each of the three processes are;

Process 1 – 10%; process 2 – 7.5%                      Process 3 – 2%

There were no stocks of materials or work-in-progress at the beginning or end of month. The output of each process passes directly to the next process at cost without any provision for internal profit. Manufacturing overheads are absorbed by each process at 25% of direct labour cost.

**Required;**

- a. Prepare separate process accounts for each of the three processes. (8 marks)
- b. Prepare the abnormal loss and abnormal gain accounts. (4 marks)

**(Total; 30 marks)**

**Question2**

(a). Agnes and Peter decided to venture into the same business in the year 2012. They sold the same type of product in the same type of market. They have provided the following budget income statement for the year ending 30<sup>th</sup> June 2014.

	Agnes's Business Sh`000'	Peter's Business sh`000'
Sales	<u>600,000</u>	<u>600,000</u>
Variable cost	480,000	400,000
Fixed cost	<u>60,000</u>	<u>140,000</u>
	<u>540,000</u>	<u>540,000</u>
Budget net profit	<u><u>60,000</u></u>	<u><u>60,000</u></u>

**Required;**

- i. Break-even point of each business. (4 marks)
  - ii. The sales volume at which each business will earn a profit of sh 20,000,000. (3 marks)
  - iii. Margin of safety. (2 marks)
- c. Proget Ltd manufactures a single product, the standard cost per unit is as follows;
- |                       |    |
|-----------------------|----|
|                       | sh |
| Direct materials      | 8  |
| Direct labour         | 30 |
| Variable selling cost | 2  |

**Additional information;**

- 1. The budget fixed production overheads per annum amount to sh 7,200,000.
- 2. The normal production level per annum is 2,400,000 units.
- 3. In the month of April 2013, the number of units produced and sold was 240,000 and 200,000 units respectively.
- 4. The fixed selling cost per month amounts to sh 1,500,000.
- 5. The selling price per unit is sh 50.
- 6. There are no opening inventories.

**Required;**

Income statement for the month of april 2013 using;

- i. Absorption costing (5 marks)
- ii. Marginal costing (6 marks)

**(Total 20 marks)**

**Question3**

(a) (a) Explain four differences between cost accounting and financial accounting (4 Marks)

(b) Teta general Hospital hires doctors from private hospital. The following data relate to the total labour hours and indirect labour costs for the year 31 October 2012.

Month	Labour cost Sh `000'	Labour hours
November 2011	13,090	748
December 2011	13,321	968
January 2012	11,044	682
February 2012	10,087	792
March 2012	8,470	660
April 2012	16,060	1,056
May 2012	1,980	858
June 2012	7,810	506
July 2012	14,476	902
August 2012	11,352	1,034
September 2012	8,272	748
October 2012	10,593	528

**Required;**

i. Equation in the form of  $Y = a + bx$  Using high – low method. (5 marks)

ii. Using  $\sum Y = 126,511,000$   $\sum X = 9,482$   $\sum XY = 102,936,636,000$   $\sum X^2 = 7,852,900$   
Determine an equation in the form  $Y = a + bx$ . (7 marks)

Total labour cost for out sourcing 1,078 labour hours using the equation above. (4 marks)

**(TOTAL 20Marks)**

**Question 4**

(a) Outline **three** factors that might explain the difference between financial accounting profit and cost accounting profit (6 marks)

(b) Kanga Ltd has three production departments and two service departments. The following is their budgeted factory overheads for the year ended 30 September 2000:

	Shs.	Shs.
Production departments;		
A	240,000	
B	180,000	
C	<u>220,000</u>	640,000
Service departments; X	86,000	
„    Y	<u>44,000</u>	<u>130,000</u>
		770,000

The service department costs are to be re-apportioned as per the following percentages:

	A	B	C	X	Y
X	20	30	35	-	15
Y	30	30	30	10	-

**Required:**

(i) Re-apportion the service department costs to the production departments using the simultaneous equation method. (8 marks)

(ii) You have been informed that the overheads are absorbed on the basis of the direct labour hours and the budgeted direct labour hours for the department is given below;

Department; A	1,500,000
B	900,000
C	835,000

**Required;**

Determine the overhead absorption rates per hour for the three production departments (6 marks)

**(TOTAL 20Marks)**

### QUESTION FIVE

XYZ Ltd carries on its business in Nairobi. The company has been reporting its profit using assumption costing system. During the financial year ended 30 September 2012, the following summary statement was provided.

	sh	
Sales (4,000 units)		5,000,000
Production cost of sales;		
Variable	3,000,000	
Fixed	<u>1,000,000</u>	(4,000,000)
Gross profit		<u>1,000,000</u>
Less		
Expenses;		
Variable	800,000	
Fixed	<u>800,000</u>	<u>(1,600,000)</u>
Net loss		<u>( 600,000)</u>

Currently, the company is implementing strategic to improve its profitability, which are to be implemented in two phases, A and B. Each phase will cover a period six months. The expected production and sales in units for each of the phases are shows below;

Phases 'A'		Phase 'B'	
Units		Units	
Production	2,500		3,000
Sales	2,400		2,900

The fixed costs are expected to increase by 20% while the variable costs per unit will remain as they were in the previous period. The selling price unit will be sh 1,500.

Required;

a) Profit and loss statements for phases A and B using

- i) Marginal costing ( 7 marks)
- ii) Absorption costing (7 marks)

b) Reconcile the resulting difference in the reported profit under the methods (6 marks)

**(TOTAL 20Marks)**