



MURANG'A UNIVERSITY COLLEGE

(A constituent College of Jomo Kenyatta University of Agriculture & Technology)

MAINCAMPUS

ORDINARY UNIVERSITY EXAMINATIONS

2015/2016 ACADEMIC YEAR

BComY2S1/Y2S2&BBIT Y2S1 SEMESTER EXAMINATIONS

FOR THE DEGREE

OF

BACHELOR OF COMMERCE

COURSE CODE: HBC 2203

COURSE TITLE: COST ACCOUNTING

DATE : 25TH APRIL 2016

TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES

Question ONE (1) is compulsory
Answer ANY other TWO (2) questions

MRUC observes ZERO tolerance to examination irregularities

This Paper Consists of 8 Printed Pages. Please Turn Over.



QUESTION ONE

- (a) You have recently been appointed as the Cost Accountant of company ABC Ltd that deals with production and sales of some beauty products. Upon appointment you discover that the company does not have an established cost accounting system.

Required

Suggest reasons that you would use to explain to the management on the importance of cost accounting system in their company. (6 Marks)

- (b) Pamoja women group manufactures and sells a single product. The following information relates to the company for the year ended 31 August 2015.

	Sh. "000"	Sh. "000"
Sales (Sh. 60 per unit)		45,000
Direct Materials	9,750	
Direct labour	8,100	
Variable overheads	10,500	
Selling and Distribution expenses;		
Variable	3,900	
Fixed	4,500	
Administrative expenses(Fixed)	<u>3150</u>	<u>(39,900)</u>
Net profit		<u>5,100</u>

Required;

- i. Break-even point in units (3 marks)
 - ii. Margin of safety in units (2 marks)
 - iii. The sales volume at which each business will earn a profit of sh.6,750,000. (3 marks)
 - iv. The profit to be earned if the sales were Sh. 72,360,000. (3 marks)
- (c) Company XYZ ltd has three production departments namely A,B and C ,and two service departments ,namely P and Q

	P	Q
Service Department	Sh. "000"	Sh. "000"
Actual Overhead	1,600	1,261

Service Department costs are apportioned as follows;

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	Production Departments			Service Departments	
	A	B	C	P	Q
Service Dept."P"	25%	35 %	30%	-	10 %
Service Dept."Q"	50%	20%	10%	20%	-

Required

A statement reapportioning the service department costs to the production departments using simultaneous equations method. (5 Marks)

(d) The following information was obtained from the records of Tembo Ltd for the Ten months, from November 2014 up to 31 August 2015.

Month	Units Produced (X) "000" Units	Overhead cost(Y) Sh "000"
November 2014	9	116
December 2014	16	211
January 2015	14	152
February	38	410
March 2015	21	256
April 2015	25	298
May 2015	20	220
June 2015	15	180
July 2015	15	185
August 2015	11	129

Further information

$$\sum X = 184; \sum Y = 2,157; \sum XY = 47,667; \sum X^2 = 4,014; \sum Y^2 = 535,187$$

Required

Formulate the overhead cost function in the form of $Y = a + bX$ using the least squares method.

(8 marks)

(TOTAL: 30 MARKS)

QUESTION TWO

(a) Discuss the various classifications of costs (3marks)

(b) ABC Ltd is a fruits processing manufacturing company .It's fruits processing system produces a fruits juice branded "UTAMU" which passes through three processing stages.

The following information relates to the processing of the fruits juice:

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- In the month of April 2015 , “X” litres of basic raw materials costing Sh. 240,000 in total were introduced into process 1.
- The following costs were incurred during the production period:

Item	Process		
	1	2	3
	Sh.	Sh.	Sh.
Materials(Added)	30,000	40,000	17,500
Direct labour	40,000	50,000	20,000
Direct expenses	6,000	1,600	9,300

- The input ,Normal production and the scrap value for losses for each process were as follows:

Process	Inputs(Litres)	Normal loss (%)	Scrap Value per unit (Sh.)
1	X	10	20.00
2	5,300	5	44.00
3	5,000	8	65.00

- Manufacturing overheads are absorbed into each process at the rate of 50% of the directlabour cost.
- The Abnormal process loss in process 1 is 100 units while the Abnormal process gain in process 3 is 100 units.
- The output of each process passes directly to the next process at a cost without any provision for internal profit.
- There were no stocks of raw-materials or work-in-progress at the beginning or at the end of the production period.

Required:

- The value of “X” (2 Marks)
- Process 1 Account (3 Marks)
- Process 2 Account (3 Marks)
- The output in process 3 (2 Marks)
- Process 3 Account (3 Marks)
- Abnormal Process loss Account (2 Marks)
- Abnormal Process gain Account (2 Marks)

(TOTAL: 20 MARKS)

QUESTION THREE

(a) Shidders Ltd manufactures a single product, the standard cost per unit is as follows;

Item	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 2015, the number of units produced and sold was 240,000 units 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 2015 using;

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

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- (b) AfyaNjema hospital has prepared a schedule of estimated overhead costs for its blood test unit, on the assumption that production will be 80,000 tests. Overhead costs have been classified as fixed and variable costs.

Overheads	Cost (sh)
Direct materials	272,100
Indirect labour	1,742,000 (1,610,000 variable)
Rent	2,464,200
Direct labour	475,000
Depreciation	710,000
Maintenance	343,300(185,000 fixed)
Data processing	453,200 (158,200 variable)
Technical support	69,400 (all fixed)

Required;

- i. A cost estimation equation using the accounts analysis taking the number of tents as the only cost driver. (4 marks)
- ii. A computer regression program produced the following information.
 $a=6,265,000$
 $b= 15$

Required

Derive an equation based on the computer program output and using this equation, estimate the overhead costs when production is anticipated to be 140,000 tests. (4 marks)

(Total 20 marks)

QUESTION FOUR

- (a) Discuss the various bases of cost Absorption (4 marks)
- (b) UfundiLtd, runs three production departments ;namely P,Q and R and Two Service Departments namely A and B. The company has presented the following factory budget for the year ending 31,December 2015

		Sh. “000”	Sh. “000”
Factory Maintenance	p	214	
	Q	136	
	R	<u>198</u>	548
Consumable stores	p	168	
	Q	136	
	R	<u>102</u>	386

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Insurance cover	Machinery	1,600	
	Buildings	200	
	Employer's Liability	520	
	Stock in trade	<u>1,640</u>	3,960
Depreciation	Machinery	800	
	Buildings	<u>1,000</u>	1,800
	Machinery	480	
	Buildings	<u>240</u>	720
	Power		1,800
	Rent and Rates		1,080
	Meals and catering		<u>720</u>
			<u>11,014</u>

Additional information:

1.

	Production Department		
	P	Q	R
Power (Kilowatts in "000")	225	150	125
Book value of machinery(Sh.)	15,000	20,000	15,000
Book value of Buildings(Sh.)	3,000	4,000	3,000
Average inventory value (Sh.)	5,000	10,000	5,000
Area occupied(square metres)	400	300	300
Number of employees	200	100	100
Employees' salaries(sh. "m")	100	96	75

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2. The Actual results for production department were as follows

Department	Labour hours
P	1,450
Q	2,600
R	2,000

Required

- (i) Overheads Analysis for the five departments (13 Marks)
- (ii) The rate per labour hour for each production department. (3 marks)

(TOTAL: 20 MARKS)