

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

SECOND YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 212: COST ACCOUNTING

STREAMS: BS.c BCOM Y2S1

TIME: 2 HOURS

DAY/DATE: MONDAY 13/08/2018

11.30 A.M - 1.30 P.M.

INSTRUCTIONS:

- Answer Question ONE and any other TWO

QUESTION ONE

- (a) Explain two roles of cost accountant. [4 Marks]
- (b) Explain the following terms as used in cost accounting
- (i) Cost unit [2 Marks]
 - (ii) Cost behavior [2 Marks]
- (c) Explain any two essentials of an ideal cost accounting system. [4 Marks]
- (d) Explain three major ways of classifying cost in a manufacturing firm. [6 Marks]
- (e) The following details have been obtained from the records of Kin-pin Ltd, a firm dealing in Computer Repair and Maintenance.

Week	Number of computers purchased	Total cost incurred
1	310	23,200
2	200	19,500
3	600	23,600
4	480	20,220
5	400	23,600
6	440	18,480
7	440	16,200
8	330	20,200

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Required:

- (i) Formulate the cost equation in the form of $y = a + bx$ using the least square method. [6 Marks]
- (ii) Estimate the total cost incurred if 500 computers are purchased. [2 Marks]
- (f) Differentiate the terms “marginal cost and absorption cost.” [4 Marks]

QUESTION TWO

- (a) Explain what is meant by the following terms:
- (i) Allocation of overheads [2 Marks]
- (ii) Apportionment of overheads [2 Marks]
- (b) P. Ltd manufactures sport shoes. The Company uses a standard system. The standard cost per pair of sport shoes is as follows: -

	Kshs
Direct material	500
Direct labour (4 hrs @ Kshs.60/hr)	240
Production overheads	
- Variable overheads (4 hrs @ Kshs.30/hr)	120
- Fixed overhead	<u>100</u>
Standard production cost	<u>960</u>
Standard selling price	1520

Additional information:

- During the month of March 2018, production was 10,000 units but sales made were 8000 units.
- The total fixed production overhead variance during the month was Kshs.100,000 adverse.
- The standard fixed production overhead absorption rate was based on a budgeted activity of 10,000 units.
- There was opening stock at the beginning of the month.
- All units were sold at the standard selling price.
- Other cost incurred during the month were as follows;

	Variable	Fixed (Kshs.)
Selling and distribution	20% of sales	600,000
Administration		1,000,000

Required:

Income statement for the month of March 2018 using: -

- (i) Absorption costing [5 Marks]
- (ii) Marginal costing [5 Marks]

(c) ABC Ltd manufactures product 'P'. 2000 kg of material were supplied to process 1 at Kshs.5 per kg. Labour cost amounted to Kshs.3,000 and production overheads of Kshs.2,300 were incurred. The normal loss has been estimate at 10%. The actual production was 1750 kgs.

Required:

- (i) Process 1 Account [4 Marks]
- (ii) Abnormal loss account [2 Marks]

QUESTION THREE

(a) (i) Distinguish between back flush accounting system and Just In Time (JIT) system. [4 Marks]

(iii) Highlight four key features of Just In Time (JIT) system. [4 Marks]

(b) Muungano Ltd manufactures 4 products branded A, B, C and D. The company operates the traditional absorption costing system. The production manager has suggested that the company should adopt activity based costing system in determination of cost per product. The following information relates to the month of April 2018

Product	A	B	C	D
Machine hours per unit	8	6	4	6
Direct labour hours per unit	Kshs.28	Kshs.21	Kshs.14	Kshs.21
Direct material per unit	Kshs.40	Kshs.50	Kshs.30	Kshs.60

Additional information:

1. The products are manufactured in production run of 10 and sold in batches of 21 units
2. Overheads are absorbed using machine hour rate
3. The quantities produced during the month were 2400 units, 2000 units, 1600 units and 2400 units as product A, B, C and D respectively.
4. The requisition raised during the month was 20 for each product while orders executed were in batches of 10 for each product.
5. Overheads for the month of production were as follows:

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Activity	Cost driver	Amount (Kshs.)
Machining	Machine hours	417,200
Set up	Number of production runs	210,000
Stores receiving	Requisition raised	144,000
Inspection	Number of production run	84,000
Material handling	Orders executed	184,800

Required:

- (i) Unit product cost for each product using Traditional absorption costing system. [4 Marks]
- (ii) Unit product cost for each product using activity based costing system. [8 Marks]

QUESTION FOUR

(a) Explain the following terms;

- (i) Cost centre [1 Mark]
- (ii) Profit centre [1 Mark]

(b) In the context of process costing, differentiate: -

- (i) Scrap and waste [4 Marks]
- (ii) Abnormal loss and normal loss [4 Marks]

(c) Micrane Co. Ltd has established the following standard mix for producing 9 litres of product A.

	Kshs.
5 litres of material X @Kshs.7 per litre	35
3 litres of material Y @Kshs.5 per litre	15
2 litres of material Z @Kshs.2 per litre	<u>4</u>
	<u>54</u>

A standard loss of 10% is expected to occur.

Actual input was as follows:

	Kshs.
53,000 litres of material X @Kshs.7 per litre	371,00
	0
28,000 litres of material Y @Kshs.5.3 per litre	148,40
	0
<u>19,000</u> litres of material Z @Kshs.2.2 per litre	<u>41,800</u>
<u>100,000</u>	<u>561,20</u>
	<u>0</u>

Actual output was 92,700 litres of A.

Required:

- (i) Material mix variance
- (ii) Material yield variance

[5 Marks]
[5 Marks]
