

**CHUKA**

**UNIVERSITY**



**UNIVERSITY EXAMINATIONS**

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF  
COMMERCE**

**BCOM 212: COST ACCOUNTING**

**STREAMS: BCOM**

**TIME: 2 HOURS**

**DAY/DATE: TUESDAY 09/04/2024**

**8.30 A.M. – 10.30 A.M.**

**INSTRUCTIONS:**

- Answer Question ONE and any other TWO questions. Marks allocated to each question are shown at the end of the question
- Show **all** your workings.

**QUESTION ONE (25 marks)**

- a) Explain the features of a just in time system of stock management. (5 marks)
- b) Briefly explain the following terms as used in cost accounting:
- i) Normal loss. (3 marks)
  - ii) Abnormal loss. (3 marks)
  - iii) Fixed price contract. (3 marks)
- c) Distinguish between “high low activity method” and “simple linear regression analysis” as applied in cost estimation. (6 marks)
- d) Material A is added at the beginning of a production process. Labour and overheads are added continuously during the production process. At the end of the process, 10,000 units were complete and 2,000 units were 60% complete as per labour and overheads. The cost of raw materials used during the period amounted to shs.220,000, labour shs.150,000 and overheads shs.74,000. There was no opening inventory.

**Required**

Determine the cost per unit of both the completed units, and the units in the ending inventory. (5 marks)

**(Total: 25 marks)**

**QUESTION TWO (15 marks)**

On 24<sup>th</sup> June 2022, Ujenzi Construction Company was contracted by Mwekezaji Ltd. to construct affordable houses in Kakamega at a contract price of Sh. 1,900,000,000. Work commenced on the contract on 28 October 2022. Retention money was agreed at 10% of work certified. At the end of the first year, no profits were declared as the contract was considered to be in its infancy

The following details relate to the contract for the year ended 31 December 2023:

|                                     | <b>Sh'000</b> |
|-------------------------------------|---------------|
| Balances brought forward 1.1.2023   |               |
| Materials on site                   | 9,000         |
| Accrued wages                       | 2,500         |
| Plant (cost)                        | 300,000       |
| Cost of work done                   | 316,400       |
| Work certified to 31 December 2023  | 320,000       |
| Transactions during the year        |               |
| Materials delivered to site:        |               |
| From the stores                     | 29,200        |
| By the suppliers                    | 256,800       |
| Additional plant (cost)             | 240,000       |
| Subcontractors fees                 | 36,900        |
| Consultancy fee                     | 56,000        |
| Inspection fee                      | 1,000         |
| Salaries and wages                  | 320,000       |
| Head office expenses                | 2,400         |
| Material transfers out              | 30,000        |
| Materials sales (cost Sh 39,600)    | 44            |
| Plant hire                          | 500           |
| Direct expenses                     | 5,200         |
| Total cash received from contractee | 1,160,000     |
| Work certified during the year      | 1,320,000     |
| Cost of work uncertified            | 84,000        |
| Balances carried forward:           |               |
| Materials on site                   | 102,000       |
| Wages accrued                       | 5,600         |

Plants have been purchased for use on this contract. Ujenzi Construction Company provides for depreciation on plant at 12.5% per annum on cost.

**Required:**

- (i) Contract account for the year to 31 December 2023. (10 marks)
- (ii) Valuation of work-in-progress. (3 marks)
- (iii) Account of Mwekezaji Ltd. (2 marks)

**(Total: 15 marks)**

**QUESTION THREE (15 marks)**

- a) State and briefly explain three bases of cost classification. (6 marks)
- b) You are the cost accountant of a company whose management is in need of a report on the previous years' cost management practices. Explain the characteristics of an effective report. (5 marks)
- c) A business firm which is engaged in manufacturing should adequately control materials used in the production process from the point of procurement up to the point the materials are issued to production.

**Required:**

Clearly explain how a business firm would reasonably achieve this objective. (4 marks)

**(Total: 15 marks)**

**QUESTION FOUR (15 marks)**

- a) Distinguish between cost accounting and financial accounting. (6 marks)
- b) Explain briefly the limitations of economic order quantity (3 marks)
- c) Management is often faced with situations whereby products which are manufactured within the organization have higher manufacturing costs compared to that which would have been paid for if the products were bought in an open market. However, a decision to discontinue manufacture in favour of buying cannot be made simply by comparing internal costs with external buying prices. Explain four factors which the management should take into consideration when making such a decision. (4 marks)
- d) Bidii Enterprises is located at Kariobangi Light Industries area in Nairobi. The company manufactures a product 'Comex' which is used in the building industry. The main raw material used in the manufacture of 'Comex' is material B42000.  
The following information relates to material B42000.

|                           |                           |
|---------------------------|---------------------------|
| Annual requirements:      | 144,000 units             |
| Ordering costs:           | Sh. 12,500 per order      |
| Annual holding costs:     | 20% of the purchase price |
| Purchase price per unit:  | price                     |
| Safety stock requirement: | Sh. 500                   |
|                           | None                      |

**Required:**

The economic order quantity (2 marks)

**(Total: 15 marks)**

**QUESTION FIVE (15 marks)**

- a) Explain the concept of “equivalent units” as used in process costing. (4 marks)
- b) The following transactions were made by XYZ limited in the month of December 2023.

1. Direct Materials:

- Shs. 8,000/= was bought on credit, out of these, materials worth 5,000/= were returned to the suppliers.
- Shs. 50,000/= was issued from the store

2. Indirect materials issued amounted to Shs. 5,000/=
3. Direct wages allocated to production amounted to Shs. 20,000/=
4. Goods worth Shs. 200,000/= were sold
5. Finished goods worth Shs. 100,000/= were transferred to the store.
6. The cost of goods sold was Shs. 140,000/=
7. Unpaid indirect expenses were Shs. 32,000/=
8. Indirect wages allocated amounted to Shs. 15,000/=
9. Non-manufacturing overheads incurred amounted to Shs. 20,000/=
10. Overhead expenses charged to the jobs – Shs. 60,000/=

**Required**

- i. Prepare the stores ledger control Account (3 marks)
- ii. Factory overhead control Account (3 marks)
- iii. W.I.P. control Account (3 marks)
- iv. Costing Profit and Loss Account (2 marks)

**(Total: 15 marks)**

.....