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**University Examinations 2015/2016**

FIRST AND SECOND SEMESTER EXAMINATION FOR THE DEGREE

OF

(YEAR TWO) BACHELOR OF COMMERCE

(YEAR ONE) BACHELOR OF PURCHASING AND SUPPLIES MANAGEMENT

**BFC 3227: COST ACCOUNTING**

**DATE: APRIL 2016 TIME: 2 HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two***questions.

**QUESTION ONE (30 MARKS)**

1. Mafuko Ltd. are retailers who sell cakes. During the months of July to September 2015, there were price fluctuations. Due to the above problem the company had to adjust its selling prices.

The following transactions took place during the period.

3 July Opening stock was 5,000 cakes valued at Sh825, 000.

10 July Orders placed with the company increased, so extra cakes had to be obtained from Embu. Therefore 22,000 cakes were purchased at a cost of Sh140 each but in addition there was a freight and insurance charge of Sh 5 per cake.

31 July During the month 20,000 cakes were sold at a price of Sh 220 each.

4 August A new batch of 14,000 cakes was purchased at a cost of Sh 175 per tile.

30 August The sales of the month of August were 14,000 cakes at a selling price of Sh 230 each.

1 September A further 24,000 cakes were purchased at a cost of Sh 195 each.

30 September 27,000 cakes were sold during September at price of Sh 240 each.

The cost accountant of Mafuko Ltd decided he would apply first-in-first-out basis method of material pricing for purposes of costing.

Required:

1. A stores ledger account using the above method and showing stock values at 30 September 2015. (14 marks)
2. The trading account using the above method. (6 marks)
3. Describe various budget that make up the master budget in a manufacturing company. (3 marks)
4. Explain the advantages and disadvantages of zero base budgeting. (3 marks)
5. Briefly explain the limitations of relying on accounting based techniques for assessing the performance of a business organization. (2 marks)
6. Briefly explain the term “management by exception.” (2 marks)

**QUESTION TWO (20 MARKS)**

Muli Ltd. produces three joint products in two processes. All the units pass through process A to process B. At the end of process B, the joint products emerge. The data below relates to the operations for the first quarter of 2010.

|  |  |  |
| --- | --- | --- |
|  | **Process A** | **Process B** |
|  | **Shs.** | **Shs.** |
| Direct materials (40,000kg @ Sh.2.50) | 100,000 | - |
| Direct labour | 60,000 | 92,000 |
| Overheads | 40,000 | 118,000 |
| Normal loss as a percentage on input | 10% | - |
| Scrap value per unit | Sh 2 |  |
| Output in units: | 35,000 |  |

No loss is expected in process B

There were no openings or closing work-in-progress. The output and the selling prices were as follows:

|  |  |  |
| --- | --- | --- |
| Joint product | Output (Kg) | Selling price (Sh) |
| X | 10,000 | 20 |
| Y | 16,000 | 15 |
| Z | 9,000 | 16 |

**Required:**

1. Process A account. (6 marks)
2. Abnormal loss/gain account (4 marks)
3. Determine the profits or losses from each joint product if costs are apportioned using sales value method. (6 marks)
4. Briefly explain how the physical limits method is different from sales value method in (c) above. (4 marks)

**QUESTION THREE (20 MARKS)**

1. In job order costing system, production overhead absorption could be based on:
2. Direct labour rate.
3. Percentage of direct materials

Explain in which circumstances each of these bases are appropriate. (4 marks)

1. Mutindwa Ltd. employs a job order costing system in establishing the prices to charge for different welding orders. Normally, certain employees set up work before the main operations is completed by the other employees. The cost of labour engaged in setting up is charged to overhead expenses.

During the period ended 30 September 2001, 1,250 hours were spent on setting up at a cost of Sh 30,000. During this period the following costs were incurred on three jobs:

|  |  |
| --- | --- |
| Direct material | 66,000 |
| Direct labour | 90,000 |
| Overhead expenses (including set up costs) |  |
|  | 300,000 |

Other information that relates to the jobs include:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Job A | Job B | Job C |
| Direct material costs | Sh 36,320 | 4,200 | 25,480 |
| Direct labour (hours) excluding set-up time | 2,400 | 300 | 1,800 |
| Setting-up (hours) | 375 | 250 | 625 |

Costing for the jobs is carried out by the use of hourly rates for direct labour and for overheads. However, a new system is being proposed whereby there will be hourly rates for direct labour, for setting labour and for overheads excluding the cost of setting-up time.

**Required:**

1. The hourly rate under the existing system. (4 marks)
2. The hourly rate under the proposed system. (4 marks)
3. Cost statement for the three jobs using the existing systems approach to costing (8 marks)

**QUESTION FOUR (20 MARKS)**

On 1 November 2010, Mjengo Construction Company Ltd was awarded a contract to construct an office block for Mwingi county governor. The office block is scheduled for completion by 31 March 2003.

The following information extracted from the books of Governors office relates to the contract for the year ended 31 October 2010.

|  |  |
| --- | --- |
|  | **Sh** |
| Material issues – From central stores | 5,500,000 |
| * By supplies, direct to site | 14,200,000 |
| Labour charges | 10,100,000 |
| Amounts paid to subcontractors | 4,501,000 |
| Plant and machinery bought on 1 November 2001 | 6,000,000 |
| Loose tools and consumables | 126,000 |
| Head office expenses – apportioned | 1,184,000 |

On 31 October 2010, the stock of materials at site amounted to Sh 2,100,300. On the same date there were amounts outstanding with respect to wages, Sh 350,000 and for subcontract work, Sh 25,000.

Mjengo construction Company Ltd received Sh 36 million from the county office which represents the amount of certificate issued by their architects in respect of work completed to 31 October 2010 after deducting 15% retention money. It is estimated that work costing Sh 360,000 is not covered by this certificate.

You are also informed that:

1. The plant and machinery specifically purchased for the project is to be depreciated at 20% straight-line with no residual value.
2. That Mjengo Construction Company Ltd only takes 2/3 of the profit on work certified to its revenue account.

**Required:**

1. Contract account for the period ended 31 March 2002. (8 marks)
2. Profit to be taken to the credit of the company’s revenue account. (4 marks)
3. Calculate the work-in-progress. (4 marks)
4. Illustrate how the balances on the contract account would appear in the balance sheet of the company. (4 marks)

**QUESTION FIVE (20 MARKS)**

1. Site and contract work present particular difficulties for cost control and accurate cost accounting. Explain the problems that are likely to arise and how these problems can be minimized. (6 marks)
2. A business firm requires complete, accurate and updated information. A combination of both financial accounting and cost accounting syst3ems can facilitate in the achievement of this goal.

**Required:**

1. Distinguish between cost accounting and financial accounting. (2 marks)
2. Explain the advantages of a cost accounting system. (2 marks)
3. What factors should be taken into consideration before setting up a cost accounting system? (5 marks)
4. Outline the procedure followed in implementing job costing. (5 marks)