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**University Examinations 2015/2016**

SECOND YEAR, FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE AND FIRST YEAR, SECOND SEMESTER EXAMINATION FOR PURCHASING AND SUPPLIES MANAGEMENT

**BFC 3227 – COST ACCOUNTING**

**DATE: AUGUST, 2016 TIME: HOURS**

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

**QUESTION ONE (30 MARKS)**

1. Describe the four guidelines that should be used to determine the amount of profit that should be taken for a contract during a specific period. (4 Marks)
2. A department with no opening work in progress introduced 1000 units into the process. 600 are completed, 250 are 20% complete and 150 units are lost consisting of 100 units of normal loss and 50 units of abnormal losses are detected upon completion. Material costs are Sh 8000 (All introduced at the start of the process) conversion costs are sh 4000.

**Required:**

1. Calculate unit cost. (4 Marks)
2. Show entries in the process account (6 Marks)
3. A limited company has fixed costs of sh 60,000 per annum. It manufactures a single product which sells at sh. 20 per unit. Its contribution to sales ratio is 40%. Calculate break even point. (6 Marks)
4. Describe the main features of an activity based budgeting system and comment on the advantages claimed for its use. (6 Marks)
5. Differentiate between cost accounting and financial accounting. (4 Marks)

**QUESTION TWO (20 MARKS**)

Wilkena ltd produces product A,B, C and D. The following are firms budgeted figures for the month of July, 2015.

A B C D

Demand (Units) 1500 1800 1000 4000

Selling price per unit 3840 2700 2000 4000

Cost per unit(sh)

Material 1200 1200 800 1200

Labour 1500 800 600 1200

Variable overheads 240 170 100 200

Fixed cost 600 500 400 600

**Additional Information:**

1. Material cost is sh 10 per kilogram and firm has a total of 500,000 kilogrammes
2. Labour is paid at sh. 10 per hour and is limited to 360,000 hours.

**Required:**

1. Determine the limiting factor. (4 Marks)
2. Calculate the production mix that would maximize profit for the month. (6 Marks)
3. Calculate the profit that would be realized if the firm produced the quantity computed in b above. (5 Marks)
4. Calculate the increase in profit if an extra 80 production hours are made available(5 Marks)

**QUESTION THREE (20 MARKS)**

1. Cost accounting is often described as “ provision of information to management for specific purpose. Explain five specific purpose of cost accounting. (5 Marks)
2. Describe five factors that should be taken into account when choosing an order quantity.

(5 Marks)

1. Explain the reasons why construction companies find it prudent to declare profits on uncompleted contract. (5 Marks)
2. Define the term process costing and describe what process costing entails. (5 Marks)

**QUESTION FOUR (20 MARKS)**

1. The information given below relates to Butex Ltd which manufactures a single type of chemical. Overhead processing costs for the last 8 months have been given as follows:

Month Machine Hours Overhead Cost

Sh ‘000’

1 10600 120

2 17000 180

3 4000 70

4 21000 184

5 19000 178

6 7800 100

7 14000 172

8 12000 154

**Required:**

Form an equation of the form to estimate cost using;

1. High low method (7 Marks)
2. Regression analysis method (7 Marks)
3. Explain the meaning of the following terms in context of cost accounting; (6 Marks)
4. Overtime premium
5. Cost centre
6. Cost Unit
7. Opportunity Cost
8. Variable cost
9. Indirect labour cost

**QUESTION FIVE (20 MARKS)**

The following information relates to item SOO3 stalked and sold by Mazoom Enterprises Ltd for the month of April 2015.

Date Details Units Unit Cost Sale Price

April 3 Purchases 800 10

5 Purchases 400 11

12 Sales 600 22

13 Purchases 1000 13

19 Sales 800 24

22 Sales 300 24

26 Purchases 700 12

28 Sales 600 28

28 Sales 200 29

29 Sales 1000 30

The closing balance for March 2015 was a batch of 1000 units received at a unit price of Sh. 9.

**Required:**

1. Prepare a store ledger for the month of April 2015 using FIFO and LIFO methods.
2. Marks)
3. Prepare the trading account for the month using the two methods. (10 Marks)