**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**P.O. Box 972-60200 – Meru-Kenya.**

 **Tel: 020-2069349, 061-2309217. 064-30320 Cell phone: +254 712524293, +254 789151411**

**Fax: 064-30321**

**Website:** [**www.must.ac.ke**](http://www.must.ac.ke) **Email:** **info@must.ac.ke**

**University Examinations 2015/2016**

SECOND YEAR, FIRST SEMESTER EXAMINATION FOR THE DIPLOMA IN BUSINESS ADMINISTRATION AND IN PURCHASING AND SUPPLIES MANAGEMENT

**BFD 2203: COST ACCOUNTING**

**DATE: AUGUST 2016 TIME: 11/2 HOURS**

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

**QUESTION ONE (30 MARKS)**

1. Describe the following with examples
2. Production cost (2 marks)
3. Variable cost (2 marks)
4. Prime cost (2 marks)
5. Indirect cost (2 marks)
6. Direct cost (2 marks)
7. The following information was provided by Karibuni Co. Ltd as at 1st January 2011.

 ksh

Raw materials 50,000

Working- in-progress 20,000

Stocks on 31st December 2011

Raw materials 70,000

Working-in-progress 15,000

Purchases of raw materials 680,000

Carriage inward 25,000

Returns of raw material 20,000

Direct wages 280,000

Factory rent 50,000

Power 58,000

Depreciation of plant 35,000

Supervisor’s salaries 60,000

Office salaries 65,000

Depreciation of office equipment 5,000

Salesmen’s salaries 68,000

Delivery van expenses 27,000

Depreciation of delivery vans 15,000

Advertisement 12,000

**Required:**

Prepare a cost statement of Karibuni Co. Ltd. (10 marks)

1. Discuss the uses and limitations of a cost volume-profit chart. (10 marks)

**QUESTION TWO (20 MARKS)**

1. A manufacturing company produced and sold 10,000 units during the month of April. The following additional information was also provided:

Direct materials shs. 8 per unit

Direct labour shs. 4 per unit

Variable overhead shs. 2 per unit

Fixed overheads for the month of April shs. 36,000

Selling price per unit shs. 20

**Required:**

Prepare a statement showing the marginal cost and the profit or loss for the month of April, and calculate the break-even point. (15 marks)

1. Differentiate between marginal and absorption costing being the main costing techniques applied by many organizations in Kenya. (5 marks)

**QUESTION THREE (20 MARKS)**

Silverspread Ltd produces tubes for water. The following information was provided for the year 2007.

Production 20,000 tubes

Sales 15,000 tubes

**Production costs** Ksh

Direct materials 2,400,000

Direct labour 600,000

Variable overheads 500,000

Fixed overheads 900,000

**Selling and administration**

Sales commission 250,000

General expenses 160,000

Overheads (fixed) 240,000

The company sells each tube at a price of sh. 300

**Required:**

1. Calculate profit and loss account on the basis of absorption costing. (10 marks)
2. Calculate profit and loss account on the basis of marginal costing. (10 marks)

**QUESTION FOUR (20 MARKS)**

1. As a cost accountant of Uchumi supermarket, you are consulted by Board of Members to advise them on the benefits of budgeting and the problems that the Uchumi would suffer as a result of NOT budgeting. Discuss the kind of advice that you would give. (10 marks)
2. Discuss two commonly used methods of pricing stocks and outline five factors affecting stock levels. (10 marks)

**QUESTION FIVE (20 MARKS)**

1. The following information was extracted from the books of Kathenya company.

Maximum consumption = 6000 units per week

Minimum consumption = 4000 units per week

Re-order period or lead time = 4-6 weeks

Re-order quantity = 30,000 units

**Required:**

1. Average stock level (3 marks)
2. Minimum stock level (3 marks)
3. Re-order level (3 marks)
4. Maximum stock level (3 marks)
5. Explain in details the assumptions of break-even-charts. (8 marks)