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**JOMO KENYATTA UNIVERSITY**

**OF**

**AGRICULTURE AND TECHNOLOGY**

**UNIVERSITY EXAMINATIONS 2014/2015**

**YEAR II SEMESTER I EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE**

**HBC 2203: COST ACCOUNTING**

**DATE: AUGUST 2015 TIME: 2 HOURS**

**INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE**

1. Describe the duties of a cost accountant in an organization. [4 marks]
2. Differentiate the following terminologies:
3. Semi-fixed and Semi-variable costs [4 marks]
4. Relevant and irrelevant costs [4 marks]
5. State the assumptions that under-lies the break-even analysis. [8 marks]
6. The annual overhead costs for the Enterprise Company which has three production centres (two machine centres and one assembly) and two service centres (materials procurement and general factory support) are as follows:

Shs. Shs.

Indirect wages and supervision

Machine centres X 1,000,000

Y 1,000,000

Assembly 1,500,000

Materials procurement 1,100,000

General factory support 1,480,000 6,080,000

Indirect materials:

Machine centres X 500,000

Y 805,000

Assembly 105,000

Material procurement 0

General factory support 10,000 1,420,000

Lighting and heating 500,000

Property taxes 1,000,000

Insurance of machinery 1500,000

Depreciation of machinery 1,500,000

Insurance of Buildings 250,000

Salaries of works management 800,000 4,200,000

11,700,000

The following information is also available:

Book Value Area No. of Direct Machines

Of machines(Shs) occupied employees labour hrs hours

Squares

Machinery shop: X 8,000,000 10,000 300 1,000,000 2,000,000

Y 5,000,000 5,000 200 1,000,000 1,000,000

Assembly 1,000,000 15,000 300 300 2,000,000

Stores 500,000 15,000 100

Maintainance 500,000 5,000 100

55,000,000 50,000 1000

Details of total materials issues to the production are as follows;

(Shs.)

Machine shop X 4,000,000

Machine shop Y 3,000,000

Assembly 1,000,000

8,000,000

Allocate the overheads listed above to the production and service centres by preparing an overhead analysis sheet. [10 marks]

**QUESTION TWO**

Anan Company has budgeted to product 2,750 articles in 22,000 hours with fixed overheads of Sh.88,000 and variable overheads of Sh.55,000. The Company’s production during the period of the budget was 2,700 articles in 21,500 working hours with fixed overheads costing Sh.90,000 and variable overheads Sh.58,000

**Required:**

Calculate the following variances:

1. Overhead variance
2. Fixed production overhead variance
3. Variable production overhead variance
4. Fixed production overhead expenditure variance
5. Fixed production overhead volume variance
6. Fixed cost productivity variance
7. Capacity variance [20 marks]

**QUESTION THREE**

XYZ Ltd carries on its business in Kisumu. The company has been reporting its profits using absorption costing system. During the financial year ended 30th June 2015, the following summary statement was provided:

Shs. Shs.

Sales (4000) units 5,000,000

Production Costs of Sales

Variable 3,000,000

Fixed 1,000,000 (4,000,000)

Gross profit 1,000,000

Expenses

Variable 800,000

Fixed 800,000 (1,600,000)

Net less 600,000

Currently the company is implementing strategies to improve its profitability which are to be implemented in two phases A and B. Each phase will cover a period of 6 months. The expected production and sales in units for each of the phases are shown below:

Phase A Phase B

Units Units

Production 2,500 3,000

Sales 2,400 2,900

The fixed costs are expected to increase by 20% while the variable costs per unit will remain as they were in the previous period. The selling price per units will be Sh.1500

**Required:**

Profit and Loss statements for phases A and B using;

(i) Marginal costing [10 marks]

(ii) Absorption costing [10 marks]

**QUESTION FOUR**

1. A business firm which is engaged in manufacturing should adequately control materials used in the production process form 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. [10 marks]

1. Standard costing is the setting of predetermined cost estimates in order to provide a basis for comparison with actual costs:

(i) Briefly explain the THREE types of performance standards used in standard costing. [6 marks]

(ii) List FOUR functions of a budget committee in the formulation of the budget. [4 marks]