

**W1-2-60-1-6**

## JOMO KENYATTA UNIVERSITY

**OF**

**AGRICULTURE AND TECHNOLOGY**

# University Examinations 2014/2015

**YEAR I & II SEMESTER I & II EXAMINATION FOR THE DEGREE OF BACHELOR OF PURCHASIANG AND SUPPLIES MANAGEMENT / BACHELOR OF BUSINESS INFORMATION TECHNOLOGY/ BACHELOR OF COMMERCE**

**HBC 2203/ HPS 2108: COST ACCOUNTING**

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

**INSTRUCTIONS: ANSWER QUESTION ONE (COMPULSORY) AND**

**ANY OTHER TWO QUESTIONS.**

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**QUESTION ONE (30 MARKS)**

(a) Explain five purposes of cost accounting. (10 marks)

(b) Outline five ways of classifying costs. (5 marks)

(c) List the steps involved in high-low method of cost estimation.(5 marks)

(d) A manufacturing company has three production departments and two service departments. Overheads allocated to each department are as follows:

|  |  |  |
| --- | --- | --- |
| Production departments | Shs. | Shs. |
| A | 120,000 |  |
| B | 200,000 |  |
| C | 280,000 | 600,000 |
| Service departments | Shs. |  |
| X | 70,000 |  |
| y | 30,000 | 100,000 |

A technical assessment for the apportionment of cost of service department show.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Department | A | B | C | X | Y |
| X | 25% | 35% | 30% | - | 10% |
| y | 40% | 25% | 20% | 15% | - |

**REQUIRED:**

To apportion the service departments cost using;

i) Repeated distribution method (5 marks)

ii) Simultaneous equation method (5 marks)

**QUESTION TWO (20 MARKS)**

Nakuru Ltd employee job order costing system. The company use predetermined overhead rates are determining manufacturing overhead to jobs. The following information is presented by the company’s cost accountant.

(a) The company has two departments P and R. The predetermined overhead rates as based on machine hours for Department P and direct labour cost for Department R. As at 1st January 2014 the cost accountant made the following estimates for the year.

|  |  |  |
| --- | --- | --- |
|  | Department P | Department R |
| Direct labour hours | 40,000 | 75,000 |
| Machine hours | 150,000 | 20,000 |
| Direct labour cost | 280,000 | 350,000 |
| Manufacturing overheads | 450,000 | 1,050,000 |

(b) The company’s cost records shows the following information on job YJ650.

|  |  |  |
| --- | --- | --- |
|  | Department P | Department R |
| Direct labour cost | 75 | 150 |
| Machine hours | 200 | 40 |
| Materials cost | 900 | 500 |
| Direct labour cost | 600 | 1200 |

**REQUIRED:**

(i) Compute the predetermined overhead rate that should be used during the year in department P and R. (4 marks)

ii) Compute the total overhead cost applied in job Y J 650. (4 marks)

(iii) Calculate the cost of the job YJ 650 and the cost per unit of the job contains 150 units. (8 marks)

(iv) As at 31st December 2014 the company records reveal the following information in relation to each department.

|  |  |  |
| --- | --- | --- |
|  | Department P | Department R |
| Direct Labour Hours | 35,000 | 85,000 |
| Machine Hours | 120,000 | 200,000 |
| Direct Labour Cost | 250,000 | 650,000 |
| Manufacturing Overheads | 480,000 | 1,060,000 |

Calculate the amount of over/ under absorbed overheads in each department and for the company as a whole. (4 marks)

**QUESTION THREE (20 MARKS)**

Naivasha Ltd has four production department designing machinery, welding and assembling. The budgeted overheads of the company were fixed as follows as at 1st January 2014.

|  |  |  |
| --- | --- | --- |
| Department | Budgeting Overheads | Overhead Absoption base |
| Designing | 900,000 | Labour hours (7500 hrs) |
| Machinery | 2,800,000 | Machine hours(140,000 hrs) |
| Welding | 1,500,000 | Labour hours (50,000 hrs) |
| Assembling | 600,000 | Labour hours (25,000 hrs) |

**ADDITIONAL INFORMATION**

(a) Selling and administrative overheads are 25% of factory cost.

(b) At the beginning of August 2014 the company received a batch order of one of the company’s product. The company estimated to incur the following costs in relations to this batch.

Materials Shs.50,000

Labour 130 hrs of designise at Shs.30 per hour

500 hrs of machinery at Shs.35 per hour

120 hrs of welding at Shs.40 per hour

180 hrs of assembling at Shs.30 per hour

Direct expenses Shs.7,500

(c) The company charges customers mark-up of 20%.

**REQUIRED:**

i) The overhead absorption rate for each department. (8 marks)

ii) The total cost of the batch. (8 marks)

iii) The selling price per unit if the batch was for 150 units. (4 marks)

**QUESTION FOUR (20 MARKS)**

(a) The following data relates to three products x, y and z

|  |  |  |  |
| --- | --- | --- | --- |
|  | x | y | z |
| Sales (Shs) | 250,000 | 200,000 | 150,000 |
| Selling Cost (Shs) | 40,000 | 50,000 | 120,000 |
| Weight (Kg) | 200 | 250 | 100 |

Joint cost incurred was Shs.450,000.

Calculate profit made by each product apportioning joint costs on:

i) Sales value bases (5 marks)

ii) Physical units bases (5 marks)

(b) Explain five purposes of overhead cost analysis. (10 marks)

**QUESTION FIVE (20 MARKS)**

The following information has been extracted form the books of Free Area Ltd for the year ended 31st December 2014.

|  |  |  |
| --- | --- | --- |
| Production | 30,000 units |  |
| Sales | 24,000 units |  |
|  |  |  |
| Production cost incurred |  | Shs ‘000’ |
| Direct materials |  | 7,200 |
| Direct labour |  | 1,800 |
| Variable overheads |  | 1,500 |
| Fixed overheads |  | 2,700 |
| Selling and administration costs |  |  |
| Wages and salaries |  | 400 |
| Variables sales commission |  | 300 |
| Promotion and advertising |  | 480 |
| Other fixed cost |  | 720 |

The company unit selling price Shs.550.

**REQUIRED:**

(a) Profit and loss statement under direct costing approach. (8 marks)

(b) Profit and loss statement under indirect costing approach. (8 marks)

(c) An explanation of the difference in profit or loss in (a) and

(b) above. (4 marks)