

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

**JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY**

**UNIVERSITY EXAMINATIONS 2018/2019**

**YEAR II SEMESTER II EXAMINATION FOR THE DEGREE OF BCOM/BSCM/BPCM**

**HPS 2108/HBC 2203/HPS 2213: COST ACCOUNTING**

**DATE: AUGUST 2019 TIME: 2 HOURS**

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

QUESTION ONE (COMPULSORY) 30 MARKS

a. Demonstrate what you understand by the term economic order quantity and paraphrase on the assumptions of the EOQ model. (5 marks)

b. A business firm requires complete, accurate and updated information. A combination of both financial accounting and cost accounting systems can facilitate in the achievement of this goal. You are required to compare and contrast cost accounting and financial accounting. (8 marks)

c. ABC Ltd makes a product which salts at a selling price of sh10 for a single unit. Marginal cost of production is sh6 for a single unit. Fixed costs amount to sh500.

You are required to determine:

i. The number of units to break even per annum. (4 marks)

ii. Break even sales per annum. (2 marks)

iii. The number of units to be sold to achieve a profit of sh 20000 per annum.

(2 marks)

iv. Assuming the current activity level is 33000 units. Calculate the margin of safety of the company. (2 marks)

d. To any organization cost accounting is very important. Discuss the importance of cost accounting to any organization. (7 marks)

QUESTION TWO (20 MARKS)

a. Prepare a report for the managing director of your company explaining how costs may be classified in different ways giving examples of each classification. (10 marks)

b. The following information was extracted from the Umoja Ltd regarding its stocks.

|  |  |
| --- | --- |
| Reorder quantity | 3600 |
| Reorder period | 4 weeks |
| Maximum consumption | 900 units/week |
| Normal consumption | 600 units / week |
| Minimum consumption | 300 units / week |
| Maximum re-order period | 5 weeks |
| Minimum reorder period | 3 weeks |

Determine the following stock levels of Umoja Ltd

i. Re-order level. (2 marks)

ii. Maximum stock level (2 marks)

iii. Minimum stock level (2 marks)

c. Budgets are plans expressed in financial and/or quantitative terms for a specified period of line in the future in setting up a budgetary control system. Elucidate on the essentials of effective budgetary control system. (4 marks)

QUESTION THREE (20 MARKS)

a. Highlight on the advantages and disadvantages of marginal costing. (8 marks)

b. Manufacturers of a product Ghee goes through three distinct processes, that is 1-3. After process 3, the completed is passed to finished goods stock. The following information was provided by the cost accountant in respect of product Ghee for the month of July 2018.

6000 units of raw materials at ksh 50 were passed to process 1 and cost incurred are as shown.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Element of cost | Process 1 | Process 2 | Process 3 | Total |
|  | Ksh | Ksh | Ksh | Ksh |
| Direct material | 10000 | 24000 | 36000 | 70000 |
| Direct labour | 60000 | 40000 | 20000 | 120000 |
| Direct expenses | 5600 | 10400 | 4000 | 20000 |
| Production overheads | - |  | - | 180000 |

Production overheads are absorbed by each process at 150% of direct labour. There was no stock of raw materials or work in process either at the beginning or at the end of the production period.

Required

Prepare;

i. Process 1 account. (4 marks)

ii. Process 2 account (4 marks)

iii. Process 3 account (4 marks)

QUESTION FOUR (20 MARKS)

a. ABC Ltd is a cloth manufacturing firm with the following information overheads of the company were available.

|  |  |
| --- | --- |
| Overheads | Shs 000 |
| Rate and rents | 12000 |
| Machine and insurance | 3600 |
| Light and heat | 1200 |
| Factory and ministration and supervision | 1500 |
| Depreciation on plant | 1800 |
| Repair to plant | 9000 |
| Staff training costs | 16500 |
| Power consumption | 3600 |

The following information was also available

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Base | Machinery | Assembly | Finishing | Total |
| Flour Area (m2) | 20000 | 30000 | 10000 | 60000 |
| Direct wages (sh000) | 7500 | 5000 | 2500 | 15000 |
| Book value of Equipment (sh000) | 12000 | 6000 | 6000 | 24000 |
| Number of employees | 500 | 700 | 300 | 1500 |
| Machine hours | 1800 | 1000 | 800 | 3600 |

You are required to prepare an overhead analysis sheet. (10 marks)

b. By giving advantages and disadvantages explain the following cost estimation approaches.

i. Industrial engineering method. (3 marks)

ii. Account analysis method (3 marks)

iii. High low method. (3 marks)

iv. Least square analysis method. (3 marks)