



PAN AFRICA CHRISTIAN UNIVERSITY

END OF TERM EXAMINATION

BUS3313: COST ACCOUNTING-VR

MONDAY JULY 28TH, 2014

1800HRS – 2100HRS

INSTRUCTIONS

- This exam paper has **Six** Questions
- Answer **Any Five** Questions
- Write your **student number** on the answer booklet provided.
- Read all questions carefully before attempting.

Question One.

a) Define cost accounting and outline **five** of its purposes in management. **(7 marks)**

b) The following information was extracted from the cost accounts books of Q-Ltd for the month of October 2013.

	<u>Ksh</u>
Direct materials	90 000
Direct wages	14 000
Direct expenses	5 000
Indirect factory expenses	19 500
Administration expenses	16 700
Selling and distribution expenses	11 200
Profit	25% of the selling price.

Required

Prepare a statement to show the:

- i) Prime cost **(4marks)**
- ii) Production cost **(4marks)**
- iii) Total cost **(2marks)**
- iv) Selling price of the product. **(3marks)**

Question Two

a) Explain the process of each of the following costing systems, giving **two** merits and **two** demerits of each system:

- i) historical costing; **(5marks)**
- ii) standard costing. **(5marks)**

d) The following information relates to DM-Ltd process costs in the production of commodity N-01 in the month of January 2014.

Cost element	Process		Total
	1	2	
Direct material	16 000	18 000	34 000
Direct labour	7 000	11 000	18 000
Direct expenses	3 500	4 900	8 400
Production overheads	-	-	27 200

Additional information:

- i) 5 000 units of raw materials at Ksh 30 were issued to process 1.
- ii) Production overheads are absorbed at the rate of 80% of direct materials at each process.
- iii) No work-in-progress or stock of raw materials at the beginning or end of the period.

Required

Prepare the process accounts for product N-01. **(10 marks)**

Question Three.

a) Explain the distinction between “marginal costing” and “absorption costing.” **(4 marks)**

b) The following information was extracted from the books of ABC Ltd for the year ended 31st December 2012.

	Ksh'000
Direct materials	36 000
Direct labour	13 000
Production overheads	8 600

Additional information:

- i) Production was 20 000 units out of which 180 000 units were sold
- ii) No work-in progress or stock of raw materials at the beginning or end of the period
- iii) 80% of production overheads is fixed
- iv) Average selling price per unit is Ksh 1 400
- v) Selling and administration expenses for the period were Ksh 4 600 000, out of which Ksh 2 100 000 was fixed expense.

Required

- i) Prepare the profit/loss account of ABC Ltd under marginal costing approach. **(8 marks)**
- ii) Determine the break-even point (units) and the break-even point (sales) for the product. **(8marks)**

Question Four.

a) Explain the principal features of contract costing. **(7marks)**

b) XYZ-Ltd was contracted by B-County to build a bridge at a cost of Ksh 150 million. A down payment of Ksh 90 million was done at the commencement of the project. The information relating to the contract as at 31st December 2011 was as follows:

Ksh'000

Materials bought	12 500
Materials issued to the site	75 000
<u>Direct wages</u>	
Paid	6 000
Plant bought and installed at site	37 000

Ksh'000

<u>Direct expenses</u>	
Paid	19 000
Materials returned to the stores	970
Power	150
Work certified	250 000
Cost of work not certified	3 500
Material on site as at 31 st December 2012	600
Value of plant as at 31 st December 2012	38 000

Required

Prepare the following:

- i) Contract account
(8marks)
- ii) Contractee account
(5marks)

Question Five.

a) Explain the term “budget” and outline **five** merits of its application in cost accounting function. **(8marks)**

b) GZ-Ltd manufactures two products P and Q using two types of materials, code-named K and L. The following information was extracted from the books of the company for the year ended 31st December 2011.

Budgeted sales:

<u>Product</u>	<u>Quantity</u>	<u>Unit price(Ksh)</u>
P	25 000	900
Q	13 000	580
<u>Material usage</u>		
Material	K	L
	(Ksh)	(Ksh)
Unit cost	40	70

<u>Quantities used</u>	<u>Quantity</u>	<u>Unit price(Ksh)</u>
P	60	35
Q	50	50

No opening stocks but closing stock levels were recorded as follows:

P - 1 200 units; Q – 600 units.

Required:

Prepare the following budgets:

- i) Sales; **(4marks)**
- ii) Production; **(4marks)**
- iii) Material usage in quantities; **(4marks)**
- iv) Material purchase (quantity and value). **(4marks)**

Question Six.

a) Explain the meaning of cost behavior as applied in cost accounting. **(4marks)**

b) The variable costs of a product at various levels of output conform to the function: $f(VC) = ax + bx^2 + cx^3 - d$. If $a = 10$; $b = 0.5$; $c = 0.03$ and $d = 2.5$:

i) calculate the variable cost of 200 units of this product; **(7marks)**

ii) Determine the rate of change in the variable cost for this product. **(5marks)**

c) Outline **four** merits of the use of break-even charts in cost accounting. **(4marks)**

