PAN AFRICA CHRISTIAN UNIVERSITY

END OF TERM EXAMINATION

BUS3313: COST ACCOUNTING

SATURDAY MARCH 28TH, 2015

0800HRS – 1100HRS

INSTRUCTIONS

- This exam paper has **Six(6)** Questions
- Answer **Any Five** Questions
- Write your **student number** on the answer booklet provided.
- Read all questions carefully before attempting.
- Use a new page for every question attempted and indicate the question number on the space provided on each page of the answer sheet.

Question one.

(a) (i) Discuss the nature of cost accounting. (3 Marks)

(ii) Distinguish cost accounting from financial accounting. (3 Marks)

(b) Discuss the benefits to be derived from using an elaborate cost accounting system in a business enterprise. (10 Marks)

(c) Discuss the effects of using the last in, first out (LIFO) method of stock valuation rather than first in, first out (FIFO) method in a period of rising prices. (4 Marks)

Question two.

(a) Explain the following terms as used in cost accounting:

i) Manufacturing overheads (2 Marks)
ii) Total cost (2Marks)
iii) Production cost (2 Marks)
iv) Prime cost (2 Marks)

(b) The information from the books of PAC Ltd for the year ended 31st December 2013 showed the following cost estimates of production of product Y-001.

	Ksh'000
Direct Materials	875
Direct Wages	125
Direct Expenses	30
Indirect factory costs	170
Administration costs	150
Distribution costs	50
Selling expenses	40
Profit	20% of selling price

Additional information:

Opening stock worthy Ksh 15000 was used in the production of product Y-001. At the end of the accounting period, 31st December 2013, Ksh 4000 of closing stock was recorded.

Required

Prepare a cost statement clearly identifying:

i) The prime cost. (4 Marks)
ii) Factory or production cost. (4 Marks)
iii) Total cost. (4 Marks)

Question three.

(a) With two examples distinguish cost classification by “fixed and variable costs” from cost classification by “function”. (10 Marks)

(b) Discuss five potential benefits of cost accounting to managers of business enterprise. (10 Marks)

Question four.

(a) Discuss the following terms as used in cost accounting.

(i) First In First Out (FIFO) (2 Marks)

(ii) Last In First Out (LIFO) (2 Marks)

(iii) Weighted Average Cost (2 Marks)

(b) An organization’s records for last month show the following in respect of one stores item;

Date	**Receipts units**	**Issues units**	**Stock units**
1st			200
5th		100	100
7th	400		500
19th		190	310
27th		170	140

Last month opening stock was valued at a total of Ksh 2900. And the receipts during the month were purchased at a cost of Ksh 17.50 per unit.
The organization uses the weighted average method of valuation and calculates a new weighted average after each stores receipt.

Required;
Calculate the total value of the issues last month. (14 Marks)

Question five.

(a) Describe job costing system as used in cost accounting. (4 Marks)

(b) Describe contract costing system as used in cost accounting. (4 Marks)

(c) An engineering firm operates a job costing system. Production overhead is absorbed at the rate of Ksh. 8.50 per machine hour. In order to allow for non – production overhead costs and profit, a mark - up of 60 per cent of prime cost is added to the production cost when preparing price estimates.

The estimated requirements of job number 808 are as follows;

Direct materials	Ksh 10,650
Direct labour	Ksh 3,260
Machine hours	140

<u>Required;</u>

Calculate the estimated price notified to the customer for job number 808. (12 Marks)

Question six.

Describe the process of service costing, giving four examples of cost service costing units.

(20 marks)