PAN AFRICA CHRISTIAN UNIVERSITY

END OF TERM EXAMINATION

BUS3313: COST ACCOUNTING

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 1

A retail trader has just started his business by setting a cosmetic article at Kshs.20 each, the variable cost of purchase, etc. of which is Kshs.12. The fixed costs are Kshs. 8,000 per month. You are required to:-

(a) Prepare a statement showing profit or loss if monthly sales are 500 units, 1000 units, 3000 units. **(4 marks)**

(b) Establish the fundamental **margin cost equations** and calculate.

(i) P/V ratio **(1 mark)**

(ii) Break-even sales **(1 mark)**

(iii) Profit at sales Kshs. 40,000 **(1 mark)**

(iv) Sales to earn a profit of Kshs. 5000 **(1 mark)**

(v) Margin of safety when sales are Kshs. 44000 **(1 mark)**

(c) Using a simple model of CVP calculate:

(i) Break-even sales **(6 marks)**

(ii) Profit at sales of Kshs. 40000 **(5 marks)**

(iii) Sales to earn profit of Kshs. 5000 (**5 marks)**

Question 2

(a) "Cost accounting provides financial statements for managers within the business whereas financial accounting is intended for external users."

Comment on this statement, with particular reference to the different information needs of managers and of shareholders of large public limited companies. **(10 marks)**

(b) Explain the terms;

(i) "Applied factory overheads" **(3 mark)**

(ii) What causes it to differ from "actual factory overheads"? **(3 mark)**

(iii) How will you account for the difference between "applied factory overheads" and "actual factory overheads" in costing? **(4 marks)**

Question 3

JK Ltd has recently completed its sales forecasts for the year to 31 December 2010. It expects to sell two products – J and K – at prices of Kshs.135 and Kshs.145 each respectively. Sales demand is expected to be:

J 10,000 units

K 6,000 units

Both products use the same raw materials and skilled labour but in different quantities per unit:

	J	K
Material X	10 kgs	6 kgs
Material Y	4 kgs	8 kgs
Skilled labour	6 hours	4 hours

The prices expected during 2010 for the raw materials are:

Material X	Kshs.1.50 per kg
Material Y	Kshs.4.00 per kg

The skilled labour rate is expected to be Kshs. 6.00 per hour.

Stocks of raw materials and finished goods on 1 January 2010 are expected to be:

Material X	400 kgs	@ Kshs.1.20 per kg
Material Y	200 kgs	@ Kshs.3.00 per kg
J	600 units	@ Kshs.70.00each
K	800 units	@ Kshs.60.00 each

All stocks are to be reduced by 15% from their opening levels by the end of 2010 and are valued using the FIFO method.

The company uses absorption costing, and production overhead costs are expected to be:

Variable Kshs. 2.00 per skilled labour hour

Fixed Kshs. 315,900 per annum

Required: Prepare for the year to 31 December 2010 JK Limited's:

(a) Production budget (in units); **(7 marks)**

(b) Raw material purchases budget (in units and in rupees) **(6 marks)**

(c) Production cost budget. **(7 marks)**

Question 4

(a) Discus the three (3) objectives of budgetary control system. **(6 marks)**

(b) Define “flexible budget” and explain its importance as a budgetary technique and tool of control. **(6 marks)**

(c) Write short notes on four (4) techniques of costing. **(8 marks)**

Question 5

The following data have been extracted from the budgets and standard costs of Good Shepherd Limited, a company which manufactures and sells a single product.

	Kshs. per unit
Selling price	45.00
Direct materials cost	10.00
Direct wages cost	4.00
Variable overhead cost	2.50

Fixed production overhead costs are budgeted at Kshs. 400,000 per annum. Normal production levels are thought to be 320,000 units per annum.

Budgeted selling and distribution costs are as follows:

Variable	Kshs. 1.50 per unit sold.
Fixed	Kshs. 80,000 per annum.

Budgeted administration costs are Kshs. 120,000 per annum.

The following patterns of sales and production are expected during the first six months of 2013.

	January – March	April -June
Sales (units)	60,000	90,000
Production (units)	70,000	100,000

There is no stock on January 1, 2013.

Prepare profit statement for each of the two quarters, in a columnar format, using:-

(a) Marginal costing, (**10 marks)**

(b) Absorption costing. **(10 marks)**

Question 6

(a) Smart Cage Limited operates a chain of four retail shops. Data on the company's maintenance costs for its shop buildings and furnishings are presented below for 2012.

Month	Maintenance Cost in Kshs.	Sales
January	53,000	600,000
February	55,000	700,000
March	47,000	550,000
April	51,000	650,000
May	45,000	500,000
June	49,000	610,000

Using the high –low method, estimate and graph the cost behavior for the firm's maintenance cost **(12marks)**

(b) Write short notes on the following
   (i) Controllable and controllable costs **(3 marks)**
   (ii) Product Costs and Period Costs **(3 marks)**