PAN AFRICA CHRISTIAN UNIVERSITY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

BACHELORS OF COMMERCE

BACHELOR OF BUSINESS LEADERSGHIP

MAY-AUGUST 2017

DEPARTMENT: BUSINESS

COURSE CODE: BUS3313|BCM212

COURSE TITLE: COST ACCOUNTING

EXAM DATE: WEDNESDAY 26th JULY 2017

TIME: 5.30PM-8.30PM

DAY- ROYSAMBU

INSTRUCTIONS

- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.
- This exam script consists of **six (6)** questions.
- Answer **question one (compulsory)** and **any other four (4)** questions

QUESTION ONE.

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

(ii) Discuss the factors that distinguish cost accounting from financial accounting. (6 Marks)

(b) Discuss the benefits to be derived from using an elaborate cost accounting system in a business enterprise. (8 Marks)

(c) Discuss the elements of decision making process. (6 marks)

(d) Explain four documents to be found in a materials recording system. (8 marks)

(e) Define the following terms as used in cost accounting and give examples.

(i) Cost object. (3 marks)

(ii) Direct costs. (3 marks)

(iii) Indirect costs. (3 marks)

QUESTION TWO.

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

i) Manufacturing overheads (2 Marks)
ii) Production cost (2 Marks)
iii) 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. (3 Marks)
ii) Factory or production cost. (3 Marks)
iii) Total cost. (3 Marks)

QUESTION THREE.

(a) With an example explain cost classification by "fixed costs", "variable costs" and cost classification by "function". (6 Marks)

(b) Discuss five potential benefits of cost accounting to managers of business enterprise. (9 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. (9 Marks)

QUESTION FIVE.

(a) Describe job costing system as used in cost accounting. (2 Marks)

(b) Describe contract costing system as used in cost accounting. (2 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 206 are as follows;

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

Required;

Calculate the estimated price notified to the customer for job number 206. (11 Marks)

QUESTION SIX.

A machine operator is paid Ksh. 10.20 per hour and has a normal working week of 35 hours. Overtime is paid at the basic rate plus 50%. If in week 10, the machine operator worked 42 hours;

(a) Distinguish between terms “overtime pay” and “overtime premium”. (2 marks)

(b) Give three possible classifications of the cost of the wages paid to the machine operator.
(6 marks)

(c) Show the calculation of the total wages for the machine operator in week 10.
(7 marks)