

COST ACCOUNTING EXAMS

Instructions to candidate :Answer question ONE and any other two questions

Question one

Construction Ltd. is engaged on two contracts A and B during the year. The following particulars are obtained at the year end:

	Contract A	Contract B
Date of commencement	April 1	September1
	(Shs)	(Shs)
Contract price	6, 00,000	5, 00,000
Materials delivered direct to site 1, 20,000		50,000
Materials issued from store 40,000		10,000
Materials returned to store 4,000		2,000
Materials on site December 31 22,000		8,000
Direct labor payments 1, 40,000		35,000
Direct expenses 60,000		30,000
Architect's fees 2,000		1,000
Establishment charges 25,000		7,000
Plant installed at cost 80,000		70,000
Value of plant December 31 65,000		64,000
Accrued wages December 31 10,000		7,000
Accrued expenses December31-6,000		5,000
Cost of contract not yet certified..23,000		10,000

Value of contract certified by architect..4, 20,000 1, 35,000

Cash received from contractor 3, 78,000 1, 25,000

During the period, materials amounting to Kshs 9,000 have been transferred from contract A to contract B.

You are required to show

a) the Contract accounts and

b) Contractee's accounts

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QUESTION TWO

Bidii Company Ltd. Manufactures a single product and uses standard costing. The standard costs for producing one unit of the product are as follows:

	Shs
Direct material:	
Material X (3Kgs)	30
Material Y (5 Kgs.)	25
Direct labour (5 hours)	40
Production Overheads:	
Variable	30
Fixed	<u>20</u>
Standard unit cost	<u>145</u>

Note: Overhead is applied on basis of direct labour hours.

In the month of May 20X6, the company had budgeted to produce 10,000 units. However, 11,000 units were actually produced and the costs incurred were as follows:

	Shs.	Shs.
Material cost:		
Material X (34,000 Kgs.)	323,000	
Material Y (52,000 Kgs)	<u>312,000</u>	635,000
Labour costs (51,000 hours)		433,500
Manufacturing Overheads:		
Variable	340,000	
Fixed	<u>220,000</u>	<u>560,000</u>
Total manufacturing costs		<u>1,628,500</u>

Note: There was no charge in stock of work in progress.

Required

Calculate the following variances indicating whether they are favourable (F) or unfavourable (U):

- (i) Material price variance
- (ii) Material usage variance
- (iii) Labour rate variance
- (iv) Labour efficiency variance
- (v) Total variable overhead variance
- (vi) Total fixed overhead variance.

QUESTION THREE

Briefly explain the following terms as used in process costing:

- i) Normal loss.
- ii) Abnormal loss.
- iii) Joint products.

QUESTION FOUR

Distinguish between the following cost accounting terminologies:

- i) Direct and indirect costs
- ii) Cost center and cost unit
- iii) Joint products and by-products)
- iv) Period costs and product costs

QUESTION FIVE

Product X is obtained after it is processed through three distinct processes. The following cost information is available for the operation:

	PROCESS			
	Total	I	II	III
	(Shs)	(Shs)	(Shs)	(Shs)
Materials	5,625	2,600	2,000	1,025
Direct wages	7,250	2,250	3,600	1,400
Production overheads	7,250			

500 units Shs 4 per unit were introduced in process I. Production Overheads are absorbed as a percentage of direct wages.

The actual output and normal loss of the respective processes are:

	Output	Normal loss	Value of scrap
	Units	on input	per unit (Shs)
Process I	450	10%	2
Process II	340	20%	4
Process III	270	25%	5

There is no stock or work-in-progress in any process show:

- (i) the three process accounts
- (ii) The abnormal loss and abnormal gain accounts.