



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

**FIRST YEAR SECOND SEMESTER EXAMINATIONS FOR DIPLOMA
IN BUSINESS ADMINISTRATION**

CITY CAMPUS

ADB 0105: FUNDAMENTALS OF COST ACCOUNTING

Date 25th November, 2016

Time: 2.00 – 5.00pm

INSTRUCTIONS:

- Answer Question ONE and any other THREE Questions.



Question One

(a) The following transactions water to item A101 stocked by Excel Products Ltd for the month of September 2010

Date	Quantity	Unit Cost
3	2,500	18
10	2,700	21
17	3,100	22
19	2,800	21
25	2,750	22
27	3,200	23
30	3,250	24

Issues Date	Quantity
6	3,300
16	2,800
23	2,250
26	3,950
28	2,600
30	6,950

The closing balance for the month of August 2010 was a batch of 3,000 units received at a unit price of Shs. 20

Required:

Under FIFO of stores issues, prepare a stores perpetual inventory record for item A101

(20mks)

Explain five advantages stock control

(5marks)

Question Two

a) Explain the factors to be taken into account when choosing an overhead absorption method

(6mks)

b) The Alpha manufacturing company provided the following data for its operations in 2013 standard cost per product unit

	Shs.
Direct Material	60.00
Direct Labour	80.00
Variable Overheads	20.00
Fixed Overheads	40.00
	200.00
	Units
Beginning Stock	20,000

Production	180,000
Closing Stock	40,000
Sales	160,000
Selling & Administrative Expenses	
Variable	4,000,000
Fixed	2,000,000
Selling Price per Unit	300.00

Prepare the profit & loss statement using:

- i. Absorption – costing method (5mks)
- ii. Direct – costing method (5mks)

Question Three

(a) Snab Ltd manufactures a single product branded BXL one of the components required to manufacture product BXL is RED.

The following data related to component “RED”

Annual demand Shs. 12,500 per unit

Cost of placing an order 150 per order

Carrying cost per unit per annum 60

Required:

Calculate the ECONOMIC order quantity (4mks)

The following information is also provided for the material “Red” used to produce product BXL

Maximum consumption = 8,000 units per week

Minimum consumption = 5,000 units per week

Reorder period / lead time = 4 – 6 weeks

Reorder quantity = 30,000 units

Required: Calculate

- a. Reorder level (3mks)
- b. Minimum stock level (3mks)
- c. Maximum stock level (3mks)
- d. Average stock level (2mks)

Question Four

(a) Define standard costing (1mks)

(b) State and explain four advantages of standard costing (6mks)

(c) Below is the data from Bidii Company Ltd who specialized in the manufacture of school furniture:

Actual hours worked 5,000 hrs

Standard rate per hour Shs. 10

Actual wages paid Shs. 55,000

Standard hours allowed	Shs. 4,850 hrs
Standard price per kg	Shs. 2
Actual price per kg	Shs. $\frac{1}{50}$
Actual output	20,000 units
Actual quantity allowed	16,000 kg
Actual quantity used	15,000 kg
Actual quantity purchased	16,500 kg

Required: calculate

- Material usage variance (2mks)
- Material price variance (2mks)
- Wage efficiency variance (2mks)
- Wage rate variance (2mks)

And state whether the variances are a favourable on advance.

Question Five

- Describe five factors that should be considered when designing an effective incentive scheme (5mks)
- The following details are recorded for cost centre

Direct materials used	Shs. 25.00
Direct wages	Shs. 27.00
Direct labour hours	Shs. 15.00
Machine hours	Shs. 19.00

The predetermine overhead rate is Shs. 8.50 per labour hour and Shs. 5.00 per machine hour

Calculate the cost per unit using:

- Direct labour hours as the overhead cost driver (5mks)
- Machine hour rate as the overhead cost driver (5mks)

QUESTION SIX

- Why do most firms find it advantageous to introduce a cost accounting system in addition to financial accounting system (10mks)
- State and explain five differences between cost accounting and financial accounting (5mks)