MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

SECOND YEAR FIRST SEMESTER EXAMINATIONS FOR THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION WITH INFORMATION TECHNOLOGY

HOMA-BAY CAMPUS

ABA 209: COST ACCOUNTING

Date: 17th June, 2017 | Time: 9.00 - 12.00 noon

INSTRUCTIONS:

- Answer question ONE and any other THREE questions.

QUESTION ONE

(a) Discuss the challenges encountered when establishing a cost accounting system in an organization.

(b) Maedeleo stationery ltd. intends to purchase a new business line to extend its portfolio at a price of Sh.315000. the company will also purchase a packaging machine for Sh.15000, in the second month of operation. The following information is provided;

1. Total sales forecast from the business line at mark-up of 60% on production cost will be:

Month	1	2	3	4	5	6
Sales (Sh.'000)	96	96	92	96	100	104

2. 25% of sales will be in cash and the balance on credit to be settled one month after sale.
3. The company offers 10% discount on cash sales.
4. Production cost per unit consists of the following;

Raw materials	Sh.
Direct labour	2.5
Fixed overheads	1.5
Total production costs	1.0
	5.0

5. The production manager shall ensure that the closing stock at the end of the month is sufficient to meet the next month's sales.
6. Annual production overheads were Sh.126000. it is the company's policy to allocate production overheads on a monthly basis.
7. The company purchased 6000 units of finished goods and 6000 units of raw materials at the beginning of the first month of operations.
8. Closing stock of raw materials at the end of every month is maintained to meet half of the following month's production.
9. Selling and administration overheads were ascertained as Sh.39875 for the first month and Sh.14875 for the other months.

10.Payment of raw material purchases is made in the month following the month of purchase.

Required:

A cash budget for the first four months.

QUESTION TWO

(a) Outline the advantages of the perpertual system over the periodic system of stack taking.

(b) Zawadi bookshop ltd. distributes reference materials and publication in the costal region. The following information was provided by the store's manager relating to the month of August 2014:

Date	Purchases units	Unit cost Sh.	Date	Sales units	Unit selling price Sh.
August 1	5000	96	August 6	4500	130
August 9	5300	98	August 15	3000	125
August 16	4000	100	August 17	3800	128
August 23	800	101	August 19	2400	131
August 27	3500	105	August 25	1200	129
			August 28	8000	130

Required:

(i) Stores ledger card using the First in First out (FIFO) method.

(ii) Stores ledger card using the Last in First out (LIFO)

QUESTION THREE

(a) Highlight the factors that should be considered when setting maxmum stock levels.

(b) PWK enterprises manufacture a single product which requires two key materials; Exe and Wye. The following data is available in relation to the two materials:

	Exe	Wye
Normal weekly usage in kilograms	800	600
Minimum weekly usage in kilograms	400	300

Maximum weekly usage in kilograms	1200	800
Re-order quantity in kilograms	4800	3600
Re-order period in weeks	3 - 5	2 - 4

Required:

For each material, compute;

(i) Re-order level

(ii) Maximum stock level

(iii) Minimum stock level

(iv) Average stock level

QUESTION FOUR

(a) Highlight the salient features of process costing

(b) Chemitech ltd., a chemical manufacturing company, operates a processing system to produce a chemical branded "Zed" which passes through three production processes.

The following information relates to the production of chemical:

1. In the month of April 2015, 8000 litres of basic raw materials at a cost of Sh. 640000 were introduced into process 1.
2. The following costs were incurred during the production period;

	Process		
	1 (Sh)	2 (Sh)	3 (Sh)
Materials (added)	-	220000	180000
Direct labour	350000	150000	100000
Direct expenses	90000	50000	20000

3. The output, normal process losses and scrap value for each process were as follows:

Process	Output (Litres)	Normal loss (%)	Scrap value (Sh)
1	7000	8	5
2	6900	5	10
3	6603	3	12

4. Manufacturing overheads are absorbed into each process at the rate of 20% of direct labour cost.

5. The output of each process passes directly to the next process at cost without any provision for internal profit.
6. There were no stocks of raw materials or work-in-process at the beginning or at the end of the production period.

Required:

(i) Process 1 account
(ii) Process 2 account
(iii) Process 3 account
(iv) Abnormal loss account
(v) Abnormal gain account.

QUESTION FIVE

(a) Discuss the advantages of a budgetary control system to an organization.
(b) Usafi ltd. manufactures a a single product. The following data relate to the company's operations for the year ended 31 March 2012.

	Sh. "000"
Sales	36000
Less: Total costs	30000
Net profit	6000

Fixed costs account for 25% of the total costs.

Required:

(i) Break-even point sales
(ii) Margin of safety
(iii) Sales required to earn a profit of Sh.9000000
(iv) In order to increase sales, the management has the following two options:
    (1) To increase sales by 20% and incur a sales promotion cost of Sh.3500000.
    (2) To increase sales by 10% through reducing the selling price by 5%.

    Advice the management on which option they should take.

QUESTION SIX

(a) Explain the reason(s) why construction companies find it prudent to declare profits on uncompleted contracts. (5 marks)

(b) On 4 May 2014, Pendo Construction Company was contracted by Mara Paradise Ltd. to construct a leisure park in Nairobi at a contract price of Sh. 950,000,000. Work commenced on the contract on 28 July 2014. Retention money was agreed at 10% of work certified. At the end of the first year, no profits were declared as the contract was considered to be in its infancy

The following details relate to the contract for the year ended 31 December 2000:

	Sh'000
Balances brought forward 1.1.2015	
Materials on site	4,500
Accrued wages	1,250
Plant (cost)	150,000
Cost of work done	158,000
Work certified to 31 December 2014	160,000

Transactions during the year.

Materials delivered to site:

Ex-stores	14,600
By suppliers	128,400
Additional plant (cost)	120,000
Subcontractors fees	18,450
Consultancy fee	28,000
Inspection fee	500
Salaries and wages	160,000

Head office expenses	1,200
Material transfers out	15,000
Materials sales (cost Sh 19,800)	22
Plant hire	250
Direct expenses	2,600
Total cash received from contractee	580,000
Work certified during the year	660,000
Cost of work uncertified	42,000

Balances carried forward:

Materials on site	51,000
Wages accrued	2,800

Plants have been purchased for use on this contract. Pendo Construction Company provides for depreciation on plant at 12 1/2% per annum on cost.

Required:

Contract account for the year to 31 December 2015, clearly showing the profits/(losses) on contract for the year. (10 marks)