

**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**P.O. Box 972-60200 – Meru-Kenya.**

**Tel: 020-2069349, 061-2309217. 064-30320 Cell phone: +254 712524293, +254 789151411**

**Fax: 064-30321**

**Website:** [**www.must.ac.ke**](http://www.must.ac.ke) **Email:** [**info@must.ac.ke**](mailto:info@must.ac.ke)

**University Examinations 2014/2015**

SECOND YEAR, FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

**BFC 3227 – COST ACCOUNTING**

**DATE: MARCH 2015 TIME: HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30 MARKS)**

1. There are numerous pitfalls contained in the conventional classification of fixed and variable cost and the cost accountant must constantly keep this in mind to avoid taking too superficial an issue of cost classification and presentation. Briefly explain the problem pertaining classification of cost. (10 Marks)
2. Sokomart Bookshop had an opening stock of sh.26,400 (300 mts valued at sh 88 each) on 1 April 2014. The following receipt and issues were recorded during April.

10 April Receipt 1000 units sh 86

23 April Receipts 600 units sh 90

29 April issue 1700

Using LIFO method calculate the total value of the issue on 29th April (5 Marks)

1. Explain graphically Break even chart. (5 Marks)
2. Briefly explain the following terms;
3. Master budget (2 Marks)
4. Flexible budget (2 Marks)
5. Activity based costing (2 Marks)
6. Variance analysis (2 Marks)
7. Cost unit (2 Marks)

**QUESTION TWO (20 MARKS**)

The stores ledger card for materials M20 shows the following details for the month of Aug. 2014

Unit Price per unit

1st (Opening stock) 1,100 200

7 received 4,400 230

15 issued 3,500 -

21 received 3,000 250

27 issued 2,500 -

29 issued 1,500 -

**Required:**

1. Prepare stock ledger cards for the above using the following methods of pricing materials issues.
2. First In First out (7 Marks)
3. Weighted average method (8 Marks)
4. Explain the three types of stores that are maintained by organizations. (5 Marks)

**QUESTION THREE (20 MARKS)**

1. A company has been asked to quote for a job. The company aims to make a net profit of 30% on sale. The estimated cost of the job is as follows:

Direct material 10 kg @ sh 10 per kg

Direct labour 2 hours @ sh 5 per hour

Variable production overhear are recovered at the rate of sh 2 per labour hour

Fixed production overheads for the company are budgeted to be sh 100,000 each year and are recovered on the basis of labour hours. There are 10,000 budgeted labour hours each year. Other cost in relation to selling, distribution and administration are recovered at a rate of sh 50 per job.

You are required to make the quotation for the company. (12 Marks)

1. Explain the term cost driver and its importance in costing. (8 Marks)

**QUESTION FOUR (20 MARKS)**

1. Wako works as a sales lady with Jubilee insurance under the following terms;
2. Retailer allowance of sh 15,000 per month
3. Commission of 4% subject to a minimum sales of 50,000 worth policies

In the month of May 2014, she made sales of sh. 200,000. Determine her pay for the month. (8 Marks)

1. Distinguish between the following sets of firms;
2. Profit and cost centre (4 Marks)
3. Indirect and direct cost (4 Marks)
4. Marginal and absorption costing (4 Marks)

**QUESTION FIVE(20 MARKS)**

1. In a multi-department production situation, explain the following;
2. The role of service department (3 Marks)
3. The reason why it is important to distribute service department cost to production department (3 Marks)
4. Four methods of distributing service department cost in the case where service departments also provide services to each other. (8 Marks)
5. Your factory buys and uses a component for production at sh. 10 per piece. Annual requirement is 2000, carrying cost of inventory is 10% p.a and ordering cost sh. 40 per order.

The purchases manager argues at that the ordering cost is very high, it is advantageous to place a single order for the entire annual requirement. He also says that if we order 2000 pieces at a time, we get 3% discount from the supplier.

**Required:** Evaluate the proposal and make a recommendation.