

KENYA METHODIST UNIVERSITY

**END OF 3RD TRIMESTER 2017 (FT) EXAMINATIONS**

**SCHOOL : BUSINESS AND ECONOMICS**

**DEPARTMENT : ACCOUNTING FINANCE AND INVESTMENTS**

**UNIT CODE : ACCT 219**

**UNIT TITLE : COST ACCOUNTING**

**TIME : 2 HOURS**

**INSTRUCTIONS:**

* **Answer Question ONE and TWO other Questions**

**Question One (30 Marks)**

1. In the context of budgetary control explain the main functions and importance of a cash budget. (10 Marks)
2. You are in charge of making forecasts and preparing budgets. You have been supplied with cost and revenue forecasts and details of payment as follows.

January February March

Shs Shs Shs

Direct Materials (Purchase) 112,000 100,000 135,000

Wages 90,000 80,000 100,000

Overhead Production 34,000 32,000 40,000

Administration 22,000 20,000 27,000

Selling & Distribution 13,000 11,000 18,000

Sales 360,000 350,000 440,000

2. Forecast of revenue and costs for the quarter ending 30th June 2001

April May June

Sh. Sh. Sh.

Direct Materials (Purchases) 90,000 67,000 79,000

Wages 72,000 54,000 63,000

Overheads

\*Production 45,000 36,000 40,000

\*Administration 22,000 25,000 40,000

\*Selling & Distribution 13,000 11,000 16,000

Sales 350,000 360,000 360,000

Cash balance on 1st April 2001 90,000

**3.** **Other details;**

* Period of credit allowed by suppliers averages two months.
* Debenture to the value of shs 125,000 are being issued in May 2001 and the amount is expected to be received during the month.
* A new machine is being installed at the end of March 2001 at a cost of shs 150,000 and payment is promised in early May 2001.
* Sales commission of 3% is payable within one month of sales.
* A dividend of sh. 100,000 is to be paid in June 2001.
* There is a delay of one month in the payment of overheads. There is also a delay in payment of wages averaging a quarter of a month.
* Twenty percent of the debtors pay cash, receiving a cash discount of 4% and 70% of debtors pay within one month and receive a cash discount of 2½ %. The other debtors pay within two months.

***Required:***

A cash budget on a monthly basis from the 2nd quarter of the year 2001.

(20 Marks)

**Question Two (20 Marks)**

Kanga Ltd has three production departments and two service departments. The following is their budgeted factory overheads for the year ended 30th September 2000.

Shs Shs

Production Departments

A 240,000

B 180,000

C 220,000 640,000

770,000

The service department costs are to be re-apportioned as per the following percentages.

A B C X Y

X 20 30 35 - 15

Y 30 20 30 10

***Required:***

Re-apportion the service department costs to the production departments using the simultaneous equation method.

**Question Three (20 Marks)**

A company manufactures two products A and B by making use of two types of materials viz X and Y. Product A requires 10 units of X and 3 units of Y. Product B requires 5 Units of X and 2 units of Y. The price of X is Kshs 2.00 per unit and Y shs. 3.00 per unit. The sales manager has estimated the sales of Product A to be 5,000 units and that of product B 10,000 unit. The estimated opening stock of materials and for the budget period is 2,500 units and that of Y is 3,000 units. The desired closing stock of material x is 5,000 units and that of Y is 4,000 units.

***Required:***

1. Prepare the material usage budget and material purchase budget for the year ending 31 December 2003. (12 Marks)
2. Distinguish between cost accounting and management accounting. (4 Marks)
3. Mention FOUR methods used in absorption of factory overheads. (4 Marks)

**Question Four (20 Marks)**

1. Explain the meaning of the following terms:
2. Cost object (1 Mark)
3. Cost centre (2 Marks)
4. Cost Unit (1 Mark)
5. Perpetual Inventory System (1 Mark)
6. Activity based costing (1 Mark)
7. For the SIX months ending December 31st 2011, an importer of K-W pins had the following transactions. Opening stock 100 units valued at shs 3,900.

Month Particulars Quantity Price/Unit

May Purchases 100 41

June Purchases 200 50

July Sales 250 64

August Purchases 400 51

September Sales 350 70

October Sales 100 74

***Required:***

Using weighted Average and FIFO.

1. Show the stores ledger, including the closing balance values. (12 Marks)
2. Calculate the gross profit under each of the THREE valuation methods. (6 Marks)
3. Explain FOUR methods that a company can use to allocate service department costs to production departments. (4 Marks)
4. Discuss THREE methods that can be used to calculate labour turnover.

(3 Marks)

**Question Five (20 Marks)**

Briefly distinguish between the following terminologies used in cost accounting clearly stating the importance of the distinction for decision making purposes.

1. Controllable costs and non-controllable cost. (4 Marks)
2. Fixed costs and marginal costs (4 Marks)
3. Discretionary costs and periodic costs. (4 Marks)
4. Cost tracing and cost accumulation (4 Marks)
5. Sunk costs and standard (Planned costs) (4 Marks)