



UNIVERSITY OF EMBU

2018/2019 ACADEMIC YEAR

SECOND SEMESTER EXAMINATIONS

FIRST YEAR EXAMINATION FOR THE DEGREE OF BACHELOR OF
PURCHASING AND SUPPLIES MANAGEMENT

BPS 106: COSTING PRINCIPLES AND PRACTICES

DATE: APRIL 9, 2018

TIME: 8:30 AM – 10:30 AM

INSTRUCTIONS:

Answer Question ONE and ANY Other TWO Questions.

QUESTION ONE (30 MARKS)

- a) Explain the need for cost accounting system in an organization (5 marks)
- b) Explain why marginal costing is considered more suitable for managerial decision making as opposed to absorption costing (5 marks)
- c) Assume XYZ Company Limited produces two products A and B. The following information relates to the two products

	A	B
Selling price per unit	Sh .5	Sh .5
Variable cost per unit	4	3
Fixed cost for the period	300000	300000

Required: Calculate the Breakeven point for the two products in units and in Shillings

(5 marks)

- d) State any five Assumptions of CVP Analysis (5 marks)
- e) Using relevant examples, differentiate between the following terms as used in Cost accounting

i) Period and Product cost (2 marks)

ii) Fixed and Variable cost (3 marks)

f) Explain limitations of Budgets as Planning tools (5 marks)

QUESTION TWO (20 MARKS)

a) The total costs and output volumes of a manufacturing company in the first six months of the year have been as follows:

Month	Output '000'	Total Cost Ksh. '000'
January	5	146
February	7	152
March	6	148
April	5	142
May	8	164
June	6	152

Required:

Estimate the cost function using:

i) Regression Analysis (10 marks)

ii) High-low Method (5 marks)

b) It is important for a cost accountant to analyse variances between standard cost and actual cost. Explain factors to consider when investigating variances (5 marks)

QUESTION THREE (20 MARKS)

a) Using relevant examples, Differentiate between the following terminologies as used in costing

i) Ideal standards and Basic standards (3 marks)

ii) Cost centre and Cost unit (3 marks)

iii) Relevant costs and irrelevant costs (2 marks)

b) The standard hours for manufacturing two products M and N are 5 hours and 20 hours per unit respectively. Both products require identical kind of labour and the standard wage rate per hour is Ksh 5. In a particular period 10,000 units of M and 15,000 units of N were

produced. The total labour hours worked were 450,000 and the actual wage bill came to ksh 2,300,000. This includes 12000 hours paid @ Ksh 7 per hour and 9400 hours paid @ Ksh 7.50 per hour, the balance having been paid at Ksh 5 per hour.

Required:

Calculate the following

- i) Labour cost Variance (3 marks)
 - ii) Labour rate Variance (3 marks)
 - iii) Labour efficiency Variance (4 marks)
- c) Explain two causes of Labour rate variances (2 marks)

QUESTION FOUR (20 MARKS)

a) A product passes through three production processes A,B, and C. The normal wastage of each process A, B and C is 3%, 5%, and 8% respectively. Scraps of process A was at 25 cents per unit, that of B at 50 cents per unit and that of C at Ksh 1 per unit. 10,000 units were issued to process A in the beginning of October 2005 at a cost of Ksh 1 per unit. The other expenses were as follows:

	Process A	Process B	Process C
Additional material (Ksh)	1000	1500	500
Direct labour (Ksh)	5000	8000	6500
Direct Expenses(Ksh)	1050	1188	2009
Actual output (units)	9100	9100	8100

There were no opening and closing stocks.

Required:

- i) Prepare Process accounts for process, A,B and C (10 marks)
 - ii) Prepare Abnormal loss account (2 marks)
 - iii) Prepare Abnormal loss account (2 marks)
- b) Differentiate between process costing and Job costing (6 marks)

QUESTION FIVE (20 MARKS)

a) Kangaru Manufacturing limited has three products A, B and C, the following information is provided for the month of January 2018.

Product	Sales forecast Quantity	Price per unit(Ksh)
A	1000	100
B	2000	120
C	1500	140

Materials used in the companys products are:

Material M ₁	-Ksh. 4 per unit
Material M ₂	-Ksh. 6 per unit
Material M ₃	-Ksh. 9 per unit

Quantities used in product:

Product	M ₁	M ₂	M ₃
A	4	2	-
B	3	3	2
C	2	1	1

Finished Stocks

Product	A	B	C
Opening stock-units	1000	1500	500
Closing stock-units	1100	1650	550

Material stocks

Particulars	M ₁	M ₂	M ₃
Opening stock-units	26000	20000	12000
Closing stock-units	31200	24000	14400

Required:

- i) Prepare the Sales budget in quantity and in shillings (4 marks)
- ii) Prepare the Production Budget (2 marks)
- iii) Prepare the Material usage budget in units (3 marks)
- iv) Material purchase budget in shillings (3 marks)
- c) Describe a master Budget (2 marks)
- d) Briefly explain three qualitative factors to consider before making a make or buy decision(Outsourcing) (6 marks)

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