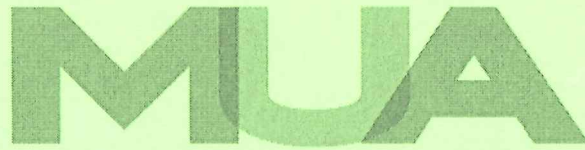


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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP/BACHELOR OF  
COMMERCE

BML 300/ BCM 217: COST ACCOUNTING

DATE: 10<sup>TH</sup> AUGUST 2018

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. DO NOT write on this question paper.
3. This paper contains six (6) questions.
4. Question ONE is compulsory.
5. Answer any other THREE questions.
6. Question one carries 25 MARKS and the rest carry 15 MARKS each.
7. Write all your answers in the Examination answer booklet provided.

**QUESTION ONE****FACTORY OVERHEAD VARIANCE ANALYSIS**

Strayer Company uses a standard cost system and budgets the following sales and costs for 2011

Budgeted production and sales units	20,000
Sales	Kshs 200,000
Total production cost at standard rates	130,000
Gross profit	70,000
Beginning inventories	None
Ending inventories	None

The 2012 budgeted sales level was the normal capacity level used in calculating the factory overhead predetermined standard cost rate per direct labor hour.

At the end of 2011, Strayer Company reported production and sales of 19,200 units. Total factory overhead incurred was exactly equal to budgeted factory overhead for the year and there was under-applied total factory overhead of Kshs 2,000 at December 31. Factory overhead is applied to the work in process inventory on the basis of standard direct labor hours allowed for units produced. Although there was a favorable labor efficiency variance, there was neither a labor rate variance nor materials variances for the year.

**Required:**

- a) Explain the general causes of the under absorption of overheads which may have been applicable. (12 marks)

- b) Explain the causes of material usage variance. (8 marks)
- c) Explain the difference between cost accounting and management accounting (5 marks)

### QUESTION TWO

During one week the workman X manufactured 200 units. He received wage for a guaranteed 44 hours week at the rate Kshs 1.50 per hour. The time allowed to produce one unit is 18 minutes. Calculate his gross wages under each of the following methods of remunerating labour:

- a) Time Rate (5 marks);
- b) Piece Rate with Guaranteed Weekly Wages (5 marks);
- c) Halsey Premium Plan, 50% Bonus (5 marks)

### QUESTION THREE

Ferris Corporation makes a single product - a fire resistant commercial filing cabinet - that it sells to office furniture distributors. The company has a simple ABC system that it uses for internal decision making. The company has two overhead departments whose costs are listed below:

Manufacturing overhead	Kshs 500,000
Selling and administrative overhead	Kshs 300,000
Total overhead costs	Kshs 8,00,000

The company's activity based costing system has the following activity cost pools and activity measures:

Activity Cost Pool	Activity Measures
Assembling units	Number of units
Processing orders	Number of orders
Supporting customers	Number of customers
Other	Not applicable

Costs assigned to the "other" activity cost pool have no activity measure; they consist of the costs of unused capacity and organization-sustaining costs - neither of which are assigned to products, orders or customers.

Ferris Corporation distributes the costs of manufacturing overhead and of selling and administrative overhead to the activity cost pools based on employee interviews, the results of which are reported below:

Distribution of Resource Consumption Across Activity Cost Pools					
	Assembling Units	Processing Orders	Supporting Customers	Other	Total
Manufacturing overhead	50%	35%	5%	10%	100%
Selling and administrative overhead	10%	45%	25%	20%	100%
Total activity	1,000 units	250 orders	100 customers	--	--

**Required:**

- a) Perform the first stage allocation of overhead costs to the activity cost pools.

**(5 marks)**

- b) Compute activity rates for the activity cost pools. **(5 marks)**
- c) OfficeMart is one of the Ferris Corporation's customers. Last year OfficeMart ordered filing cabinets four different times. OfficeMart ordered a total of 80 cabinets during the year. Construct a table showing the overhead costs of these 80 units and four orders. **(5 marks)**

**QUESTION FOUR**

- a) What are the main objectives of cost accounting? **(4 marks)**
- b) Discuss the treatment of over time premium in cost accounting **(4 marks)**
- c) Explain controllable and non-controllable cost with examples **(4 marks)**
- d) What are the main advantages of cost plus contract? **(3 marks)**

**QUESTION FIVE**

The following data relates to a manufacturing company.

Number of units produced each year	6,000
Variable cost per unit:	
Direct materials	Kshs 2
Direct labor	Kshs 4
Variable Manufacturing Overhead	Kshs 1
Variable selling and Administrative expenses	Kshs 3
Fixed costs per year:	
Fixed manufacturing overhead	Kshs 30,000
Fixed selling and administrative expenses	Kshs 10,000
Units in beginning inventory	0

Units produced	6,000
Units Sold	5,000
Units in ending inventory	1,000
Selling price per unit	Kshs 20
Selling and administrative expenses:	
Variable per unit	Kshs 3
Fixed per year	Kshs 10,000

Required:

- a) Prepare income statements using:
  - Absorption costing system (4 marks)
  - Variable costing system (6 marks)
- b) Prepare a reconciliation schedule (5 marks)

### QUESTION SIX

Write short notes on the following:

- a) Explain briefly:
  - (i) actual factory overhead
  - (ii) applied factory overhead (5 marks)
- b) Differentiate between Job-order and process costing (5 marks)
- c) What is the rationale supporting the use of process costing instead of job order costing system for product costing purposes? (5 marks)