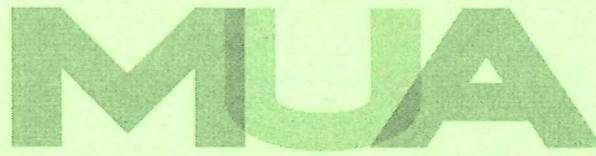


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**UNDERGRADUATE UNIVERSITY EXAMINATIONS**  
**SCHOOL OF MANAGEMENT AND LEADERSHIP**  
**DEGREE OF BACHELOR OF MANAGEMENT AND**  
**LEADERSHIP/BACHELOR OF COMMERCE**

**BML 212/BCM 217/BML 300: COST ACCOUNTING**

**DATE: 2<sup>ND</sup> AUGUST 2024**

**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**

a) Cavington Products Ltd commenced business on 1 May 2000. The company has approached their bankers for overdraft facilities. The bank has in turn demanded a cash flow statement in support of their request. The following information has been assembled for the purpose:

## Projections

2022	Sales Sh „000“	Purchases (units)
June	200	5,000
July	380	9,000
August	560	20,000
September	620	12,000

It is established that 60% of the customers pay within the month of sales, 20% the month following the month of sale and 15% the month following while the balance is normally uncollectible.

The current purchase price of Sh 20 per unit is expected to rise by 20% on 1 July and by another 25% on 1 August. Disbursements to suppliers are made in full in the month following the month of purchase.

The company anticipates paying general and administration expenses at the rate of Sh 80,000 a month payable as incurred while obligation under a medium term lease payable at the commencement of each quarter amount to Sh 50,000 per month.

Corporation tax of Sh 150,000 is due in September while Sh 200,000 will be paid to a supplier for purchase of an asset in the same month

The bank balance on 30 June 2022 is expected to be Sh 50,000 while the company intends to maintain a minimum monthly balance of Sh 100,000. Financing attracts interest at the rate of 24% per annum debited in the month following the month of utilizing the overdraft.

**Required:**

- i) Sales/debtors' collection schedule on a monthly basis for the months of May to September 2022. (6 marks)
- ii) Purchases schedule on a monthly basis for the months of May to September 2022. (3 marks)
- iii) Prepare a cash flow statement for three months in columnar form, July to September 2022 on a monthly basis showing financing required, if any. (10 marks)
- b) In the context of Global Compensation, explore three challenges for managing diverse labour compensation practices across different countries. (6 marks)

## QUESTION TWO

- a) Kapsoiya Ltd manufactures mobile telephones. The current operating level is 400,000 phones but full capacity is 550,000. The phones normally sell for Sh 1,500 per phone. Manufacturing cost data of 400,000 phones is as shown below:

<b>Manufacturing costs</b>	Sh,,000"	Sh,,000"
Variable costs	300,000	
Fixed costs	<u>187,500</u>	487,500
<b>Selling and administration costs</b>		
Variable (freight and commissions) costs	30,000	
Fixed costs	<u>60,000</u>	<u>90,000</u>
		577,500

A vendor offers to buy 100,000 phones for export at Sh 1,125 per phone. The buyer will pay for freight and no commissions will be paid. The acceptance of this offer will not affect the present sales. The managing director is reluctant to accept that offer because he believes that the offer price of Sh 1,125 is well below the manufacturing cost per unit

### Required:

- i) Should the offer be accepted? (7 marks)
- ii) What factors should be considered before accepting the order? (3 marks)
- b) Discuss FIVE the potential challenges in implementing an Interlocking Cost Accounting System in a large, multinational corporation. (5 Marks)

**QUESTION THREE**

- a) Briefly explain the following terms as used in process costing:
- i) Normal loss (2 marks)
  - ii) Abnormal loss (2 marks)
  - iii) Joint products (2 marks)
- b) Compare and contrast the high-low method and regression analysis as techniques for estimating costs. (9 marks)

**QUESTION FOUR**

- a) Nyundo Ltd manufactures a product whose standard variable cost is given below:

Direct materials (2 kg @ Sh 3)	6
Direct labour (0.75 hours @ Sh 4)	3
Variable overheads	1

The company treats fixed costs as period costs and therefore they are not charged to products.

The following information relates to the month of March 2021.

	1/3/2021	31/3/2021
	Sh	Sh
Raw materials	12,000	6,000
Finished goods	36,000	42,500

The following information is available for the month of March 2021:

	Sh
Sales @ Sh 20 per unit	200,000
Material purchases @ Sh 3.50 per kg	42,000
Direct labour cost (8000 hours)	30,000
Variable overheads	12,000
Material price variance (adverse)	21,000

The management is wondering whether they could have performed better.

**Required:**

Calculate the following variances in each case stating two possible causes:

i) Material usage variance (6 Marks)

ii) Labor rate variance (3 Marks)

b) Discuss the evolving role of cost accounting in considering environmental and social costs. (6 marks)

**QUESTION FIVE**

a) Discuss two advantages and disadvantages of "Activity -Based Costing" (10 Marks)

b) Examine two assumptions of breakeven analysis (5 Marks)

**QUESTION SIX**

a) Gitoro Manufacturing Company, manufactures a single product that is processed sequentially in three departments I, II and III. The following information is obtained in respect of process in departments II for the month of November 2001.

Opening work-in progress was	2,600
units valued at	Sh 6,500.
Degree of completion:	
Materials	60%
Labour	50%
Overheads	40%

The transfer from department I during the month was 13,000 units valued at Sh 19,500.

Units transferred to department III were	10,600.
Direct material added in department II amounted to	Sh 15,900.
Direct labour amounted to	Sh 13,100.
Overhead amounted to	Sh 17,500.

Work in progress at 30 November 2001 was 1,500 units which had the following

degrees of completion:

Materials	70%
Labour	40%
Overheads	40%

During the month, 900 units were scrapped. Normal loss was 10% of production and the units scrapped realized Sh 2 per unit.

**Required:**

A statement of production, cost and equivalent units showing:

- i) Equivalent units of production by element of cost (4 marks)
  - ii) Valuation of finished goods. (3 marks)
  - iii) Valuation of work in progress (3 marks)
- b) Examine the assumptions of Economic Order Quantity (EOQ) model (5 marks)