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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP

BML 300/ BML 212/ BCM 217: COST ACCOUNTING

DATE: 11<sup>TH</sup> AUGUST 2023

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) Examine six main key factors that affect budgeting process. **(6marks)**
- b) In relation to process costing, explain the following terms:
- (i) Normal loss **(1 mark)**
- (ii) Abnormal loss **(1 mark)**
- (iii) Analyze the main difference between batch costing and activity based costing? **(4 Marks)**
- c) Tindo Ltd buys and sells product Q-3. It values stocks on the basis of last in first out (LIFO). At 1 June 2022, stock in hand consisted of 4,500 units which were acquired at Sh.50 per unit. The operations for the month were as follows:

Date	Purchases	Sales
June1	5,000 @ Sh 48	
4		6,000 @ Sh 60
5	5,500 @ Sh 49	
7	4,000 @ Sh 50	
11		7,000 @ Sh 61
12	5,000 @ Sh 50	
13	6,000 @ Sh 47	
18		7,000 @ Sh 62
19		8,000 @ Sh 64
20	6,000 @ Sh 49.50	
21		5,000 @ Sh 65
22	7,000 @ Sh 50	
25	6,000 @ Sh 49	
26	2,000 @ Sh 47	
28		500 @ Sh 60
29		14,000 @ Sh 64

The company incurred operating costs of Sh 450,000 during the month.

**Required:**

Prepare a store ledger card. **(13Marks)**

## QUESTION TWO

a) Briefly explain the following terms as used in cost accounting:

- |                         |          |
|-------------------------|----------|
| (i) Mixed costs.        | (1 mark) |
| (ii) Cost behaviour     | (1 mark) |
| (iii) Incremental cost. | (1 mark) |

b) The following information has been extracted from the books of Vico Ltd for the year to 31 March 2022:

	Units „000“
Production	30
Sales	24
Production cost incurred:	Sh „000“
Direct material	7,200
Direct labour	1,800
Variable overheads	1,500
Fixed overheads	2,700
Selling and administrations costs:	
Sales and salaries	450
Variable sales commission	300
Promotion and advertising	480
Other fixed costs	720

The company's unit selling price is Sh 550.

**Required:**

- a) Profit and loss statement under direct costing approach. (6 marks)
- b) Profit and loss statement under indirect costing approach. (6 marks)

**QUESTION THREE**

a) Jamii Company Ltd manufactures and sells a single product. The following information regarding the company's operations for the year ended 30 September 2022 was presented to you.

Profit and loss account for the year ended 30 September 2022

	Sh''000	Sh''000
Sales		30,000
Less:		
<b>Production costs</b>		
Direct material	6,500	
Direct labour	5,400	
Production overhead variable	7,000	
Prime costs		18,900
		11,100
<b>Other expenses:</b>		
Selling - Variable	2,600	
Fixed Cost	1,997	
Administration	2,100	6,697
Net profit		4,403

The following changes are expected to occur during the year ending 30 September 2022:

1. Selling price will be adjusted downward by 3% in order to attract more customers.
2. Material prices will rise by 2% due to inflation.
3. There will be a reduction in labour cost of 4%.

4. Production overheads will increase by 3%.
5. Increase in the efficiency of sales persons will reduce direct selling costs by 5%.
- All other factors are expected to remain constant.

**Required:**

- i) Break-even point in sales value (4 marks)
- ii) The margin of safety in sales value (2 marks)
- iii) The sales value at which profit of Sh 4.5 million will be achieved (2 marks)
- iv) A summary operating statement that shows the net profit of Sh 4.5 million in (iii) above. (1 mark)
- b) Differentiate the following terminologies:
- i) Relevant cost verses irrelevant cost (2 marks)
- ii) Cost center and cost unit (2 marks)
- iii) Semi-fixed cost and variable cost (2 marks)

**QUESTION FOUR**

- a) Briefly explain the importance of setting out standards in costing. (7marks)
- b) Examine the factors that should be considered when designing a wage incentive scheme. (8marks)

**QUESTION FIVE**

- a) Explain the reason(s) why construction companies find it prudent to declare profits on uncompleted contracts. (3 Marks)
- b) Baobab fabricators Ltd has been facing a lean financial spell for the past two years. Profits have been declining steadily and results of the preceding year showed total losses amounting to Sh 2,000,000, the first time the company had not reported profits in its 10-year history.

The chairman and the board of directors have been agonizing on the remedial steps to implement to arrest the situation. Four competing proposals have been suggested by a task force set up some months back aimed at boosting sales and improving efficiency of operations in the current year. You, as a member of the task force, have been invited to attend the next board meeting which will deliberate on the proposals. You know the following facts:

1. The target profit for the current year is Sh 4,000,000 regardless of the proposal that will be adopted.
2. The company's fixed costs currently amount to Sh 20,000,000 per year.
3. The company can sell up to a maximum of 12,000 units of its product in the local market and unlimited quantities in a neighbouring country. For the sales in the local market, unit variable costs amount to Sh 5,000, while for the sales in the neighbouring country, an extra Sh 500 per unit is incurred in transportation expenses.
4. The same selling price normally prevails both in the local market and neighbouring country.
5. Sales for the past year amounted to 9,000 units, all in the local market. The main requirements of the four competing proposals are as follows:

Proposal A: The Company should improve the quality of packaging of its products at a cost of Sh 500 a unit.

Proposal B: The Company should spend Sh 2,000,000 on an advertising campaign. Proposal C: The Company should cut the selling price by Sh 500 per unit.

Proposal D: The Company should buy efficient machinery. This would cut the variable cost per unit by Sh 1,000 at all levels of sales.

**Required:**

For proposals A, B, and C, determine the number of units to be sold in the neighbouring country in order to achieve the target profit. (12 marks)

**QUESTION SIX**

- a) Explain the two methods used in cost estimation stating one advantages of each. (4 marks)
- b) Examine the relevance of understanding variance analysis in cost accounting system. (3 marks)
- c) Explain the meaning of the following terms:
  - i. Integrated accounting system. (2 marks)
  - ii. Interlocking accounting system. (2 marks)
- d) Briefly explain two assumptions of EOQ model (4 marks)

