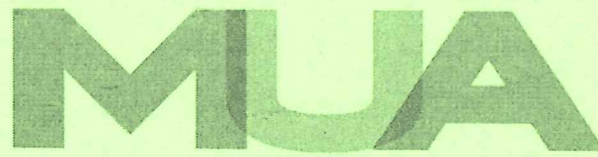


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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF MANAGEMENT AND  
LEADERSHIP/BACHELOR OF COMMERCE

BML 212/BCM 217/BML 300: COST ACCOUNTING

DATE: 8<sup>TH</sup> APRIL 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. Distinguish between the following cost accounting terminologies:
- i. Direct and indirect costs (1 mark)
  - ii. Cost centre and cost unit (1 mark)
  - iii. Joint products and by-products (1 mark)
  - iv. Period costs and product costs (1 mark)
- b. Explain four main key factors that affect budgeting process. (4 marks)
- c. Explain the advantages of centralized system of maintaining stores. (4 marks)
- d. Explain the assumptions behind the determination of Economic Order Quantity (EOQ). (4 marks)
- e. The following information is given for material Y-20.

Consumption:

Annual	360,000 units
Maximum	1,200 units/day
Minimum	800 units/day
Normal	900 units/day
Re-order period	12 - 24 days
Re-order quantity	32,000 units

**Required:**

- i) Re-order level. (3 marks)
- ii) Minimum stock level. (3 marks)
- iii) Maximum stock level (3 marks)

**QUESTION TWO**

XYZ Ltd carries on its business in Nairobi. The company has been reporting its profits using absorption-costing system. During the financial year ended 30 September 2023, the following summary statement was provided:

	Shs.	Shs.
Sales (4,000 units)		5,000,000
<b>Production cost of sales:</b>		
Variable	3,000,000	
Fixed	<u>1,000,000</u>	<u>(4,000,000)</u>
Gross profit		1,000,000
<b>Expenses:</b>		
Variable	800,000	
Fixed	<u>800,000</u>	<u>(1,600,000)</u>
Net loss		<u>(600,000)</u>

Currently the company is implementing strategies to improve its profitability, which are to be implemented in two phases; A and B. Each phase will cover a period of six months. The expected production and sales in units for each of the phases are shown below:

	Phase A	Phase B
	Units	Units
Production	2,500	3,000
Sales	2,400	2,900

The fixed costs are expected to increase by 20% while the variable costs per unit will remain as they were in the previous period. The selling price per unit will be Shs. 1,500.

**Required:**

- a. Income statements for phases A and B using:
  - i. Marginal costing. (6 marks)
  - ii. Absorption costing (6 marks)
- b. Reconcile the resulting difference in the reported profit under the two methods. (3 marks)

**QUESTION THREE**

The following information relates to item P003 stocked by XYZ products Ltd for the month of April 2023:

	Receipts	Issues	
Date	Units	Units	Unit cost (Sh)
April 3	2,400		18
4		3,200	
6	2,600		20
12		2,700	
14	3,000		22
18	2,800		21
20		2,200	
22	2,600		23
25		3,800	
26	3,100		24
27	2,500		25
28	3,200		26
29		6,900	

The closing balance for March 2023 was a batch of 3,000 units received at a unit price of Sh 19.

**Required:**

- a) Stores perpetual inventory record for item P003 for April 2000 under LIFO system of stores issues. (11 marks)

b) Closing stock valuation.

(4 marks)

**QUESTION FOUR**

a) Briefly explain the following terms as used in process costing:

i) Normal loss. (1 mark)

ii) Abnormal loss. (1 mark)

iii) Joint products. (1 mark)

b) Maua Ltd produces a detergent, which passes through two processes namely mixing and refining to completion. The following data relate to the refining process for the month of June 2023.

Cost of opening stock:	Shs.
Materials	100,000
Labour	25,000
Overheads	60,000

During the month, 20,000 units were passed from the mixing to the refining process.

Costs incurred during the month were:

	Shs.
Labour	125,000
Overheads	108,100
Other materials	45,300

At the end of the month, 21,000 units had been completed and passed to finished goods while 4,000 were still in process having reached the following stages:

Materials	-	100%
Labour	-	40%
Overheads	-	60%

**Required:**

Refining Process Account.

(12 marks)

**QUESTION FIVE**

The cost accountant of XYZ Company is concerned about the apparent fluctuation in efficiency and wants to determine how labour costs (in Sh.) are related to volume. The following data presents results of the 12 most recent weeks.

Week No.	Units Produced(X)	Labour Costs(Y)
1	34	340
2	44	346
3	24	287
4	36	262
5	30	220
6	49	416
7	39	337
8	21	180
9	41	376
10	47	295
11	34	215
12	24	275

**Required:** Estimate the cost function using:

- i. High low method (6 marks)
- ii. Regression analysis (9 marks)

**QUESTION SIX**

A company uses batch production methods to produce a single product by combining two materials Tee and Pee. The company has budgeted for a material mix ratio of 60:40 for Tee and Pee respectively.

The following information relates to each batch:

Direct material input	200 kg
Material Tee standard price	Shs. 2 per kg
Material Pee standard price	Shs. 3 per kg
Standard yield	160 kg of product.

The waste generated has no value.

Actual results for Month 10 were as follows:

Output	16,500 kg
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Material Tee	13,020 kg	Shs. 24,738
Material Pee	7,980 kg	Shs. 25,536

**Required:**

- a. Calculate the following variances:
- i. Material price for each material and in total (3 marks)
  - ii. Material mix for each material and in total (4 marks)
  - iii. Material yield in total. (4 marks)
- b. Explain the meaning of:
- i. Material mix variance (2 marks)
  - ii. Material yield variance (2 marks)