The Management University of Africa

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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP/ DEGREE OF BACHELOR OF COMMERCE

BML 212/BML 300/ BCM 217 : COST ACCOUNTING

DATE : 30TH NOVEMBER 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

Read the Case Study below carefully and answer the questions that follow:

Overhead Absorption: A Case Study of Slay Garments Limited

Slay Garments Limited manufactures custom-made suits tailored to the requirements of each customer. They use the predetermined overhead absorption rates in allocating overheads to each job. In the cutting department, the rate is based on direct labor hours and in the stitching department the rate is based on machine hours. The management of Slay Limited wants to set overhead absorption rates to help in determining prices in the next financial year. The cost accountant has provided the following budgeted data for the financial year:

	Cutting	**Stitching**
Direct labor cost	Kshs. 1,200,000	Kshs. 750,000
Factory overhead	Kshs. 1,500,000	Kshs. 1,620,000
Direct labor hours	60,000	30,000
Machine hours		40,000

The following data relates to Job A4

	Cutting	**Stitching**
Direct materials	Kshs. 500	Kshs. 750
Direct labor hours	30	10
Machine hours		20

Administration overheads are absorbed at 25% of factory costs while the profit markup is $33\frac{1}{3}\%$ on cost

At the end of the year, the following data was obtained:

	Cutting	**Stitching**
Hours actually worked:		
Direct labor hours	68,000	30,000
Machine hours		17,000
Factory overhead cost incurred	1,600,000	760,000

Required:

a) Define the term overhead absorption rate **(2 marks)**

b) Explain the rule that governs choice of an appropriate overhead absorption rate **(3 marks)**

c) With reference to the budgeted data for the year, calculate the overhead absorption rate for each department **(5 marks)**

d) Prepare a cost statement for job A4 and show the price that will be charged to the customer **(6 marks)**

e) Explain how over absorption and under absorption of overheads occurs **(3 marks)**

f) Calculate the amount of under or over absorption of overheads for each department **(6 marks)**

QUESTION TWO

a) Examine three ways in which Cost Accounting is similar to Financial Accounting. **(6 marks)**

b) The cost accountant for ABC Limited has provided the following information for the month of April 20X3.

Standard cost per hour	- Kshs. 15
Standard hours per unit	- 2 hours
Budgeted production	- 400 units
Actual production	- 360 units
Labour hours worked	- 780 hours
Costs incurred	- Kshs. 13,800

Required:
Calculate the following variances:

i. Fixed Overhead Expenditure Variance **(3 marks)**

ii. Fixed Overhead Volume Variance **(3 marks)**

iii. Fixed Overhead Efficiency Variance **(3 marks)**

QUESTION THREE

a) Outline two advantages of standard costing **(2 marks)**

b) Examine two main objectives of budgetary planning **(4 marks)**

c) The manufacture of Product G requires three distinct processes numbered process 1-3. On completion, the product is passed from process 3 to finished goods stock. The following information was obtained in respect of product G for the month of February 2023;

- 3,000 units of raw materials at Kshs. 25 were issued to process 1 and costs incurred are given below:

Elements of Cost	Process Costs (Kshs)			Total (Kshs)
	1	2	3	
Direct Material	5,000	12,000	18,000	35,000
Direct Labour	30,000	20,000	10,000	60,000
Direct Expenses	2,800	5,200	2,000	10,000
Production Overheads	-	-	-	90,000

- Production overheads are absorbed by each process at 150% of direct labour. There was no stock of raw materials or work-in-progress either at the beginning or at the end of the period.

Required:

Prepare the process accounts for processes 1-3 **(9 marks)**

QUESTION FOUR

a) "A single break even chart is static because it is a picture of relationships that prevail under only one set of assumptions" C.T Horugren.

Required

With reference to the statement above:

i. Highlight three assumptions of break-even charts **(3 marks)**

ii. Propose four benefits of the cost-volume-profit chart as a tool for profit planning **(4 marks)**

b) The following information relates to the cost estimates for the production of product X;

Particulars	Kshs
Direct materials	87,500
Direct wages	12,500
Direct expenses	3,000
Indirect factory costs	17,000
Administrative costs	15,000
Distribution costs	5,000
Selling expenses	4,000
Profit	20% on cost

Required:

Prepare a statement to show:

i. Prime cost **(2 marks)**

ii. Factory/ production cost **(2 marks)**

iii. Total cost **(2 marks)**

iv. The profit of product X **(2 marks)**

QUESTION FIVE

a) Citing relevant examples, distinguish between behavioural classification of costs and functional classification of costs. **(6 marks)**

b) Explain the difference between a cost centre and a profit centre **(3 marks)**

c) Ann's total output for one week was 480 units. The time allowed per unit was 8 minutes per unit. She completed these units in 52 hours. the wage rate is Kshs. 18 per hour.

Required:

Calculate her total wage according to:

i. Halsey scheme **(3 marks)**

ii. Rowen scheme **(3 marks)**

QUESTION SIX

a) Assess five reasons why integrated accounts are preferred to interlocking accounts **(5 marks)**

b) You have inspected the books of accounts and analyzed the cost for company X as follows:

Direct material- Kshs. 120,000

Direct labour- Kshs. 300,000

Indirect labour- Kshs. 25,000

Rent- Kshs. 20,000

Depreciation- Kshs. 25,000

Salaries- Kshs. 30,000

Repairs and Maintenance- Kshs. 400,000

Canteen Cost- Kshs. 5,000

Required:

Determine the cost function using the Accounts analysis method. Assume the activity level is 200 units and 10% of the repairs costs are fixed. **(10 marks)**