

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

BML 212/ BML 300 / BCM 217: COST ACCOUNTING

DATE: 29TH JULY 2026

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

Menko Ltd has been using their own vehicle to transport their employees to and from work. The shift manager imagines that this may be too expensive for the organization and suggests that using hired transport may result in some savings for the organization. The accountant has assembled the following data for consideration:

	Shs.
Own transport:	
Cost of vehicle	1,500,000
Scrap value of the vehicle	300,000
Annual insurance premium	145,000
Annual road licence	6,000
Repairs and maintenance per year	90,000
Drivers monthly salary	25,000
Tyres and tubes per year	24,000
TLB license per year	2,500
Cost of petrol per kilometer	5
Inspection fee	2,000

It is also established that the expected life of the vehicle is 5 years and that the distance coverage is 15,600 Km per year. If the company opts for hired transport it will be required to pay monthly hire charges of Sh 40,000 and drivers allowance of Sh 10,000 per month.

Required:

a) Compute the cost per kilometer if the company:

i. Uses its own transport;

(13 marks)

ii. Hires transport facilities from outside.

(4 marks)

b) Is the difference between a(i) and a(ii) above significant?

(2 marks)

- c) What other factors should the company take into account in deciding the alternative to be adopted?

(6 marks)

QUESTION TWO

The following information relates to item P003 stocked by KKK products Ltd for the month of April 2024

	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 2024 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 May 2000 under LIFO system of stores issues.

(10 marks)

- b) Closing stock valuation.

(5 marks)

QUESTION THREE

- a) Examine three limitations of marginal costing.

(6 marks)

- b) The following data relate to Kenya Ltd for the year ended 31 December 2019.

Sh '000'

Sales	24,000
Less: Total costs	<u>20,000</u>
Net profit	<u>4,000</u>

Fixed costs account for 40% of the total costs.

Required:

- i) Margin of safety.
(2 marks)
 - ii) Break-even point in sales
(2 marks)
 - iii) Sales required to earn a profit of Sh 6,000,000.
(2 marks)
- c) In order to increase sales, the management has the following two options:
1. To increase sales by 25% on incurring a sales promotion cost of Sh 2,500,000.
 2. To increase sales by 15% on reducing selling price by 5%.
- Advise the management on which option they should take.
(8 marks)

QUESTION FOUR

You are in charge of making forecasts and preparing budgets. You have been supplied with cost and revenue forecasts and details of payment as follows:

Forecast of revenue and costs for the quarter ending 31 March 2021

	January	February	March
	Shs.	Shs.	Shs.
Direct			
Materials (purchases)	112,000	100,000	135,000

Wages	90,000	80,000	100,000
Overhead			
Production	34,000	32,000	40,000
Administration	22,000	20,000	27,000
Selling and distribution	13,000	11,000	18,000
Sales	360,000	350,000	440,000

2. Forecast of revenue and costs for the quarter ending 30 June 2021

	April	May	June
	Sh.	Sh.	Sh.
Direct			
Materials (purchases)	90,000	67,000	79,000
Wages	72,000	54,000	63,000
Overhead			
Production	45,000	36,000	40,000
Administration	22,000	25,000	27,000
Selling and distribution	13,000	11,000	16,000
Sales	350,000	360,000	360,000

Cash balance on 1 April 2021

Sh. 90,000

1. Other details

- Period of credit allowed by suppliers averages two months.
- Debentures to the value of Shs. 125,000 are being issued in May 2021 and the amount is expected to be received during the month.
- A new machine is being installed at the end of March 2021 at a cost of Sh 150,000 and payment is promised in early May 2021.
- Sales commission of 3% is payable within one month of sales.
- A dividend of Sh 100000 is to be paid in June 2021.
- There is a delay of one month in the payment of overheads. There is also a delay in payment of wages averaging a quarter of a month.
- Twenty per cent of the debtors pay cash, receiving a cash discount of 4% and 70% of debtors pay within one month and receive a cash discount of 2 ½%. The other debtors pay within two months.

Required:

- a) A cash budget on a monthly basis from the second quarter of the year 2021. **(10 marks)**
- b) Discuss five uses of a cash budget **(5 marks)**

QUESTION FIVE

Rianyoka Ltd. produces three joint products in two processes. All the units pass through process I to process II. At the end of process II, the joint products emerge. The data below relates to the operations for the first quarter of 2024.

	Process I	Process II
	Shs.	Shs.
Direct materials (40,000kg @ Sh 2.50)	100,000	-
Direct labour	60,000	92,000
Overheads	40,000	118,000
Normal loss as a percentage on input	10%	-
Scrap value per unit	Sh 2	
Output in units:	35,000	

No loss is expected in process II.

There was no opening or closing work-in-progress. The output and the selling prices were as follows:

Joint product	Output (Kg)	Selling price (Sh)
X	10,000	20
Y	16,000	15
Z	9,000	16

Required:

a) Process I account.

(6 marks)

b) Abnormal loss/gain account.

(4 marks)

c) Determine the profits or losses from each joint product if costs are apportioned using sales value method

(5 marks)

QUESTION SIX

Mosisa 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
	1	21
	Sh	Sh
Stocks (all at standard cost)		

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:

a) Material usage variance

(5 marks)

b) Labour rate variance.

(4 marks)

c) Labour efficiency variance.

(3 marks)

d) Variable overhead expenditure variance:

(3 marks)