KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

DIGITAL SCHOOL OF VIRTUAL AND OPEN LEARNING

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BAC 404: COST ACCOUNTING II

DATE: FRIDAY 22ND JUNE 2018 **TIME: 8.00 A.M. – 10.00 A.M.**

INSTRUCTIONS

Answer ALL questions

QUESTION ONE

a) Distinguish between cost accounting and financial accounting. (5 marks)

b) ABC Ltd. is a medium size manufacturing company and it maintains separate cost and financial accounting books. The financial accountant provided the following statement for the year ended 31 March 2017.

ABC Ltd

Manufacturing, trading and profit and loss account for the year ended 31 March 2017

	Sh.	Sh.
Direct materials		
Opening stock	150,000	
Add: purchases	1,800,000	
	1,950,000	
Less: closing stock	200,000	
Direct materials cost	1,750,000	
Add: direct wages	250,000	
Prime cost		2,000,000
Add: factory overheads		300,000
		2,300,000
Add: opening work-in-progress		125,000
		2,425,000
Less: closing stock		130,000
Production cost carried forward		2,295,000
Sales		4,500,000

Less cost of goods sold	240,000	
Opening stock	2,295,000	
Production cost brought forward	2,535,000	
	255,000	
Less: closing stock		2,280,000
Gross profit		2,220,000
Other incomes	45,000	
Discount received	1,094,000	
Income from investment		1,139,000
		3,359,000
Expenses	280,000	
Depreciation	36,000	
Interest on loan	25,000	
Interest on loan	600,000	
Debenture interest		941,000
Administration expenses		2,418,000
Net profit		

The records from cost accounts showed the following:

1. Stock valuation as at 31 March were as follows:

	2016 Sh.	2017 Sh.
Raw materials	160,000	196,000
Work-in-progress	121,000	125,000
Finished goods	258,000	260,000

2. Factory overheads were absorbed at 15% of direct material costs.
3. Other costs included:

	Sh.
Interest on capital	140,000
Notional rent	420,000
Administration over absorbed	32,000
Selling and distribution over absorbed	25,000
Depreciation	242,000

4. Profit as per cost was Sh. 2,328,400

Required:
Prepare a profit reconciliation statement for the year ended 31 March 2017. (20 marks)
(Total 25 Marks)

QUESTION TWO

a) Explain the concept of "equivalent units" as used in process costing (5 marks)

b) BDV is an industrial lubricant which is prepared by subjecting certain crude chemicals to two successive processes. The output of process I is transferred to process 2 where it is blended with other chemicals. The process costs for the month of October 2017 were as follows:

cost per unit for each process

Additional information

1) General overhead costs were absorbed into process costs on the basis of labour cost. General overhead for the month of October 2017 amounted to Sh. 357,000.
2) The normal output of process I was 80% of input, while that of process II was 90% of input.
3) Waste material from process I was sold for Sh.2 per kg. whole that from process II was sold for Sh.3 per kg.
4) The output for the month of October 2017 was as follows:
   Process I: 2,300,000kg
5) Process II: 4,000,000kg
6) There was no stock or work in progress of either of the products at the beginning or end of the period.
7) It was assumed that all available waste material had been sold at the prices indicated above.

Required:

Demonstrate how the data above would be recorded in:

i) Process accounts for both processes for the month of October 2017.
ii) Finished stock account.
iii) Normal loss account.
iv) Abnormal loss and gain (4@5= 20 marks)

(Total 25 Marks)

QUESTION THREE

A business firm requires complete, accurate and updated information. A combination of both financial accounting and cost accounting systems can facilitate in the achievement of this goal.

Required:

i) Explain the advantages of a cost accounting system. (4 marks)
ii) Discuss the factors that should be taken into consideration before setting up a cost accounting system (6 marks)

(Total 10 Marks)

QUESTION FOUR

a) Outline Four limitations of the Learning Curve Method (4 Marks)

b) TEXLON & co. ltd observed that a 90% learning curve ratio applies to all labour related costs each time a new model enters production. It is anticipated that 230 units will be produced during the month of November 2017. Direct labour cost for the first lot of 10 units amount to 1000 hours at Ksh.8 per hour. Variable overhead cost is assigned to products at the rate of Ksh.2 per direct labour hour.

Required;

(i) Determine the total labour and labour related costs to produce 320 units (3 marks)

(ii) Determine the average cost of the first 40 units, the first 80 units and the first 100 units produced.

(3 marks)

(Total 10 Marks)