



**ALUPE UNIVERSITY
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...Basis of Knowledge...

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ACADEMICS, RESEARCH AND STUDENTS' AFFAIRS

UNIVERSITY EXAMINATIONS

2019 /2020 ACADEMIC YEAR

3rd YEAR 1st... SEMESTER REGULAR EXAMINATION

FOR THE DEGREE OF BACHELOR OF BUSINESS

MANAGEMENT

COURSE CODE: BBM 302

COURSE TITLE: COST ACCOUNTING

DATE:09/12/2019

TIME: 09.00AM-12.00PM

INSTRUCTION TO CANDIDATES

- SEE INSIDE

THIS PAPER CONSISTS OF 4 PRINTED PAGES

PLEASE TURN OVER

INSTRUCTIONS ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS
QUESTION ONE (30 MARKS)

- a) Differentiate between cost accounting and financial accounting. (4marks)
- b) Give any four causes of under or over absorption of overheads. (4 marks)
- c) Explain the assumptions behind the determination of Economic Order Quantity (EOQ). (5 marks)
- d) 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)

- e) LengaJuu Ltd. has three production departments and two service departments. The following are the total production overhead costs which have been charged to the departments:

	A	32,300
Production	B	42,400
	C	68,900
Service department	1	15,200
	2	18,800

The costs of the service departments are to be apportioned as follows

	DEPARTMENTS				
	A	B	C	1	2
Service department 1	30%	40%	20%	10%
Service department 2	50%	20%	10%	20%	...

Required

Re-apportion the service departments' costs to the production departments using the simultaneous equation method. (8 marks)

QUESTION TWO (20 MARKS)

- a) Distinguish between Direct labour cost and indirect labour cost.(2 marks)
- b) The following table shows the number of units of a good produced and the total costs incurred for the month of June.

Units produced	100	200	300	400	500	600	700
Total costs sh.	40,000	45,000	50,000	65,000	70,000	70,000	80,000

Required:

- i. Determine the cost estimation function using:
 - High-low method. (4 marks)
 - Regression analysis (7 marks)
- ii. Using the regression function estimate:
 - The costs that would have been incurred if the units produced were expected to be 900 in the month of July 2019. (1 mark)
 - The maximum machine hours that would have been worked if the cost incurred had been limited to Sh.90, 000 for the month of July 2019. (6 marks)

QUESTION THREE(20 MARKS)

- a) Explain the differences that exist between the following terms as used in cost accounting:
 - (i) Allocation of overheads (3 Marks)
 - (ii) Apportionment of overheads (3 Marks)
 - (iii) Absorption of overheads (2 Marks)
- b) 40 hours is taken by a worker to do job for which time allowed is 50 hours. Sh. 125 per hour is his daily rate Material cost sh. 60 Factory overhead 125% of wages. Calculate the works cost of the job under the following methods of payment of wages: (3 marks each)
 - i) Time rate;
 - ii) Piece rate;
 - iii) Halsey plan
 - iv) Rowan plan.

QUESTION FOUR (20 MARKS)

- a) List and explain the advantages of standard costing. (4marks)
- b) A manufacturer of school bags prepares the following forecast for his factory for next Year:

Bags to be produced and sold	18,000 units
Average selling price per unit	Sh 45
Average variable cost per unit	Sh.29
Directly attributable fixed Production costs for the year	Sh 90,000
General office costs for the year	Sh150,000

Required

- i Calculate the breakeven point in terms of number of bags to be sold. (4 marks)
- ii Calculate the margin of safety expressed as a percentage of the forecast number of bags to be sold. (3 marks)
- iii If the manufacturer wishes to make a profit of Sh 80,000 next year, how many bags must he sell next year in order to achieve this target profit? (3marks)
- c) A calculator manufacturing company finds that it costs Sh. 625 to make a calculator but the same is available in the market at Sh. 575 each with assurance of continued supply.

The cost breakdown is as follows:

	Sh. Per unit
Direct materials	275
Direct labor	175
Variable production overheads	50
Fixed production overhead	<u>125</u>
	625

Of the fixed production overhead, 40% are specifically incurred in making the calculator. The balance will be incurred irrespective of the decision made.

Required:

- i) Should the company make or buy the calculator? **(3 marks)**
- ii) If the supplier offered the calculator for Sh. 525 per calculator, would your decision change? Explain. **(1 mark)**
- iii) Explain two factors that will need to be considered before such decision is made. **(2 marks)**

QUESTION FIVE (20 Marks)

- a) State and explain five assumptions that underlie the cost-volume-profit analysis. (10 marks)
- b) Explain the meaning and significance of the following terms in the context of the cost-volume –profit analysis:
 - i) Relevant range. **(3 marks)**
 - ii) Margin of safety. **(3 marks)**
 - iii) Contribution margin per unit. **(2 marks)**
 - iv) Contribution sales ratio. **(2 marks)**