



# THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

**A. M. E. C. E. A**

P.O. Box 62157  
00200 Nairobi - KENYA  
Telephone: 891601-6  
Fax: 254-20-891084  
E-mail: academics@cuea.edu

**MAIN EXAMINATION**

**JANUARY – APRIL 2014 TRIMESTER**

**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**REGULAR PROGRAMME**

**CAC 211: COST ACCOUNTING**

**Date: APRIL 2014**

**Duration: 2 Hours**

**INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions**

- Q1. a) List and discuss the purposes of cost accounting. **(9 marks)**
- b) The following information is available from the books of Ideal Manufacturing Company Limited:

	<b>Shs</b>
Stocks on January 1, 2010	
Raw materials	25,000
Work in progress	38,000
Finished goods	42,000
Stocks on December 31, 2010	
Raw materials	30,000
Work in progress	32,000
Finished goods	45,000
Purchases of raw materials	280,000
Carriage inwards	7,000
Returns of raw materials	13,000
Direct wages	80,000
Salaries (40% factory, 30% office, 30% salesman)	60,000

Rent (30% factory, 30% office, 40% warehouse)	40,000
Factory power	15,000
Factory expenses	20,000
Administration expenses	12,000
Selling and distribution expenses	18,000
Sales	650,000

**Required:**

- i) Prepare a production cost statement. **(6 marks)**
  - ii) Prepare a profit statement. **(5 marks)**
- c) The following particulars apply to a factory where Thomas and Sophia work:

Wage rate per hour	Shs. 50
Standard output per hour	5 units

In order to produce 200 units, time taken was as follows (in hours)

<b>Thomas</b>	<b>Sophia</b>
20	30

**Required:**

Calculate the earnings per worker under:

- i) Halsey bonus scheme
- ii) Rowan bonus scheme

**(Please show all workings)** **(6 marks)**

- d) List the steps involved in the job order costing procedures. **(4 marks)**

- Q2. a) From the following receipts and issues of material during the month of January 2012, prepare store ledger accounts or cards according to:
- i) LIFO (Last In, First Out) method
  - ii) Weighted Average Cost method

2012 Jan 1, Received	500 units @ Shs. 100 per unit
2012 Jan 5, Received	250 units @ Shs. 110 per unit
2012 Jan 8, Issued	300 units
2012 Jan 10, Received	400 units @ Shs. 120 per unit
2012 Jan 13, Issued	250 units
2012 Jan 20, Received	100 units @ Shs. 110 per unit
2012 Jan 28, Received	400 units

On 1<sup>st</sup> January 2012, stock-on-hand was 200 units valued at Shs. 90 per unit. **(14 marks)**

- b) The cost of having stock can be broken down into two parts: holding costs and ordering costs. List and discuss **TWO** elements, each, of these costs. **(6 marks)**

Q3. Winkles, Kotter and Gale is a small firm that has 4 partners and 14 support persons. The firm employs a job order costing system to accumulate costs chargeable to each client and it is organized into two departments:

- The research and documents department
- The litigations department.

The firm uses predetermined overhead rate to charge the costs of these departments to its clients. At the beginning of 2010, the firm's management made the following estimates for the years.

	<b>Departments</b>	
	<b>Research and documents</b>	<b>Litigations</b>
Research hours	20,000	
Direct attorney hours	9,000	16,000
Materials and supplies	Shs. 18,000	Shs. 5,000
Direct attorney costs	Shs. 430,000	Shs. 800,000
Department overhead cost	Shs. 700,000	Shs. 320,000

The predetermined overhead absorption rate in the research department is based on research hours and the rate in the litigations department is based on direct attorney hours. The cost chargeable to each client is made up of 3 elements: materials and supplies used, direct attorney costs incurred and

an applied amount of overhead from each department in which work is performed on the case.

Case 618.3 was initiated on February 10 and completed on June 30, 2010. During their period the following costs and time were recorded on the case?

	<b>Departments</b>	
	<b>Research and documents</b>	<b>Litigations</b>
Research hours	18	
Direct attorney hours	9	42
Materials and supplies	Shs. 500	Shs. 300
Direct attorney costs	Shs. 4,100	Shs. 21,000

**Required:**

- a) Compute the predetermined overhead absorption rate that should be used during the year for both the research and documents department, and litigations department. **(3 marks)**
- b) Using the rates you computed in (a) above, work out the total overhead cost applied to case 618.3. **(6 marks)**
- c) What would be the total cost charged to case 618.3, show computations by department and in total for the case. **(8 marks)**
- d) At the end of 2010, the firm's records revealed the following actual costs and operating data for all the cases handled during the year.

	<b>Departments</b>	
	<b>Research and documents</b>	<b>Litigations</b>
Research hours	23,000	
Direct attorney hours	8,000	15,000
Materials and supplies	Shs. 19,000	Shs. 6,000
Direct attorney costs	Shs. 400,000	Shs. 725,000
Departmental overhead	Shs. 770,000	Shs. 300,000

Determine the amount of under applied or over applied overhead cost in each department for 2010. **(3 marks)**

Q4. a) Discuss the meaning and use of the following terms in contract costing:

- i) Retention money
- ii) Progress payments

**(4 marks)**

b) Ramtons Construction Company Ltd won the contract for building Diani Industrial College at a cost of Shs. 180 million. For the company's financial year ended 31 March 2012 the data relating to the contract were as follows:

	<b>Shs. '000'</b>
Material issued to the site	32,250
Cost of labour engaged on contract	5,400
Plant purchased and installed	27,000
Direct expenditure	7,200
General management charges	2,625
Material returned to the store	3,750
Work certified	37,500
Cost of work not certified	10,500
Stock of materials on site 31.3.12	3,000
Wages accrued 31.3.12	450
Value of plant 31.3.12	18,000

The company received from the college payments amounting to Shs. 30 million.

**Required:**

- i) Prepare the contract account. **(10 marks)**
- ii) Prepare the contractee's account. **(3 marks)**
- iii) Compute the profit or loss to be taken to the company's profit and loss account, providing reasons for your method.

**(3 marks)**

**\*END\***