



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

AUGUST - DECEMBER 2018 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

REGULAR PROGRAMME

CAC 211: COST ACCOUNTING

Date: DECEMBER 2018

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions

Q1. Johan Co. limited are manufacturers of Paint for sale both in the local and foreign markets. In the year 2017, the following information was provided from their books

Production	40,000 cartons
Sales	25,000 cartons
Production costs	
Direct materials	2,400,000
Direct labor	600,000
Variable overheads	500,000
Fixed overheads	900,000
Selling and administration	
Sales commission	250,000
General expenses	160,000
Overheads (fixed)	240,000

NB. The company sells each carton at a price of Sh. 500

Required

- Income statement on the basis of absorption costing **(8 marks)**
- Income statement on the basis of marginal costing **(8 marks)**
- The minimum number of cartons of soap that must be sold to break-even **(4 marks)**
- Prepare a reconciliation statement for the absorption and marginal costing profit **(5 marks)**
- Define cost and discuss the main elements of cost **(5 marks)**

- Q2. a) In the manufacture of product Z, 3000kg of material at SH. 5 per kg were supplied to process 1. Labor costs amounted to Sh. 5,000 and production overheads of Sh. 4000 were incurred. The normal loss had been estimated at 10%. The actual production was 2750kgs

Required;

Prepare the process account and calculate the cost per unit **(10 marks)**

- b) Write short notes on the following
- i) Abnormal process loss **(3 marks)**
 - ii) Abnormal gain **(3 marks)**

c) What is activity based costing and highlight its objectives **(4 marks)**

- Q3. a) ABC Ltd has two production departments (Assembly and Finishing) and two service departments (Maintenance and Canteen). The following are budgeted costs for the next period:

The following information is available:

Indirect materials –	\$20,000
Rent –	\$15,000
Electricity –	\$10,000
Machine depreciation –	\$5,000
Indirect labour –	\$16,520

	Assembly	Finishing	Maintenance	Canteen	Total
Area (sq. metres)	1,000	2,000	500	500	4,000
KW consumed	2,750	4,500	1,975	775	10,000
Machine value (\$)	45,000	35,000	11,000	9,000	100,000
Staff	18	30	12	2	62
Direct labour Hours	3,175	3,800	–	–	6,975
Indirect materials budget (\$)	7,000	8,000	3,000	2,000	20,000
Indirect labour budget (\$)	1,600	2,220	11,200	1,500	16,520

The total overheads allocated and apportioned to the production and service departments of LS Ltd are as follows:

Assembly =	\$17,350
Finishing =	\$23,970
Maintenance =	\$18,600

Canteen = \$6,600

The canteen feeds the staff that work for the company in Assembly and Finishing.
The number of employees in each department:

	Assembly	Finishing	Maintenance	Canteen
Number of employees	18	30	12	2

The amount of time spent by the maintenance department servicing equipment in the Assembly and Finishing departments has been analysed as follows:

Assembly 60%

Finishing 40%

Required;

- a) Prepare an overhead analysis sheet on the basis of direct method **(10 marks)**
 - b) Highlight advantages and disadvantages of incentive schemes **(6 marks)**
 - c) Distinguish between time rate method and piece-meal method of labor costing **(4 marks)**
- Q4. a) The following details were extracted from the stores ledger card of a small manufacturing company during the month of August 2017

Date

2 opening stock – 500 units valued at Sh. 1,500
4 received 200 units @ Sh. 5 each
10 issued 500 units
16 received 400 units @ Sh. 7 each
20 issued 300 units
24 received 400 units @ Sh. 7 each
30 issued 200 units

Required

Prepare a stores ledger card and show the value of closing stock on 30 November 2017 under the following

- i) FIFO method **(5 marks)**
 - ii) LIFO method **(5 marks)**
 - iii) Weighted average method **(5 marks)**
- b) Write short notes on other methods of material valuation **(5 marks)**

END