



**MASINDE MULIRO UNIVERSITY OF  
SCIENCE AND TECHNOLOGY  
(MMUST)**

**MAIN / BUNGOMA / WEBUYE / NAIROBI CAMPUS**

**UNIVERSITY EXAMINATIONS  
2021 / 2022 ACADEMIC YEAR**

**SECOD YEAR SPECIAL / SUPPLIMENTARY EXAMINATIONS**

**FOR THE DEGREE  
OF  
BACHELOR OF COMMERCE**

**COURSE CODE: BCA208**

**COURSE TITLE: COST ACCOUNTING**

**DATE: TEUSDAY, 2<sup>ND</sup> AUGUST 2022      TIME: 2-4PM**

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**INSTRUCTIONS TO CANDIDATES**

Attempt QUESTION ONE and any other two questions

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

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**QUESTION ONE (30 MARKS)**

- a. Distinguish between the following (4 Marks)
- i. Incremental and marginal costs
  - ii. Period and product costs
- b. The monthly recordings for output and maintenance costs for the past 12 months have been examined and the following information has been extracted for the lowest and highest output levels.

	Volume of production (units)	Maintenance costs (Sh)
Lowest activity	10 000	44 000
Highest activity	20 000	64 000

- Required: Estimate the cost function using the high-low method (4 Marks)
- c. Prepare a statement showing the pricing of issues on the basis of weighted Average Method from the following information during a month. (10 Marks)

Date

- 1 - Purchased 100 units @ Sh. 10.00 each
- 2 - Purchased 200 units @ Sh. 10.20 each
- 5 - Issued 250 units to job A vide MR. No. 1
- 7 - Purchased 300 units @ Sh. 10.50 each
- 10 - Purchased 200 units @ Sh. 10.80 each
- 13 - Issued 200 units to job B vide MR No. 2
- 18 - Issued 200 units to job c vide MR No. 3
- 20 - Purchased 100 units @ Sh. 11.00 each
- 25 - Issued 150 units to job D vide MR No. 4

d) A company manufactures and sells a single product. The variable cost of the product is Sh.2.50 per unit and all production each month is sold at a price of Sh. 3.70 per unit. A potential new customer has offered to buy 6,000 units per month at a price of Sh. 2.95 per unit. The company has sufficient spare capacity to produce this quantity. If the new offer is accepted, sales to existing customers are expected to fall by two units for every 15 units sold to the new customer.

**Required:**

- a) Should the new offer be accepted and if accepted what would be the overall increase in monthly profit. (9 marks)
- b) In the short-term decision-making context, which ONE of the following would be a relevant cost? (3 marks),
  - i) Specific development costs already incurred,
  - ii) The cost of special material which will be purchased,
  - iii) The original cost of material currently in inventory which will be used on the project.

**QUESTION TWO (20 MARKS)**

- a) RiPLY Garments Ltd. Manufactures custom-made suits tailored to the requirements of each customer. They use predetermined overhead absorption rates in allocating overheads to each job. In the cutting department, the rate is based on direct labour hours and in the stitching department the rate is based on machine hours. The management of Equator Garments Ltd wants to set overhead absorption rates to help in determining prices

in the next financial year. The cost accountant has provided the following budgeted data for the next financial year.

	<b>Cutting</b>	<b>Stitching</b>
Direct labor cost	Shs.1,200,000	Shs.750,000
Factory overhead	Shs.1,500,000	Shs.1,620,000
Direct labor hours	60,000	30,000
Machine hours	-	40,000

**REQUIRED:**

Calculate the overhead absorption rates for each department. (6 marks)

b) The following data relates to Job No.aa4

	<b>Cutting</b>	<b>Stitching</b>
Direct materials	Shs.500	Shs.750
Direct labor hours	30	10
Machine hours	-	20

Administration overheads are absorbed at 25% on factory costs.  
Profit mark-up is 33 1/3 % on cost.

**REQUIRED:**

Prepare a cost statement for job aa4 showing the price that will be charged to the customer at the end of the period. (7 marks)

c) At the end of the year, the following data was obtained:

	<b>Cutting</b>	<b>Stitching</b>
Hours actually worked		
Direct labor hours	68,000	30,000
Machine hours	-	17,000
Factory overhead cost incurred	1,600,000	760,000

**REQUIRED:**

Calculate the amount of under or over absorption for each department. (7 marks)

**QUESTION THREE (20 MARKS)**

In spite of rapid expansion and growth, the management of Magic Ltd are concerned that although the accounts presented disclose profits being made, the company's overdraft in the Balance sheet has been increasing.

**REQUIRED:**

As the Company's Cost Accountant, draft a report to management;

- Detailing factors that can cause an increase in bank overdraft in the face of increasing profitability. (4 marks)
- Giving options available for improving the company' liquidity without seeking external funds. (4 marks)
- What factors should be considered when designing a wages incentive scheme? (4 marks)

d) Georgia Company has been producing and selling 100,000 units per year. They have excess capacity. The following budget was prepared for the next year:

Selling price per unit	Sh.12.50
Variable cost per unit:	
Direct materials	Sh. 5.00
Direct labour	Sh. 3.00
Overhead	Sh. 1.00
Selling and administrative	Sh 0.25
Fixed costs in total:	
Overhead	Sh. 80,000
Selling and administrative	Sh. 35,000

**REQUIRED:**

- (a) Prepare an income statement using the marginal approach. (4 marks)
- (b) Prepare an income statement using the absorption approach. (4 marks)

**QUESTION FOUR (20 MARKS)**

Brand Plc manufactures an instrument which has unit variable costs as follows:

	Sh.
Direct materials	300.00
Direct labour	75.00
Variable overhead	30.00

The instruments sell for Sh675 each, and the company expects total sales revenues from this product in the current year to be Sh.10, 125,000. Fixed overheads attributable to this product is budgeted at Sh.2, 050,000.

As a result of a new wage agreement with employees, direct labour costs will rise by 10% from the beginning of next year. In addition, material costs are expected to increase by 7.5%, variable overhead by 5% and fixed overheads by 3% from the beginning of next year.

**REQUIRED:**

- (a) Calculate the current break-even level of sales in units in shillings and the margin of safety. Briefly interpret your results. (8marks)
- (b) Assuming the product's selling price stays the same, what will be the break-even volume, in sales units, next year? (6 marks)
- (c) Briefly comment on four limitations of break-even analysis. (6 marks)