CMBA 1103: COST ACCOUNTING

SUPPLIMENTARY /SPECIAL

ANSWER QUESTION ONE AND ANY OTHER TWO

QUESTION ONE

a) Define marginal costing and give its limitations. (6 marks)

b) The following data relate to Kenya Ltd for the year ended 31 December 1999.

	Sh '000'
Sales	24,000
Less: Total costs	20,000
Net profit	4,000

Fixed costs account for 40% of the total costs.

Required:

i) Margin of safety. (2 marks)

ii) Break-even point in sales (2 marks)

iii) Sales required to earn profit of Sh 6,000,000. (2 marks)

iv) In order to increase sales, the management has the following two options:

1. To increase sales by 25% on incurring a sales promotion cost of Sh 2,500,000.
2. To increase sales by 15% on reducing selling price by 5%.

Advise the management on which option they should take. (8 marks)

c) Discuss the advantages and disadvantages of "Activity –Based Costing". (10 marks)

QUESTION TWO

a) Explain the advantages of centralized system of maintaining stores. (5 marks)

b) Explain the assumptions behind the determination of Economic Order Quantity (EOQ). (5 marks)

c) 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)

(Total: 20 marks)

QUESTION THREE

a) Briefly explain the following terms as used in process costing:

i) Normal loss. (2 marks)

ii) Abnormal loss. (2 marks)

iii) Joint products. (2 marks)

b) Timau Ltd produces a detergent which passes through two processes namely mixing and refining to completion. The following data relate to the refining process for the month of June 2000.

Cost of opening stock:	**Shs.**
Materials	100,000
Labour	25,000
Overheads	60,000

During the month 20,000 units were passed from the mixing to the refining process. Costs incurred during the month were:

	Shs.
Labour	125,000
Overheads	108,100
Other materials	45,300

At the end of the month 21,000 units had been completed and passed to finished goods while 4,000 were still in process having reached the following stages:

Materials	-	100%
Labour	-	40%
Overheads	-	60%

Required:
Refining Process Account. (14 marks)

(Total: 20 marks)

QUESTION FOUR

A company has budgeted to produce 2,750 articles in 22,000 hours, with fixed overheads of Sh 88,000 and variable overheads of Sh 55,000. The company's production during the period of the budget was 2,700 articles in 21,500 working hours with fixed overheads costing Sh 90,000 and variable overheads Sh 58,000.

Required:
Calculate the following variances:

a) Overhead variance (3 marks)
b) Fixed production overhead variance. (3 marks)
c) Variable production overhead variance (3 marks)
d) Fixed production overhead expenditure variance. (3 marks)
e) Fixed production overhead volume variance. (3 marks)
f) Fixed cost productivity variance. (3 marks)
g) Capacity variance (2 marks)

(Total 20 marks

QUESTION FIVE

a) What is the basic difference between account classification method and high-low method as applied in cost estimation? (4 marks)
b) Distinguish between the following cost accounting terminologies:
   i) Direct and indirect costs (4 marks)
   ii) Cost center and cost unit (4 marks)
   iii) Joint products and by-products) (4 marks)
   iv) Period costs and product costs (4 marks)

(Total: 20 marks)