



KENYATTA UNIVERSITY
UNIVERSITY EXAMINATIONS 2011/2012
SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF
COMMERCE
BAC 202: COST ACCOUNTING I

DATE: Monday 2nd April, 2012

TIME: 4.30 p.m. – 6.30 p.m.

INSTRUCTIONS: Answer Question ONE and any other TWO questions.

Q.1. The New Dawn Manufacturing Company uses job costing. The company has four production departments and three service departments. Indirect labour and other indirect costs for a typical month have been allocated as shown:

New Dawn Manufacturing Company

	Production Departments				Service Departments		
	Grinding	Blending	Firing	Polishing	Personnel	Administration	Maintenance
Indirect labour (Kshs)	4,600	3,300	5,400	2,900	700	1,800	800
Other indirect costs (Kshs)	1,400	1,200	2,800	1,600	500	300	1,200

The service department's costs are allocated as follows:

	Grinding	Blending	Firing	Polishing	Administration	Maintenance
Personnel (%)	15	25	30	20	5	5
Administration (%)	10	30	40	15	-	5
Maintenance (%)	15	35	45	5	-	-

In the Grinding and Firing departments, job costing uses an overhead rate per machine hour; in Blending and Polishing, an overhead rate per direct labour hour is used. Machine hours worked are 611 in Grinding, and 520 in Firing. Direct labour hours worked are 1,034 in Blending, and 431 in Polishing.

Required:

- a) Calculate the overhead recovery rates for each of the production departments. (12 marks)
- b) Use your answers to calculate the cost of job number 25/1 which incurs the following costs:

Grinding Department: Direct materials cost	Kshs 120	
1. Direct labour hours at Kshs 2.40 per hour		14
2. Machine hours		30
Then passed to blending where:		
3. Direct materials cost		97
4. Direct labour hours at Kshs 2.60 per hour		18

(6 marks)
- c) Why is it necessary to apportion overheads to departments? (2 marks)
- d) Distinguish between the following costing terms:
 - i) Normal and abnormal loss
 - ii) Relevant and irrelevant costs
 - iii) Investment centre and a Cost centre
 - iv) Allocation and apportionment of overhead costs
 - v) Direct labour and indirect labour(10 marks)

Q. 2. (a)

The following information relates to a certain week for three employees:

Employee	A	B	C
Work issued (dozens)	150	264	60
Bonus time allowed (hours) per doz.	0.5	0.25	0.75
Output rejected (dozens)	37	63	20
Basic hourly rate	Kshs 6	Kshs 10	Kshs 5
Hours worked	48	54	42
Hours on indirect work	-	-	12

Bonus is paid at $66\frac{2}{3}$ % of the base rate for all the time saved. Owing to faulty materials creating an abnormally high rate of rejection, it was agreed to credit all output for bonus purposes. The basic working week is 42 hours; the first six hours overtime are paid at time plus one-third, and the next six hours at time plus-one half.

Using the information given above, present in tabulated summary form for each employee:

- i) Number of bonus hours earned; (6 marks)
- ii) Basic wage including overtime premium; (4 marks)
- iii) Amount of bonus earned; (3 marks)
- iv) Gross wages; (1 marks)
- v) Direct wages cost per dozen accepted output. (3 marks)

Q. 2 (b)

Weruga International uses individual incentive bonus schemes for purposes of attracting and retaining workers. Mwachinga, an employee of the company, completed an assignment in 60 hours for which 80 hours were allowed. His basic rate is Kshs 240 per hour.

Required:

Calculate his total wage under

- i) Rowan Scheme (1 marks)
- ii) Halsey Scheme (1 marks)
- iii) Halsey-Weir Scheme (1 marks)

Q.3

On 1st January Mr. Otieno started a small business buying and selling a special yarn. He invested his savings of Kshs 40,000 in the business and, during the next six months, the following transactions occurred:

Yarn Purchases			Yarn Sales		Value
Date of Receipt	Quantity Boxes	Total Cost in Kshs	Date of Despatch	Quantity Boxes	
13th January	200	7,200	10th February	500	
8th February	400	15,200			
11th March	600	24,000	20th April	600	
12th April	400	14,000			
15th June	500	14,000	25th June	400	

The yarn is stored in premises Mr. Otieno has rented and the closing stock on 30th June was 500 boxes.

Other expenses incurred, and paid in cash, during the six months were Kshs 3,300.

Required:

- a) Calculate the value of the material issues during the six month period, and the value of the closing stock at the end of June, using the following methods of pricing:
- First in, First Out (5 marks)
 - Weighted average (calculations to two decimal places only) (5 marks)
- b) Calculate and discuss the effects each of the two methods of material pricing will have on reported profit of the business, and examine the performance of the business during the six month period. (6 marks)
- c) How can material losses be controlled in an organization? (4 marks)

Q. 4

You have been appointed the Cost Accountant of ABC Co. Ltd. The company currently operates no system of stock control levels. The managing director who is not an accountant has learnt in a seminar she recently attended that a system of stock control levels is effective in stores cost control. She has requested you to install such a system of stock control levels to include maximum, minimum, reorder and average stock levels. Following your investigations, you discover that the company consumption for component code W20 is as indicated below:

Month	Consumption in Month (Units)
January	800
February	900
March	1,000
April	1,200
May	1,300
June	1,400
July	1,400
August	1,200
September	1,000
October	800
November	600
December	400

You also discover that W20 delivery period or lead times are shown below:

Minimum period- 3 months

Average period-4 months

Maximum period- 5 months

You are required to:

- Compute the minimum, maximum and average stock as well as re-order quantity for components W20. (12 marks)
- Given the cost of ordering is Kshs 20 and that storage is 10% of the price of W20 which is Kshs 30 per component, determine:
 - Economic order quantity
 - The new average stocks
 - The implied stock-turnover or average stock holding period (6 marks)
- Explain what factors have been taken into account in determining the stockholding level for any company. (4 marks)

Q. 5

- Describe three methods of Time keeping (6 marks)
- Describe four methods of classifying costs (6 marks)
- Discuss the methods of cost estimation. (6 marks)