

ABA 209 : COST ACCOUNTING/ BLM 3316 LOGISTICS COST ACCOUNTING

BBA & LOGISTICS KLC AND Logistics main campus

KISUMU LEARNING CENTRE & MAIN CAMPUS

TIME : 2 HOURS

INSTRUCTIONS: Attempt question ONE and any other TWO.

1. a) Distinguish between the following classification of costs:
(i) Expired costs and Unexpired costs
(ii) Committed and discretionary costs
(iii) Opportunity and incremental costs (6 marks)
- b) The following information relates to material BN 100 used in production at XBC ltd.
- | | |
|-------------------------|---------------|
| Annual demand | 240,000 units |
| Unit price | 2.40 |
| Ordering cost per order | sh. 40 |
| Storage cost per annum | 2% |
| Interest rate | 10% |
| Lead time | 15 days |

Required:

Calculate the Economic Order Quantity and total annual inventory cost in respect of the particular material. (5 marks)

- c) Analyse the difference between Absorption costing and Marginal costing (5 marks)
- d) Under a premium bonus scheme, workers receive a guaranteed basic hourly minimum rate of pay plus a bonus of 50% of time saved. No payment is made beyond the time allowed but the bonus, which is paid at the basic hourly rate, is applicable to accepted (good) output only. No penalty is imposed on rejected output.

The following details are available for the month of January, 2009:

	Agnes	Beth	Cate
Time allowed per	$\frac{1}{4}$	$\frac{1}{6}$	$\frac{1}{2}$

unit (hr.)			
Units produced	474	684	175
Units rejected	54	84	25
Time taken (hr.)	78	72	80
Basic pay per hour (sh.)	60	60	30

Required:

From the information, calculate for each employee:-

- a) Bonus hours and amount of bonus pay (9marks)
- b) The gross wages earned (3 marks)
- c) The labour cost of each good unit produced (to the nearest shilling) (2 marks)

2. a) On 3rd January 2008, B Construction company Ltd started work on the construction of an office block for a contracted price of £750,000 with completion promised by 31 March 2009. Budgeted cost of the contract was £600,000. The construction company's financial year end was 31st March 2008 and on that date the accounts appropriate to the contract contained the following balances;-

	£ '000
Materials issued to site	161
Materials returned from site	14
Wages paid	68
Own plant in use at site, at cost	96
Hire of plant and scaffolding	72
Supervisory staff: direct	11
Indirect	12
Head office charges	63
Value of work certified on 31 st October, 2008	400
Cost of work completed but not yet certified	40
Cash received related to work certified	330

Additional information:

- (i) Depreciation on own plant is to be provided at the rate of 12.5% per annum on cost
- (ii) £2,000 is owing for wages
- (iii) Estimated value of material on site is £24,000

(iv) No difficulties are envisaged during the remaining time to complete the contract

Required:

- a) Prepare the contract account for the period ended 31 October 2008 showing the amount to be included in the construction company's profit and loss account.
- b) Show the balance sheet extracts of the company as at 31 October 2008. (15 marks)

b) "Stock control is of great importance in any organization". Argue this statement (5 marks)

3. The following data relate to Process 2 for one accounting period. Process 2 receives units from process 1 and after processing, transfers them to process 3.

Opening W.I.P 600 units

	<u>Value</u>	<u>% Complete</u>
	<u>Sh.</u>	<u>Sh.</u>
Input material	14,400	100%
Material introduced	4,800	70%
Labour	5,400	60%
Overhead	<u>7,200</u>	40%
	<u>31,800</u>	

Transfers from process 1	12,000 units at 483,800
Transfers to process 3	9,900 units

Production costs during the period:

	<u>Sh.</u>
Material	165,300
Labour	105,920
Overheads	158,280
Closing stock 1,000 units	
Material	90%
Labour	80%
Overheads	70%

Units scrapped	1,700
Degree of completion:	
Material	100%
Labour	80%
Overheads	80%

The normal loss is 100% of production and the scrapped units are realized sh. 35 per unit.

Required:

Prepare the process account for process 2 using the Average cost method. (20 marks)

4. a) The following details are available regarding three electronic products:

Product	X	Y	Z
	£	£	£
Selling price	200	300	600
Direct material (£4 per kg)	20	112	90
Direct Labour (£8 per hour)	80	44	120
Variable overheads	40	22	60

Variable overheads are recovered at the rate of £4 per hour. Total overheads are 120,000.

You are required to calculate the priority ranking of the products when the limiting factor is:

- i. Sales
- ii. Labour
- iii. Materials (10 marks)

- a) Explain the purposes of establishing wages procedure (10 marks)

5. The data below relate to operations in 2009 by ABC Ltd, a manufacturing company that employs normal job costing. All jobs pass through the company's two departments namely, Preparation and Finishing departments.

	Preparation Department Sh.	Finishing Department Sh.
Direct Material	600,000	600,000
Direct Labour	480,000	120,000
Factory Overheads	240,000	180,000

Direct labour hours	120,000	45,000
Machine Hours	60,000	30,000

The following information relates to Job No. 123 undertaken during the year:

	Preparation Department Sh.	Finishing Department Sh.
Direct Material	60,000	120,000
Direct Labour	24,000	18,000
Direct labour hours	25,000	1,600
Machine Hours	20,000	2,000

The company employs the same overhead absorption method in the two departments.

Required:

- Enumerate FOUR possible methods for absorbing factory overheads to the jobs by the company, showing the rates for each department under each of the methods chosen.
- Using Job No. 123 as an example, show how the choice of absorption method affects the cost of a job or product. (compare only TWO absorption methods out of the four enumerated above).
- Explain what should be the basic criteria in the choice of the overhead absorption method to use. (20 marks)

BONDO UNIVERSITY COLLEGE

COURSE UNIT: ABA 209 COST ACCOUNTING

LECTURER: OCHIENG LAMECK WYCLIFFE, M. Com (Accounting & Statistics)

Course Description.

Introduction to Cost Accounting: Nature and Scope of Cost Accounting, Cost Accounting Relationships, Classification of Costs, Cost systems, the Behaviour of Costs; Costing and Controls of Materials and Labour; Overheads: Allocation, Apportionment and Absorption of Overheads; Costing Methods and Techniques: Job Order Costing, Process Costing, Activity Based Costing; standard Costing and Variance Analysis; Direct Costing; Application of Marginal Costing; By product, Joint Product Costing and Absorption Costing

Course Objectives

At the end of this course unit, the student should be able to:

- Appreciate the need for Cost Accounting
- Understand Cost Accounting Methods and Techniques and apply them in the Ascertainment of costs
- Prepare Cost Accounting reports
- Use Costing Accounting reports for decision making

Course Outline

Week 1

INTRODUCTION

Cost Accounting vs Financial Accounting, Need for Cost Accounting, Elements of Cost, Classification of Cost, Cost Statement, Scope of Cost Accounting

MATERIAL COSTING

Purchasing procedure, Material Issues, store keeping and stock control, Methods of valuing Material Issues

Week 2

LABOUR COSTING

Engagement, Labour Costs, Bonus Schemes, Time Keeping, Computation of Remuneration, Incentives, Labour Cost control

OVERHEADS

Allocation of Overheads, Apportionment of Overheads, Absorption of Overheads, Bases and Methods of Overheads Absorption, Over and Under Absorption of Overheads

Week 3

JOB COSTING

Contract Costing, Work in Progress, Profit on uncompleted contracts; factory job costing, Batch Costing, Service Costing

PROCESS COSTING

Elements of process costing, process loss, scrap and Waste, Work in Progress, Equivalent units, Valuation of WIP, Joint products, By – products

Week 4

MARGINAL COSTING

Absorption Costing vs Marginal Costing, Break Even Point, Contribution/Sales Ratio, Decision Making, Cost Behaviour.

STANDARD COSTING

Budgetary control and standard costing, Setting Standard selling price, Variance Analysis, uses of Variance analyses, computation of variances.

End of semester exam,

Course Evaluation

CAT 1- Assignments	15%
CAT 2 – Sit in	15%
End of Semester exam	70%
Total	100%

References

1. Oowler L.W.J and Brown, J.L; *Wheldon's Cost Accounting*

2. Hongren, C.T and Foste, George; *Cost Accounting, A Managerial emphasis*
3. Rayburn, L.G.; *Cost Accounting: Using A Cost Management Approach*
4. Drury, Colin; *Management and Cost Accounting*