



**JARAMOGI OGINGA ODINGA UNIVERSITY OF
AGRICULTURE AND TECHNOLOGY
BACHELOR OF BUSINESS ADMINISTRATION with INFORMATION
TECHNOLOGY (BBA with IT) (FOR BUSIA LEARNING CENTRE)
END OF SECOND SEMESTER 2ND YEAR UNIVERSITY
EXAMINATIONS 2013/2014**

ABA 209: INTRODUCTION TO COST ACCOUNTING

ANSWER QUESTION ONE AND ANY OTHER TWO

2 HOURS

QUESTION ONE

a) The following data were extracted from the records of Zahari Ismaila Manufacturing Limited, Kano for a period:

Average usage 100 units per day
Minimum usage 600 units per day
Maximum usage 1300 units per day
Economic order quantity (EOQ) 50,000 Units
Re-order period 25 to 30 days

Required

Determine the following for the company:

- (a) Maximum stock level
- (b) Minimum stock level
- (c) Re-order level
- (d) Average stock level

(12 M

b) What are the various uses of cost accounting data?

(4 Marks)

c) Distinguish between the following classification of cost

- i. Expired and unexpired costs
- ii. Committed cost and discretionary costs

3. Lighting and heat	125,000
4. Property taxes	250,000
5. Insurance of machinery	37,500
6. Depr. Of machinery	375,000

7. Insurance of building	62,500
8. Salary of works mgt	<u>200,000</u>
	3,127,500

The following information is also available.

labour	Book value of machinery	Areas Machine occupied	No. of employees	Direct hours	hours
1. Machine centre 1	2,000,000	2500	75	250,000	500,000
2. Machine centre 2	1,250,000	1250	50	250,000	250,000
3. Assembly	250,000	3750	75	500,000	-
4. Stores	125,000	3750	25	-	-
5. Maintenance	125,000	1250	25	-	-
	3,750,000	12,500	250		

Details of total value material issues (direct & indirect materials) to the production centers are as

follows:-

Machine centre 1 1000

Machine centre 2 750

Assembly 250

2000

The overheads are to be allocated as follows:-

1. Lighting and heating - area occupied.
2. Property taxes - area occupied.
3. Insurance of machinery - book value of machinery.
4. Insurance of buildings - area occupied.
5. Salary of works management- no. of employees.
6. Materials procurement - value of materials issued.
7. General factory support - direct labour hours.
8. Depreciation of machinery Book value of machines.

Required

- a) Allocate the overhead costs to the production dept. and compute dept. (20 Marks)

QUESTION THREE

A company sells a single product at a price of £14 per unit. Variable manufacturing costs of the product are £6.40 per unit. Fixed manufacturing overheads, which are absorbed into the cost of production at a unit rate (based on normal activity of 20,000 units per period), are £92,000 per period. Any over-absorbed or under-absorbed fixed manufacturing overhead balances are transferred to the profit and loss account at the end of each period, in order to establish the manufacturing profit.

Sales and production (in units) for two periods are as follows:

	Period 1	Period 2
Sales	15,000	21,600
Production	18,000	21,000

Required:

- (a) Prepare a trading statement to identify the manufacturing profit for Period 2 using the existing absorption costing method.
- (b) Determine the manufacturing profit that would be reported in Period 2 if marginal costing was used.
- (c) Explain, with supporting calculations, why the manufacturing profit in (a) and (b) differs. (20 Marks)

QUESTION FOUR

- (a) Briefly explain the various factors that should be considered when deciding on the stock level to maintain for an organization (6 Marks)
- (b) Raya Company developed the following information for its product:

	<u>Per Unit</u>
Sales price	\$90
Variable cost	63
Contribution margin	<u>\$27</u>
Total fixed costs	<u>\$1,350,000</u>

Instructions Answer the following independent questions and show computations using the contribution margin technique to support your answers ;

How many units must be sold to break even?(4 Marks)

- i. What is the total profit that the company will earn if it manages to sell 52,000 units? Prepare a variable income statement (3 Marks)
- ii. If the company is presently selling 75,000 units, but plans to spend an additional \$135,000 on an advertising program, how many units must the company sell to earn the same net income it is now making? (4 Marks)
- iii. Using the original data in the problem, compute a new break-even point in units if the unit sales price is increased 20%, unit variable cost is increased by 10%, and total fixed costs are increased by \$198,000. (3 marks)

QUESTION FIVE

The following are the receipts and issues of materials X in a factory during December 2007

Dec 1 Opening stock 50 kg @ sh 10 per kg

Dec 5 Issued 30 kgs

Dec 6 Received 60kgs @ sh 10.20 per kg

Dec 7 Issued 25 kgs (stock verification reveals loss of 1 kg)

Dec 8 Received back from orders 10 kg
(previously issued at sh 9.15 per kg)

Dec 9 Issued 40 kg

Dec 10 Received 22kg @ sh 10.30 per kg

Dec 11 Issued 33 kg

b). Using Fifo and Lifo method compute the value of the closing stock and show the comparative results. (20 Marks)