JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS & ECONOMICS

UNIVERSITY EXAMINATION FOR THE BACHELOR OF BUSINESS ADMINISTRATION WITH IT

4THYEAR 1ST SEMESTER 2022/2023 ACADEMIC YEAR

MAIN CAMPUS REGULAR

COURSE CODE: BEB 9403

COURSE TITLE: COST PLANNING AND COST CONTROL

EXAM VENUE:

DATE: 07/12/2022 **SESSION: 9.00-11.00AM**

DURATION: 2 HOURS

INSTRUCTIONS

a) **Answer QUESTION ONE and any other TWO questions**
b) **Show ALL your workings and be as NEAT as possible**
c) **Candidates are advised not to write on the question paper**
d) **Marks allocated to each question are shown at the end of the question.**

QUESTION ONE (COMPULSORY)

(a) A facilitator in a training for contactors, organized by the National Construction Authority made the following statement;

"Different cost concepts have different roles in the management of construction business".

In the light of the above statement, briefly discuss the following concepts as used in cost planning and control;

(i) Marginal cost concept
(ii) Incremental cost concept
(iii)Opportunity Cost concept
(iv)Budgeted cost concept (16 Marks)

(b) Briggs Builders Ltd has a normal production capacity of 36,000 pieces of construction steel per year. The estimated costs of production are as under:

(i) Direct Material KShs.4000 per unit

(ii) Direct Labour KShs.3000 per unit (subject to a minimum of Kshs.4,800,000 per month)

(iii) Factory Overheads:

- Fixed Khs. 36,000,000 per annum
- Variable Kshs.1000 per unit
- Semi-variable Kshs.10,800,000 per year up to 50% capacity and additional Kshs.4,680,000 for every 20% increase in capacity or any part thereof.

(iv) Administrative Overheads Kshs.51, 840,000 per year (fixed)

(v) Selling overheads are incurred at Kshs.800 per unit.

(vi) Each unit of raw material yields scrap which is sold at the rate of Kshs.500 per piece.

(vii) In year 2019, the factory worked at 50% capacity for the first three months but it

was expected that it would work at 80% capacity for the remaining nine months.

(viii) During the first three months, the selling price per unit was Kshs.14,500.

Required;

(i) Prepare a cost sheet showing Prime Cost, Works Cost, Cost of Production and Costof Sales.
(ii) Calculate the selling price per unit for remaining nine months to achieve the total annual profit of Kshs.87,660,000. (14 Marks)

QUESTION TWO

(a) Mwamburi Ltd. produces a product EMM which passes through two processes before it is completed and transferred to finished stock. The following data relate to May 2019:

Details	Process		Finished products (Kshs)
	Exe (Kshs)	Wye (Kshs)	
Opening Stock	5,000	5,500	10,000
Direct materials	9,000	9,500	
Direct Wages	5,000	6,000	
Factory Overheads	4,600	2,030	
Closing Stock	2,000	2,490	5,000
Inter-process profit included in opening stock		1,000	4,000

Output of Process A is transferred to Process B at 25% profit on the transfer price and output of Process B is transferred to finished stock at 20% profit on the transfer price. Stock in process is valued at prime cost. Finished stock is valued at the price at which it is received from Process B. Sales during the period are Kshs.75,000.

Required;

(i) Prepare the Process Accounts
(ii) Finished stock account showing profit element at each stage (10 Marks)

(b) Ujenzi Contracors Ltd allotted a standard time of 40 hours for a job and the rate per hour is Kshs. 75,000. The actual time taken by a worker is 30 hours. You are required to calculate the total earnings under the following plans:

(i) Halsey Premium Plan (Rate 50%)
(ii) Rowan Plan
(iii) Time Wage System
(iv) Piece Rate System
(v) Emerson Plan (10 Marks)

QUESTION THREE

(a) Marina Ltd distributes' its goods to a regional dealer using single lorry. The dealer premisesare 40 kms away by road. The capacity of the lorry is 10 tonnes. The lorry makes the journey twice a day fully loaded on the outward journey and empty on return journey.

The following information is available:

Diesel Consumption 8 km per litre

Diesel Cost Kshs 60 per litre

Engine Oil	Kshs.200 per week
Driver's Wages (fixed)	Kshs.2,500 per week
Repairs	Kshs.600 per week
Garage Rent	Kshs.800 per week
Cost of Lorry (excluding cost of tyres)	Kshs.9,50,000
Life of Lorry	1,60,000 kms
Insurance	Kshs.18,200 per annum
Cost of Tyres	Kshs.52,500
Life of Tyres	25,000 kms
Estimated sale value of the lorry at end of its life is	Kshs.150,000
Vehicle License Cost	Kshs.7,800 per annum
Other Overhead Cost	Kshs.41,600 per annum

The lorry operates on a 5 day week.

Required:

(i) A statement showing the total cost of operating the vehicle for the 4-week period analyzed into Running cost and Fixed cost

(ii) Calculate the vehicle operating cost per km and per tonne km.

(Assume 1 year = 52 weeks) (15 Marks)

(b) "Stock control" is a phrase used in exercising materials control. Discuss your understanding of the phrase, noting to disclose the considerations that influence the decision regarding stock holding levels. (5 Marks)

QUESTION FOUR

(a) Chapa Meli, a cement brand, goes through three processes before completion into its final state. A total of 1000 units were introduced to Process J at the beginning of March, 2021. You are provided with the following additional information relating to the production process of Chapa Meli for the month of March, 2021;

Particulars	**Process J** (Kshs)	**Process K** (Kshs)	**Process L** (Kshs)
Directs Materials	20,000,000	30,200,000	34,620,000
Direct Labour	30,000,000	40,000,000	50,000,000
Direct expenses	5,000,000	2,260,000	-

Normal Loss (on Input)	10%	5%	10%
Scrap Value per Unit	3,000	5,000	6,000
Units Produced	920 bags	870 bags	800 bags

The total Production Overheads amounted to Kshs.6,000,000. They were allocated to each process proportionally, on the basis of Direct Labour cost.

Required;

Prepare the Process accounts for Process J, K and L (16 Marks)

(b) Discuss the following concepts as relates to contract costing;
  (i) Architect's Certificate
  (ii) Retention money (4 Marks)

QUESTION FIVE

(a) Gorofa Contractors Ltd signed a contract in which they undertook to execute building works for Malimali Enterprises Ltd. The contract price was agreed at Kshs.250,000,000 while the cash so far received from the Contractee as at the 31 December, 2021 was Kshs.180,000,000.

The following further details are relevant for the project as at 31 December, 2021;

Details	**Amount (Kshs'000)**
Work certified	195,000
Labour engaged on site	74,375
Direct expenses	3,167
Materials sent to site	85,349
Plant installed at site at cost	15,000
Establishment charges	4,126
Materials returned to store	529
Accrued wages (as at 31 December, 2021)	2,400
Value of Plant (as at 31 December, 2021)	11,000
Cost of work not certified	4,500
Material in hand (as at 31 December, 2021)	1,883

Required;

(i) Contract Account
(ii) Contractee's Account (14 Marks)

(b) Digitization has transformed cost planning systems. It has shaped the manner in which consideration is made while installing cost accounting systems in manufacturing entities. Discuss. (6 Marks)