



# MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY

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## University Examinations 2022/2023

### SUPPLEMENTARY/SPECIAL EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

#### BFC 3227: COST ACCOUNTING

**DATE: FEBRUARY 2022**

**TIME: 2 HOURS**

**INSTRUCTIONS:** Answer question *one* and any other *two* questions

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#### QUESTION ONE

- a) Pan Paper Ltd. Makes paper which is cut and packed before being transferred into the finished goods store. The paper is moved from department to department by a fork lift truck. Each pack of finished product contains one ream of paper. The paper is loaded onto wooden pallets before delivering to customers. The following cost information related to Pan Paper Ltd for period ended 31<sup>st</sup> March 2007

	Sh.
Pulp	100,000.00
Clay	40,000.00
Wrapping paper (used in packing dept.)	3,500.00
Spare knives for cutting machines	800.00
Cleaning rags for machines	500.00
Royalty payments	10,000.00
Making dept. wages to packages	38,000.00
Cutting dept. wages for machine crew	26,000.00
Packaging dept. wages to packages	20,000.00
Fork lift truck driver wages	8,000.00
Factory managers salary	11,000.00
Wooden pallets	3,600.00
Dispatch dept. wages	17,000.00
Delivery vehicle driver wages	9,600.00
Sales manager salary	17,500.00

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Advertising cost	16,500.00
Sales office wages	18,500.00
General manager Salary	30,000.00
Production managers salary	21,500.00
Maintenance fitter wages	25,000.00
Maintenance workshop costs	17,000.00
Maintenance engineers salary	18,000.00
Administration salaries	45,000.00
Electricity costs (see note 1)	18,000.00
Administration office machine rental	1,000.00
Sundry and other costs	33,000.00
Production	42,000.00
Administration	11,000.00
Distribution	16,000.00

**Additional information:**

Electricity is charged to each function area as follows; production 75%, administration 5%, selling 5% distribution 15%

Maintenance costs should be totaled before a cost summary is prepared and charges to each function making use of the maintenance service as follows; Production 80%, administration 3%, selling 3%, distribution 14%

**Required:**

Prepare a cost summary for the period ended 31 March 2007 analyzing costs into prime costs, production costs and total cost. (Give all subtotals of Classified costs) (20 marks)

b) ABC Ltd made the following purchases

Date of purchase	Units purchased	Price/unit
1 <sup>st</sup> January	500	100
2 <sup>nd</sup> January	600	200
3 <sup>rd</sup> January	800	400

Units used on 4<sup>th</sup> January are 900.

**Required:**

Determine the value/cost of units used by using FIFO and weighted average. (10 marks)

## QUESTION TWO

Under premium bonus scheme, workers received guaranteed basic hourly minimum rate of pay plus a bonus of 50% of the time saved. No payment is paid beyond the time allowed but the bonus which is paid at the basic hourly rate is applicable to the accepted output only. No penalty is imposed on rejected output. The following details are available for the month of January 2003

Worker	Mugo	Mule	Mose
Time allowed per unit (hrs)	$\frac{1}{4}$	$\frac{1}{6}$	$\frac{1}{2}$
Units produced	554	884	275
Units rejected	54	84	25
Time taken (hrs)	108	102	140
Basic pay per hour (Ksh)	6	6	3

Required:

From the above information calculate for each employee

- a) Bonus hours and amount of bonus paid (8 marks)
- b) Gross wages earned (6 marks)
- c) Labor cost for each good unit sold (6 marks)

## QUESTION THREE

- a) In cost accounting costs can be classified under certain basis. Identify and explain any five of these basis (8 marks)
- b) The budgeted production overheads and other budgeted data of Monga Ltd are as follows:  
Budget

Overhead cost for the period = Kshs. 36,000	Production Department
Direct material cost	Kshs 32000
Direct labor cost	Kshs 40000
Machine hours	Kshs 10000
Direct hours of labor	Kshs 18000
Units of output	Kshs 10000

Required:

Determine the absorption rate of the overheads using each of the following method (12 marks)

- a) Direct material cost (2 marks)
- b) Direct labour (2 marks)
- c) Machine direct hours (2 marks)
- d) Units of output (2 marks)
- e) Prime cost ( = Direct labour + direct material cost) (4 marks)

#### QUESTION FOUR

XYZ limited has been awarded a contract to build a house. This is a contract No 45 for the company and the contract price is shs. 2.65 million. At the end of the company's financial year, the contract was 85% complete and hence regarded as being near completion. You are also provided with the following information about the contract:

Particulars	Shs.
Materials purchased and delivered	580,000
Materials issued from store	60,000
Site expenses	7,000
Site wages	300,000
Plant sent to site	200,000
Architect's fees	100,000
Plant returned from site	30,000
Subcontractor's fees	10,000
Head office overheads absorbed	105,000
Valuation at the year ending disclosed the following:	60,000
	Shs.
Materials	19,500
Plant on site	50,000
Work done but not yet certified	60,000

#### Additional Information

1. The portion of the work which was completed during the year and certified by the architect was assessed as representing 75% of the whole contract price. The contractee made payments to this extent less 10% retention money.
2. The management of the company decided for the purpose of preparing the company's annual accounts to make a provision of a third of the national profit against the possibility of defects and other contingencies arising later in respect of the work already certified for payment.

**Required:**

- a) The contract account (12 marks)
- b) Amount of profit or loss to be taken to the main profit and loss account of the company (5 marks)
- c) Value of work in progress (3 marks)

**QUESTION FIVE**

Budgets are plans expressed in financial and/or quantitative terms for a specified period of time in the future in setting up a budgetary control system

- a) Give sound reasons why it is necessary for a business concern to prepare budgets (8 marks)
- b) Describe what the principal budget factor is (6 marks)
- c) Essentials of effective budgetary control system (6 marks)