MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY

P.O. Box 972-60200 – Meru-Kenya

Tel: +254(0) 799 529 958, +254(0) 799 529 959, + 254 (0) 712 524 293,

Website: info@must.ac.ke Email: info@must.ac.ke

University Examinations 2024/2025

SECOND YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE, BACHELOR OF PURCHASING AND LOGISTIC MANAGEMENT AND BACHELOR BUSINESSS ADMINISTRATION

THIRD YEAR FIRST SEMESTER BACHELOR OF BUSINESS INFORMATION TECHNOLOGY

BFC 3227 BFC 3225: COST ACCOUNTING/COST AND MANAGEMENT ACCOUNTING

DATE: JANUARY 2025 **TIME:2 HOURS**

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

QUESTION ONE (30 MARKS)

(a) Explain the terms:

(i) Re-order level (2 marks)

(ii) Re-order quantity (1 mark)

(b) List any three factors that must be considered in determining the reorder level.

(3 marks)

(c) A company is reviewing its stock policy and has the following alternatives available for evaluating the optimal order size for stock item number 1287:

1. Purchase stock twice monthly, 100 units.
2. Purchase monthly, 200 units
3. Purchase every three months, 600 units
4. Purchase every six months, 1200 units
5. Purchase annually, 2400 units

It is ascertained that the purchase price per unit is Sh. 80 for deliveries up to 500 units. A 5% discount is offered by the supplier on the whole order where deliveries are 501 up to 1,000 and 10% reduction on the total order for deliveries in excess of 1,000.

Each purchase order incurs administration costs of Sh. 500. Storage, interest on capital and other costs are Sh. 25.per unit of average stock quantity held.

Required:

Advise management on the optimum order size. (14 marks)

(d) A worker's hourly rate is shs. 4,000. During a particular week, he worked for 60hrs including 8 hours on Sunday. Calculate his wage for that week.

Additional information:

According to labour laws normal working hours are 8hrs from Monday to Friday and 5 hours on Saturday. Any extra hours worked beyond these hours is paid 50% above normal rate and in case one works on a Sunday the rate is double of the normal rate. (6 marks)

(e) State the essentials of effective budgetary control system (4 marks)

QUESTION TWO (20 MARKS)

Asante Sana Ltd. is a manufacturing company which produces and sells a single product "Dawa MOTO".

Cost	Shs.
Variable manufacturing	45
Fixed manufacturing	35
Variable selling and administration	8
Fixed selling and administration	30
	118

Fixed manufacturing costs per unit are based on a predetermined rate established at a normal activity level of 18,000 production units per period. Fixed selling and administration costs are absorbed into the cost of sales at 20% of the selling price.

The following information has been provided for two consecutive periods:

	Period 1	Period 2
Sales: (units)	17,000	18,000
Value	Sh	Sh
	2,550,000	2,700,000
Variable manufacturing costs	Sh 720,000	Sh 828,000
Variable selling and administration costs	Sh 136,000	Sh 144,000
Fixed manufacturing costs	Sh 640,000	Sh 630,000

Fixed selling and administration		
costs	Sh 540,000	Sh 540,000
Production (units)	16,000	18,400

Required:

a) Income statements for each of the periods under the full costing method. (5 marks)

b) Income statements for each of the periods under the direct/ marginal costing method. (5 marks)

c) Reconciliation for each period of the profit/ loss obtained under the two methods in (a) and (b) above (4 marks)

d) Outline three arguments in favour of

i. The full costing method (3 marks)

ii. The direct costing method (3 marks)

QUESTION THREE (20 MARKS)

Mark Mwiti owns a small factory in which he manufacturers standard toys called Zonta. On 1 st January 2019, he had 3,000 units of Zonta in stock. During 2019 he manufactured 100,000 units and sold 95,000 units at a price of shs. 6 per unit. The following balances were extracted from his ledger on 3 1 st December 2019.

	Shs.
Stock of raw materials 1.1.2019	11,640
Stock of raw materials 31.12.2019	16,280
Purchases of raw materials	134,500
Carriage on raw materials	41,200
Direct wages	92,700

Factory expenses: Rent and rates		38,400
Power and Heat	17,200	
Insurance	15,640	

Plant and machinery (Net of depreciation on 1 st Jan 2019) shs. 150,000

Additional information

1. Stocks of work in progress on 1 st January and 31 st December were of insignificant value and are to be ignored
2. Provide 10% depreciation on plant and machinery using reducing balance method
3. Finished units of Zonta are valued at Factory cost
4. Factory cost per unit of Zonta was exactly the same in the years 2018 and 2019

(Show all your workings)

Required:

(a) A manufacturing account / cost statement showing clearly the sub totals of:

i) Cost of Raw materials used (3 marks)

ii) Prime cost (2 marks)

iii) Factory cost of the entire production in 2019 (5 marks)

iv) Factory cost per unit of Zonta manufactured in 2019 (2 marks)

(b) A Trading for the year ended 31st December 2019 (8 marks)

QUESTION FOUR (20 MARKS)

(a) A business firm which is engaged in manufacturing should adequately control materials used in the production process from the point of procurement up to the point the materials are issued to production.

Required:

Clearly explain how a business firm would reasonably achieve this objective (10 marks)

(b) Standard costing is the setting of predetermined cost estimates in order to provide a basis for comparison with the actual costs.

Required:

(i) Briefly explain the three types of performance standards used in standard Costing (6 marks)

(ii) State and explain the problems encountered in setting up standard costs. (4 marks)

QUESTION FIVE (20 MARKS)

Tindo Ltd buys and sells product Q-3. It values sock on the basis of last in first out (LIFO). At 1 June 2024, stock in hand consisted of 4,500 units which were acquired at Sh.50 per unit. The operations for the month were as follows:

Date	Purchases	Sales
June 1	5,000@sh 48	
4		6,000@sh 60
5	5,500@sh 49	
7	4,000@sh 50	7,000@sh 61
11		
12	5,000@sh 50	
13	6,000@sh 47	7,000@sh 62
18		8,000@sh 64
19	6,000@sh 49.50	
20		5,000@sh 65
21	7,000@sh 50	
22	6,000@sh 49	
25	2,000@sh 47	
26		

28	500@sh 60
29	14,000@64

The company incurred operating costs of sh 450,000 during the month.

Required:

a) Stores ledger card (14 marks)

b) Closing stock valuation (2 marks)

c) Trading account for the month (4 marks)