

**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

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**University Examinations 2016/2017**

SECOND YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHER OF COMMERCE, BUSINESS ADMINISTRATION AND BUSINESS INFORMATION TECHNOLOGY

**BFC 3227: COST ACCOUNTING**

**DATE: DECEMBER 2016 TIME: 2HOURS**

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

**QUESTION ONE (30 MARKS)**

On 4 May 2009, Pendo Construction Company was contracted by Mara Paradise Ltd. To construct a leisure park in Nairobi at a contract price of sh.950, 000,000. Work commenced on the contract on 28 July 2009. Retention money was agreed at 10% of work certified. At the end of the first year, no profits were declared as the contract was considered to be in its infancy

The following details relate to the contract for the year ended 31 December 2010

**Sh’000**

Balance brought forward 1.1.2010

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Foundation of Innovations Page 1

Materials on site 4,500

Accrued on site 1,250

Plant (cost) 150,000

Cost of work done 158,000

Work certified to 31 December 2009 160,000

**Transactions during the year.**

Materials delivered to site

Ex- stores 14,600

By suppliers 128,400

Additional plant (cost) 120,000

Subcontractors fees 18,450

Consultancy fee 28,000

Inspection fee 500

Salaries and wages 160,000

Head office expenses 1,200

Materials sales (cost Sh 19,800) 22

Plant hire 250

Direct expenses 2,600

Total cash received from contractee 580,000

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Foundation of Innovations Page 2

Work certified during the year 660,000

Cost of work uncertified 42,000

Balances carried forward:

Materials on site 51,000

Wages accrued 2,800

Plants have been purchased for use on this contract. Pendo Construction Company provides for depreciation on plant at 121/2% per annum on cost.

**Required:**

1. Contract account for the year to 31 December 2010, clearly showing the profits/(losses) on contract for the year (10 marks)
2. Valuation of work-in-progress. (6 marks)
3. Account of Mara Paradise Ltd. (4 marks)

b) ABC Ltd made the following purchases

**Date of Purchase Units Purchased Price/Unit**

1st January 500 100

2nd January 600 200

3rd January 800 400

Units used on 4th January are 900

Required:

Determine the cost of units used and the value of the closing stocks using Weighted Average

(10 marks)

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Foundation of Innovations Page 3

**QUESTION TWO (20 MARKS)**

Under a premium bonus scheme, workers received a 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) ¼ 1/6 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

1. Bonus hours and amount of bonus paid (8 marks)
2. Gross wages earned (7marks)
3. Labour cost for each good unit sold (5marks)

**QUESTION THREE (20 MARKS)**

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

Budget

**Overhead cost for the period**=Ksh 36,000 **production department**

Direct material cost kshs 32,000

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Foundation of Innovations Page 4

Direct labour cost kshs 40,000

Machine hours kshs 10,000

Direct hours of labour kshs 18,000

Units of output kshs 10,000

Required:

Determine the absorption rate of the overheads using each of the following methods

1. Direct material cost
2. Direct labour
3. Machine hours
4. Labour direct hours
5. Units of output
6. Prime cost (12marks)

**QUESTION FOUR (20 MARKS)**

Bando ltd has been using their own vehicle to transport their employees to and from work. The shift manager imagines that this may be too expensive for the organization and suggests that using hired transport may result in some savings for the organization.

The accountant has assembled the following data for consideration:

**Own transport shs.**

Cost of vehicle 1,500,000

Scrap value of the vehicle 300,000

Annual insurance premium 145,000

Annual road license 6,000

Repairs and maintenance per year 90,000

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Foundation of Innovations Page 5

Drivers monthly salary 25,000

Tyres and tubes per year 24,000

TLB license per year 2,500

Cost of petrol per kilometer 5

Inspection fee 2,000

It is also established that the expected life of the vehicle is 5 years and that the distance coverage is 15,600 km per year.

If the company opts for hired transport it will be required to pay monthly hire charges of sh 40,000 and drivers allowance of sh 10,000 per month.

Required:

Compute the cost per kilometer if the company:

1. Uses its own transport (14marks)
2. Hires transport facilities from outside (6marks)

**QUESTION FIVE (20 MARKS)**

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.

1. Give sound reasons why it is necessary for a business concern to prepare budgets

(8marks)

1. Describe what the principal budget factor is (6marks)
2. Discuss the essentials of effective budgetary control system (6marks)

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Foundation of Innovations Page 6