CIAF 0113: INTRODUCTION TO COST ACCOUNTING

INSTRUCTIONS

1. ***Do not write anything on this question paper.***
2. ***Answer question one and any other three.***

QUESTION ONE

a) I) what is meant by the tem "classification of costs"? State various types of cost classifications. **(5 marks)**

II) What are the main duties of budget committee? (**4Marks)**

III) Draw the Break even chart and it's assumptions **(6Marks)**

b)The following information is provided for Kenya Ltd for the month of Jan 2016

Jan 1: Purchased 10 units @ sh10/=

Jan 3: Purchased 12 units @ sh11/=

Jan 5: Issued 20 units Jan 8: Purchased 15 units @ sh12/=

Jan 9: Issued 10 units

Jan 13: Purchased 20 units @ sh11/=

Jan 17: Issued 8 units

Jan 19: Issued 9 units

Jan 21: Purchased 16 units @ sh13/=

Jan 25: Purchased 10 units @ sh12/= Jan 28: Issued 16 units.

Jan 30: Purchased 12 units @ sh13/=

Jan 31: Issued 8 units.

Required: Using FIFO compute the value of issues and closing stock at 31st January using a store ledger card. **(10Marks)**

QUESTION TWO

a) Define standard costing and different types of standards (5Marks)

b) The following information has been extracted from the books of SoLex Ltd for the year to 31 March 2015:

	Units '000'
Production	30
Sales	24
Production cost incurred:	**Sh '000'**
Direct material	7,200
Direct labour	1,800
Variable overheads	1,500
Fixed overheads	2,700

Selling and administrations costs:	
Sales and salaries	450
Variable sales commission	300
Promotion and advertising	480
Other fixed costs	720

The company's unit selling price is Sh 550.

Required:

a) Profit and loss statement under direct costing approach. (5marks)

b) Profit and loss statement under indirect costing approach. (5marks)

QUESTION THREE

a) Explain the reason(s) why construction companies find it prudent to declare profits on uncompleted contracts. (3 marks)

On 4 May 1999, 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 1999. 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 2000:

	Sh'000
Balances brought forward 1.1.2000	
Materials on site	4,500
Accrued wages	1,250
Plant (cost)	150,000
Cost of work done	158,000
Work certified to 31 December 1999	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
Material transfers out	15,000
Materials sales (cost Sh 19,800)	22
Plant hire	250

Direct expenses	2,600
Total cash received from contractee	580,000
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 12 1/2% per annum on cost.

Required:

(i) Contract account for the year to 31 December 2000, clearly showing the profits/(losses) on contract for the year. (8 marks)

(ii) Valuation of work-in-progress. (2 marks)

(iii) Account of Mara Paradise Ltd. (2 marks)

QUESTION FOUR

a) In the context of budgetary control explain the main functions and importance of a cash budget. (5 marks)

b) You are in charge of making forecasts and preparing budgets. You have been supplied with cost and revenue forecasts and details of payment as follows:

1. **Forecast of revenue and costs for the quarter ending 31 March 2015**

	January	**February**	**March**
	Shs.	**Shs.**	**Shs.**
Direct			
Materials (purchases)	112,000	100,000	135,000

Wages	90,000	80,000	100,000
Overhead			
Production	34,000	32,000	40,000
Administration	22,000	20,000	27,000
Selling and distribution	13,000	11,000	18,000
Sales	360,000	350,000	440,000

2. Forecast of revenue and costs for the quarter ending 30 June 2015

	April	May	June
	Sh.	Sh.	Sh.
Direct			
Materials (purchases)	90,000	67,000	79,000
Wages	72,000	54,000	63,000
Overhead			
Production	45,000	36,000	40,000
Administration	22,000	25,000	27,000
Selling and distribution	13,000	11,000	16,000
Sales	350,000	360,000	360,000

Cash balance on 1 April 2015 Sh. 90,000

1. Other details

- Period of credit allowed by suppliers averages two months.
- Debenture to the value of Shs. 125,000 is being issued in May 2015 and the amount is expected to be received during the month.
- A new machine is being installed at the end of March 2015 at a cost of Sh 150,000 and payment is promised in early May 2015.
- Sales commission of 3% is payable within one month of sales.
- A dividend of Sh 100000 is to be paid in June 2015.
- There is a delay of one month in the payment of overheads. There is also a delay in payment of wages averaging a quarter of a month.
- Twenty per cent of the debtors pay cash, receiving a cash discount of 4% and 70% of debtors pay within one month and receive a cash discount of 2 ½%. The other debtors pay within two months.

Required:

A cash budget on a monthly basis from the second quarter of the year 2015. (10 marks)

QUESTION FIVE

a) Budgets and standards are not the same thing. State five differences between the two(5Marks)

b)In the manufacture of product vitality

2000 kgs of material at kshs 5kg we supplied to process I. Labour cost amounted to sh 3,000 and production overheads sh 2,300, normal loss has been estimated at 10% . The actual product after process was 1750kg.
Required: Prepare

a. process 1 account(5Marks)

b. Abnormal Loss Account (3Marks)

c. Normal Loss Account(2Marks)

QUESTION SIX

a) What is the basic difference between account classification method and high-low method as applied in cost estimation? (3marks)

b) Distinguish between the following cost accounting terminologies:
   i) Direct and indirect costs (3marks)
   ii) Cost center and cost unit (3 marks)
   iii) Joint products and by-products) (3 marks)
   iv) Period costs and product costs (3 marks)

(Total: 15Marks)