

UGANDA MARTYRS UNIVERSITY

**FACULTY OF BUSINESS ADMINISTRATION AND
MANAGEMENT**

BAM II

COURSE: COST ACCOUNTING

DATE: Monday, 24th January 2022

Time allowed: 9:30 am – 12:30pm

Instructions to Candidates:

Read the following before answering the examination questions.

- 1) Do not write anything on the question paper
- 2) Answer any 4 questions
- 3) All questions carry same marks
- 4) Show all the necessary workings

QUESTION ONE

A manager of a certain medium size enterprise looks at cost accounting as a waste of time especially in these turbulent times of Covid where profits are quite uncertain and expenditure should be minimized as much as possible. He is looking at eliminating the cost accountant and totally eliminating that accounting section from his company.

With your knowledge of cost accounting, advise him accordingly weighing in on his decision and how it could affect strategic decisions made by his company. (25 marks)

QUESTION TWO

- a) The auditor of Kikuubo Manufacturers has looked at the company accounts and is querying why certain deductions are made for all employees and others are only made from some employees. As the payroll accountant, explain to him why this is so with clear examples. (5 marks)
- b) Kikuubo Manufacturers employs 6 workers with the following pay details for the month of August 2021. Use the information to design a suitable payroll for Kikuubo traders. (20 marks)

No. & Name of Employee	Hours worked in the month
1. Renatah	150
2. Raymond	80
3. Robertah	95
4. Rebeccah	90
5. Robinah	100
6. Rogers	85

Additional information:

- a) The basic working time in a month is 80 hours.
- b) The wage rate per hour is Shs 4000
- c) The first 10 hours of overtime are paid for at a time and half ($1\frac{1}{2}$) of the basic rate and excess are paid for at double time rate.

- d) Robinah is 65 years of age
- e) Housing allowance of Shs.100, 000 is given to all workers except Robinah who stays in the company house and is charged Shs. 60,000 for water and electricity per month.
- f) Medical allowance is given to all workers at a rate of Shs. 50,000 per month.
- g) The following deductions are made:
 - National Social Security Fund.
 - Local service tax: all workers are assessed to pay LST according to the schedule. This is done in the last four calendar months of the year with equal installments.
 - Robertah pays subscription to a golf club every month at a rate of Shs. 25,000. Renatah belongs to a nigina group and pays 30,000 per month to this social group
 - PAYE is payable as follows:

Chargeable income (per month)	Rate of tax
Not exceeding shs 235,000	Nil
Exceeding shs 235,000 but not exceeding shs 335,000	10% of the amount by which chargeable income exceeds shs 235,000.
Exceeding shs 335,000 but not exceeding shs 410,000	shs 10,000 plus 20% of the amount by which chargeable income exceeds shs 335,000.
Exceeding shs 410,000	<p>(a) shs 25,000 plus 30% of the amount by which chargeable income exceeds shs 410,000 and</p> <p>(b) Where chargeable income of an individual exceeds shs 10,000,000 an additional 10% charged on the amount by which chargeable income exceeds shs 10,000,000</p>

The Local service tax schedule is given below:

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Amount of monthly income earned (in Shs)	Rate of LST (in Shs) per year
Exceeding 100,000 but not exceeding 200,000	5,000
Exceeding 200,000 but not exceeding 300,000	10,000
Exceeding 300,000 but not exceeding 400,000	20,000
Exceeding 400,000 but not exceeding 500,000	30,000
Exceeding 500,000 but not exceeding 600,000	40,000
Exceeding 600,000 but not exceeding 700,000	60,000
Exceeding 700,000 but not exceeding 800,000	70,000
Exceeding 800,000 but not exceeding 900,000	80,000
Exceeding 900,000 but not exceeding 1,000,000	90,000
Exceeding 1,000,000	100,000

QUESTION THREE

- a) Jose and sons company Ltd is a manufacturing company in Industrial area, Jinja Road. It had the following transactions in one of its raw materials during April 2021.

Opening stock 40 units @ shs1, 000 each

April 4 Bought 140 units @ shs 1,100 each

10 Used 90 units

12 Bought 60 units @ shs 2,000 each

13 Used 100 units

16 Bought 200 units @ shs 1,000 each

21 Used 70 units

23 Used 80 units

26 Bought 50 units 2,000 each

27 returned 10 units @ 1,000

29 Used 60 units

Required;

- (a) Write up the stores ledger account using the following methods of stock valuation.

(i) Simple Average method **(6marks)**

(ii) FIFO **(6 marks)**

Determine the value of closing stock under each method. **(5 marks)**

- b) Using the information provided below, calculate the maximum, minimum, re-order and average stock levels of water bottles for Leicester City **(8 marks)**

Records available at the stores department indicated the following:

Maximum usage-1200 bottles per week

Minimum usage -500 bottles per week

Re-order quantity - 1500 bottles per week

Delivery period - between 2 to 4 weeks

QUESTION FOUR

- a) Explain four major differences between marginal and absorption costing (8 marks)
b) Luswata Ltd has provided you with the following information for the year 2020.

Cost per unit	Ushs.
Direct materials	3,000
Direct labor	5,000
Variable production overheads	2,000
Variable selling & admin	4,000
Unit selling price	25,000
Fixed annual production costs	20,000,000
Fixed annual selling & administrative costs	10,000,000
Beginning inventory 500 units, units produced 7,000, and units sold 6,000.	

Required:

Using absorption and marginal costing methods draw income statements for Luswata Ltd for the year 2020, and comment on your results. (17 marks)

QUESTION FIVE

The annual overhead costs for Tino carpentry workshop with three production departments (two machine shops and one assembly shop) and two service departments (stores and maintenance departments) are as follows:

Overhead	Machine shop A (\$)	Machine shop B (\$)	Assembly (\$)	Stores (\$)	Maintenance (\$)
Indirect wages	100,000	99,500	92,500	10,000	60,000
Indirect materials	100,000	100,000	40,000	4,000	9,000
General overheads (\$)					
Lighting and heating..... 25,000					
Rent..... 50,000					
Insurance of machinery..... 7,500					
Depreciation of machinery.....75,000					
Insurance of buildings.....12,500					
Management salaries.....40,000					
The following information is also available					

	Machine shop A (\$)	Machine shop B (\$)	Assembly (\$)	Stores (\$)	Maintenance (\$)
Book value of machinery (\$)	800,000	500,000	100,000	50,000	50,000
Area occupied (sq. meters)	10,000	5,000	15,000	15,000	5,000
Number of employees	30	20	30	10	10
Direct labor hours	200,000	150,000	200,000		
Machine hours	100,000	50,000			
Maintenance hours	12,000	8,000	5,000		
Materials issued (\$)	400,000	300,000	100,000		

Required:

Using an overhead analysis sheet

- Accumulate overheads to the three production departments using the step method for reallocating overheads in the service departments **(20 marks)**
- Distinguish the step method from the repeated distribution method of overhead allocation. **(5 marks)**

QUESTION SIX

- Give reasons why physical counting of materials may not agree with the records in the stores ledger. **(4 marks)**
- Suggest measures an organization can take to minimize inventory shortages in stores. **(4 marks)**
- What are the objectives of stock control? **(4 marks)**
- Alta Production, Inc. reported the following production costs for the 12 months January through December.

Reporting Period (Month)	Total Production Costs	Level of Activity (Units Produced)
January	460,000	300
February	300,000	220
March	480,000	330
April	550,000	390
May	570,000	410
June	310,000	240
July	440,000	290
August	455,000	320
September	530,000	380
October	250,000	150
November	700,000	450
December	490,000	350

- i) Using this information, use the High low method to estimate costs, variable and fixed. State your results in cost equation form $Y = a + bX$. **(10 marks)**
- ii) Assume Alta Production, Inc., will produce 400 units next month. Calculate total production costs for the month. **(3 marks)**