

# UGANDA MARTYRS UNIVERSITY

## FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

### BAM II FINAL ASSESSMENT

#### PAPER: COSTING ACCOUNTING

Date: April 27<sup>th</sup> 2009

Time: 3 Hours

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#### Instructions:

- Write neatly and clearly.
- Answer four questions in all.
- All questions carry equal marks.
- Show all your workings.

#### QUESTION ONE

- a. Understanding cost behaviour is crucial in the appreciation of cost accounting practices. Develop an argument, with specific examples to support this contention. (15 marks)
- b. The consultants recommended to the managing director of Britania Company that on top of a financial accountant the company should have a cost accountant. The managing director was not convinced, so he calls you to his office to explain to him at least *five* differences between the tasks of a cost accountant and a financial accountant. (10 marks)

#### QUESTION TWO

- a. There are various payroll frauds that have been reported in BBK LTD. Explain five strategies that the company can employ to minimise the frauds.
- b. BBK Ltd, employs its workers for a single shift of 8 hours for 25 days in a month. The company has recently fixed the standard output for a mass production item and introduced an incentive scheme to boost output. Details of wages payable to the workers are as follows:
  - i. Basic Piece work wages at ush. 2000 per unit subject to a guaranteed minimum wages of ush. 6,000 per day.
  - ii. Commitment allowance ush. 4,000 per day
  - iii. Incentive bonus  
Standard output per day per worker: 40 units  
Incentive bonus up to 80% efficiency : nil  
Incentive bonus for efficiency above 80% : ush.5,000 for every 1% increase above 80%.

The details of performance of four workers for the month of April 2004 are as follows:

Worker	No. of days worked	Out put
Asio	25	820
Bruno	18	500
Cisy	25	910
Denis	24	780

**Required:**

Using the given information, calculate the total earnings of each of the workers.

**QUESTION THREE**

a). Briefly explain why service cost centre costs need to be re-apportioned to production cost centres. Which methods of reapportionment fully recognise the work that service cost centres do for each other? (6 marks)

b). Langdale Ltd is a small company manufacturing and selling two different products- the Lang and the Dale. Each product passes through two production cost centres- a machining department where all the work is carried out on the same general-purpose machinery, and a finishing section. There is a general service cost centre providing facilities for all employees in the factory.

The company operates an absorption costing system using budgeted overhead absorption rates. The management accountant has calculated the machine hour absorption rate for the machining department as £3.10 but a direct labour absorption rate for the finishing section has yet to be calculated.

The following data have been extracted from the budget for the coming year:

Product	Lang	Dale
Sales (units)	6,000	19,000
Production (units)	7,200	10,400
Direct material cost per unit	£52	£44
Direct labour cost per unit:		
Machining department (£8 per hour)	£72	£40
Finishing Section (£6 per hour)	£42	£36
Machining department- machine hours per unit	£15	£13



<b>Fixed production overhead costs:</b>	<b>£</b>
Machining department	183,120
Finishing section	241,320
General Service cost centres	82,800

**Number of employees:**

Machining department	14
Finishing section	32
General Service cost centres	4

Service cost centre costs are re-apportioned to production cost centres.

**Required:**

- Establish the number of labour hours and the number of machine hours available in the finishing Section and Machining department respectively. (8 marks)
- Calculate the direct labour hour absorption rate for finishing section (1 mark)
- Calculate the budgeted total cost for one unit of product Dale only, showing each main cost element separately. (10 marks)

**QUESTION FOUR**

Erimu Co. Ltd, specializes in the production of furniture on special orders. At the end of June 2008 the company received an order from Uganda Martyrs University for 1000 chairs to be used in the Lecture rooms.

The following were the cost estimates quoted by Erimu Co. if the order was to be met:

**Materials:**

Timber	500 metres at 20,000/= per metre
Nails	100 kgs at 3,000/= per kg
Vanish	20 litres at 20,000/= per litre
Sand paper	5 metres at 2,000/= per metre
Metal bars	100 long bars at 30,000/= per bar
Screws	100 boxes at 1000/= per box

**Labour Costs**

Workers to be used are from three departments vs: cutting department, Welding department and the finishing department.

Cutting Department – 120 labour hours at 2,500/= per hour.

Welding Department – 100 machine hours at 3,000/= per hour

Finishing Department – 20 men to work for 10 days at a rate of 1,000/= per day per man.

**Variable Overheads:** There are to be absorbed as follows:

Cutting Department on the basis of direct labour hours at the rate of 3,000/= per labour hour.

Welding Department on the basis of machine hours at the rate 1,500/= per machine hour.

Rate 1,500/= per machine hour.

Finishing Department at the rate of 10% of prime costs required for the order.

The fixed manufacturing overheads were 500/= per bench. These quotations were sent to Uganda Martyrs University, which they accepted and the job was processed as batch number UMU 123.

- Required:**
- (a) Calculate the Total batch cost (15 marks)
  - (b) Determine the unit cost of each chair (3 marks)
  - (c) What price would be charged to Uganda Martyrs University per chair, if Erimu company targeted a gross profit of 25% profit on cost? (3 marks)
  - (d) If Erimu company targeted a gross profit of 25% profit on sales, determine the price to be charged to Uganda Martyrs University per chair. (4 marks)

#### QUESTION FIVE

Write short notes on any five of the following terms as used in cost accounting: (5 marks each)

- i) Distinguish between; Allocation, apportionment and absorption of overheads.
- ii) Distinguish between; Marginal costing and absorption costing techniques.
- iii) Cost drivers
- iv) Controllable costs and non controllable costs.
- v) Idle time and its causes.
- vi) Evaluate FIFO and LIFO inventory valuation methods

#### QUESTION SIX

- (a) Distinguish between Interlocking and integrated accounting systems (5 marks)

b. Below are the transactions of BAM LTD for the month of March 2009.

1. Purchased raw materials of ushs. 182,000,000 on credit.
2. Returned defective raw materials of ushs. 2,000,000 to the supplier.
3. The total of stores requisitions for direct materials issued for the period was ushs. 165,000,000.
4. Total issues for indirect materials issued for the period was Ushs. 10,000,000.
5. Gross wages of ushs. 185,000,000 were incurred during the period consisting of wages paid to employees ushs. 105,000; PAYE due to URA Ushs. 60,000,000; National insurance contribution due.
6. The allocation of the gross wages for the period was as follows: Direct wages ushs. 145,000,000; indirect wages ushs. 40,000,000.
7. Indirect factory expenses of ushs. 41,000,000 were incurred during the period.
8. Depreciation of factory machinery was Ushs. 30,000,000.
9. Overhead expenses charged to jobs by means of factory overhead absorption rates was ushs. 140,000,000 for the period.
10. Non-manufacturing overhead incurred during the period was Ushs. 40,000,000.
11. The cost of jobs completed and transferred to finished goods stock was Ushs. 300,000,000.
12. The sales value of goods withdrawn from stock and delivered to customers was Ushs. 400,000,000.
13. The cost of goods withdrawn from stock and delivered to customers was Ushs. 240,000 for the period.

**Required:**

Enter the above transactions through a general journal. (20 marks)

N.B. Don't give the narratives.

END.