



# PIONEER INTERNATIONAL UNIVERSITY

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## UNIVERSITY EXAMINATIONS

### SPECIAL EXAM ACCT 2110: COST MANAGEMENT

**Date: AUGUST 2021**

**Time: 2 Hours**

**Instructions: Answer SECTION A (Compulsory) and Any Other Two Questions**

#### SECTION A (30Marks)

#### QUESTION ONE (30 MARKS)

- a. Define the following terms:
- i. Cost object. [1 mark]
  - ii. Prime cost. [1 mark]
  - iii. Opportunity cost. [1 mark]
  - iv. Sunk cost. [1 mark]
- b. Give four differences between management and financial accounting. [4 marks]
- c. With examples, differentiate between avoidable and unavoidable costs. [4 marks]
- d. Why are direct costs directly traced to cost object easier than indirect costs? [4 marks]
- e. What is relevant cost? Give example to support your answer [4 marks]
- f. The following is the record of receipt and issue of a certain materials in a factory during a week

| <b>March</b>                                |                          |
|---|--------------------------|
| 2 <sup>nd</sup> opening balance             | 50 tons @ kshs. 10 a ton |
| 3 <sup>rd</sup> issue                       | 30 tons                  |
| 4 <sup>th</sup> received                    | 60 tons @10.125 a ton    |
| 5 <sup>th</sup> Issue                       | 25 tons                  |
| 6 <sup>th</sup> received back from complete |                          |
| Word order                                  | 10 tons @ 9.94           |
| 7 <sup>th</sup> issue                       | 40 tons                  |

#### **Required:**

Determine closing stock using: -

- i. FIFO [6 marks]





ii. LIFO

[4 marks]

**SECTION B [40 MARKS]**

**QUESTION TWO (20 MARKS)**

- a. What is "contribution margin" as applied in cost volume profit analysis. [4 marks]
- b. Apendezae shop sells wedding dresses. The price and cost of each dress is comprised of the following:  
Selling price of Kshs. 1,000 and variable costs of Kshs. 400  
Total fixed costs for Apendezae shop are Kshs. 90,000.

**Required:**

- i. What is the contribution margin per dress? [4 marks]
- ii. What is the Apendezae shop's total profit when 200 dresses are sold? [4 marks]
- iii. How many dresses must Apendezae shop sell to reach the break-even point? [4 marks]
- iv. How many dresses must Apendezae shop sell to yield a profit of Kshs. 60,000? [4 marks]

**QUESTION THREE (20 MARKS)**

- a. A particular brand of ABC passed through three important processes during the week ended 15<sup>th</sup> January 2010, 600 gross of bottles are produced. The cost books show the following information

|                 | Process I | process II | process III |
|-----------------|-----------|------------|-------------|
| Material        | 4 000     | 2 000      | 1 500       |
| Labour          | 3 000     | 2 500      | 2 300       |
| Direct expenses | 600       | 200        | 500         |
| Cost of bottles | Nil       | 2 030      | Nil         |
| Cost of corks   | Nil       | Nil        | 325         |

- The indirect expenses for the period were shs. 1 600
- The by-product were sold for shs. 240 (process 2)
- The residue sold for ksh. 125.50 (process 3)

**Required:**

Prepare the account in respect of each of the process showing its cost and cost of production of the finished product per gross of bottles. [12 marks]

- b. Explain FOUR advantages of standard costing [8 marks]

**QUESTION FOUR (20 MARKS)**

- a. Explain five assumptions of C-V-P analysis

[5 marks]



b. Tutos Ltd are the manufactures of picture Tutos for TV the following are the details of their operation during 2006

|                               |                    |
|-------------------------------|--------------------|
| Average monthly market demand | 2 000 Tutos        |
| Ordering cost                 | kshs.100 per order |
| Inventory carrying cost       | 20% per annum      |
| Cost of tubes                 | kshs.500 per tube  |
| Normal usage                  | 100 tubes per week |
| Minimum usage                 | 50 tubes per week  |
| Maximum usage                 | 200 tubes per week |
| Lead tube to supply           | 6 – 8 weeks        |

**Required:**

- i. Economic order quantity. If the supplier is willing to supply quarterly 500 units at a discount of 5% is it worth accepting? [5 marks]
- ii. Maximum level of stock [3 marks]
- iii. Minimum level of stock [2 Marks]
- iv. Re-order level [5 marks]



