



PIONEER INTERNATIONAL UNIVERSITY

Powered by Intellect, Driven by Values.

UNIVERSITY EXAMINATIONS

ACADEMIC YEAR: 2021/2022

SEMESTER: SEP-DEC

UNIT CODE: DBM 118

UNIT NAME: PRINCIPLES OF COST MANAGEMENT

DATE: DEC 2021

TIME: 1.5 HOURS

Instructions: Answer question **ONE** and any other **TWO** questions.

QUESTION ONE (20 Marks)

a) The management accountant of BC Ltd is concerned about the apparent fluctuation in efficiency and wants to determine how labour costs (in Sh.) are related to volume. The following data presents results of the 12 most recent weeks.

Week No	Units Produced (X)	Labour Costs (Y)
1	34	340
2	44	346
3	24	287
4	36	262
5	30	220
6	49	416
7	39	337
8	21	180
9	41	376
10	47	295
11	34	215
12	24	275

Required:

Estimate the cost function using:

- The high low method (7 Marks)
- Regression analysis (7 Marks)
- Assume that the Company intends to produce 45 units and 34 units next period. Estimate the labour cost to be incurred (3 Marks)
- Explain the differences between accounts analysis and the engineering cost analysis methods (3 Marks)

QUESTION TWO (20 Marks)

- a) ABC Ltd has an aggregate demand of 1.2 Million units. Each time they place an order there is an ordering cost of Shs. 1,000, holding cost is Shs. 100 per unit. Determine:
- i. EOQ (4 Marks)
 - ii. Total cost of stocks based on the EOQ (4 Marks)
- b) Nyali Mbali ltd are ceramic retailers and undertook the following transactions from July to September 2020
- 2020**
- | | |
|--------------|--|
| 3 July | Opening stock was 5,000 tiles values at sh. 825,000 |
| 10 July | Orders placed with the company increased so extra tiles had to be obtained from Mombasa. Therefore, 22,000 tiles were purchased at a cost of sh. 40 each but in addition there was freight and insurance charge of Sh. 5 per title |
| 31 July | During the month 20,000 tiles were sold at a price of sh. 220 each |
| 4 August | A new batch of 14,000 tiles was purchased at a cost of sh. 220 each |
| 30 August | The sales for the month of August were 14,000 tiles at a selling price of sh. 230 each |
| 1 September | A further 24,000 tiles were purchased at a cost of sh. 195 each |
| 30 September | 27,000 tiles were sold during September at a price of sh. 240 each |

Required

- i. A store ledger account using the First-in-First out (FIFO) method and show the closing stock values (12 Marks)

QUESTION THREE (20 Marks)

- a) The following information has been extracted from the books of BC ltd for the year 31 March 2000

	Units '000'
Production	30
Sales	24
Production costs incurred	Sh '000'
Direct materials	7,200
Direct labour	1,800
Variable overheads	1,500
Fixed overheads	2,700
Selling and administration costs	
Variable sales commission	300
Promotion and advertising	480
Other fixed cost	720
Sales and salaries	450

The company's unit selling price is sh. 550

Required

- i. A profit and loss account under the marginal costing approach (8 Marks)
- ii. A profit and loss account under the absorption costing approach (8 Marks)

- b) Gichinjo is planning to sell flowers at the valentine day at Sh.9 each. The flowers cost Sh.5 to package and you incur Sh.2000 to rent a stall in the town. Compute the breakeven point in units and revenue (4 marks)

QUESTION FOUR (20 Marks)

- a) The following standard costs apply in a business that manufactures a single product.

Standard weight to produce one unit	12kgs
Standard price per kg	Sh.9
Standard hours to produce one unit	10
Standard rate per hour	Sh.4

Actual production and costs for one accounting period were as follows.

Materials used	3,770kgs
Materials costs	Sh.35,815
Hours actually worked	2,755
Hours paid for	2,900
Wages paid	Sh.11,571

The actual output was 290 units.

Required

- i. Calculate material cost variance (2 marks)
 - ii. Material usage variance in kg (2 marks)
 - iii. Labour rate variance (2 marks)
 - iv. Labour efficiency variance in hours (2 marks)
- b) Discuss the main functions of a budget in an organization (6 marks)
- c) Highlight the problems associated with budgeting (6 marks)

QUESTION FIVE (20 Marks)

- a) Discuss the role of cost accounting in management (8 marks)
- b) Highlight the key difference between cost and management accounting (2 marks)
- c) Write short notes on the listed cost categories and explain whether they are relevant for decision making (10 marks)
 - i. Sunk costs
 - ii. Imputed cost
 - iii. Standard costs
 - iv. Historical costs
 - v. Period costs

IMPORTANT NOTICE !!!!!!!!!!!!!

The following are the possible consequences if found guilty of an Examination Offence:

- a) **Expulsion from the University.**
- b) **Academic Leave.**

