INTERNATIONAL UNIVERSITY OF EAST AFRICA
'Learning to Succeed'

FACULTY OF BUSINESS MANAGEMENT

END OF SEMESTER EXAMINATIONS - APRIL 2025

PROGRAMME: MBA
YEAR/SEM: YEAR 2/SEMESTER 1
COURSE CODE: MBA813
NAME: COST AND MANAGEMENT ACCOUNTING

DATE:
TIME:

INSTRUCTIONS TO CANDIDATES:

SECTION A

Attempt all parts of section A

Question 1:

Case Study:1

ABC Manufacturing Ltd.

ABC Manufacturing Ltd. is a company engaged in the production of a single product. In the month of January 2025, the company was involved in various activities, from direct production costs to selling, administrative expenses, and the overall costing structure of the product. The company's management aims to evaluate the cost structure and determine the profitability for the month.

The following details are provided for the month of January 2025:

- Direct Materials: $80,000
- Direct Labor: $40,000
- Factory Overheads:
  - Indirect materials: $10,000
  - Indirect labor: $15,000
  - Factory rent: $12,000
  - Factory utilities: $8,000
  - Depreciation of factory equipment: $5,000
- Selling & Distribution Costs:
  - Sales commission: $6,000

Advertising expenses: $5,000

- Administrative Expenses:
  - Office salaries: $7,000
  - Office rent: $3,000
- Sales Revenue: $150,000
- Opening Stock of Finished Goods: $20,000
- Closing Stock of Finished Goods: $15,000

The company needs to evaluate its financial position in terms of its cost structure, profitability, and efficiency.

Required:

a) Define "Prime Cost" and explain its components. How does prime cost relate to the overall cost structure in a manufacturing company like ABC Manufacturing Ltd.? (10marks)

b) What is the importance of Factory Overheads in cost accounting? Discuss the different types of factory overheads in relation to ABC Manufacturing Ltd.'s operations. (10marks)

c) Explain the concept of “Total Cost” in a manufacturing setting. How does

the total cost help ABC Manufacturing Ltd. in pricing its product and

determining profitability? (10 marks)

d) Prepare a Cost Statement for ABC Manufacturing Ltd. for the month of

January 2025, showing: (10marks)

- Prime Costs
- Factory Cost
- Cost of Production
- Total Cost
- Profit

Total 40 marks

Question 2:

Case Study 2: XYZ Electronics Ltd.

XYZ Electronics Ltd. is a company that manufactures electronic gadgets, primarily focusing on producing a popular range of smartphones. In the month of February 2025, the company has been assessing its cost structure and analyzing the profitability of its operations. To better understand its financial position, XYZ Electronics Ltd. wants to evaluate its production costs, factory overheads, and administrative expenses.

The following details are provided for the month of February 2025:

- Direct Materials: $150,000 (raw materials used in the production of smartphones)
- Direct Labor: $90,000 (wages of workers directly involved in smartphone production)
- Factory Overheads:

Indirect Materials: $20,000

- Indirect Labor: $25,000
- Factory Rent: $18,000
- Factory Utilities: $12,000
- Depreciation of Factory Equipment: $8,000

- Selling & Distribution Costs:
  - Sales Commission: $10,000
  - Advertising Expenses: $7,000
- Administrative Expenses:
  - Office Salaries: $15,000
  - Office Rent: $5,000
- Sales Revenue: $300,000 (from selling smartphones)
- Opening Stock of Finished Goods: $30,000
- Closing Stock of Finished Goods: $25,000

XYZ Electronics Ltd. wants to analyze its cost structure to make informed decisions on pricing strategies and evaluate profitability for the month.

Required:

a) What is "Prime Cost"? Define and explain its components in the context of XYZ Electronics Ltd. (10marks)

b) Explain the significance of Factory Overheads in cost accounting. What types of factory overheads does XYZ Electronics Ltd. incur? (10marks)

c) How does the "Total Cost" affect pricing and profitability in a manufacturing setting?

Illustrate this with reference to XYZ Electronics Ltd. (10marks)

a) Prepare Cost Statement for XYZ Electronics Ltd. for February 2025, showing Prime

Costs, Factory Costs, Cost of Production, Total Cost, and Profit. (10marks)

SECTION B

Attempt any 3 questions in this section

Question 1:

Topic 1: Nature and Scope of Cost and Management Accounting

a) Explain the relationship between cost accounting and management accounting. (8 marks)

b) A company manufactures 500 units of a product. The total cost of production is as follows:

- Direct materials: $2,000
- Direct labor: $1,500
- Factory overhead: $1,000

Calculate the cost per unit of the product.
(12 Marks)

Question 2:

Topic 2: Classification of Costs

a) Describe the classification of costs based on their behavior. (8 marks)

b) A company has the following costs for producing 1,000 units of a product:

- Fixed costs = $5,000
- Variable costs = $3 per unit

Calculate the total cost of producing 1,000 units.
(12marks)

Question 3:

Topic 3: Material Costing

a) Explain the procurement procedure in material costing. (8marks)

b) A company uses the FIFO method for material costing. The following data is available for material purchases:

- Beginning inventory: 100 units at $10 each
- Purchase: 200 units at $12 each
- Sale: 150 units

Calculate the cost of goods sold (COGS) under FIFO. (12marks)

Question 4:

Topic 4: Labour Costing

a) What are the various methods of labor remuneration and their advantages? (8 marks)

b)A company has the following data for a month:

a. Basic hourly rate: $15
b. Overtime rate: 1.5 times the basic hourly rate
c. Regular hours worked: 160 hours
d. Overtime hours worked: 20 hours

Calculate the total wages for the month. (12 marks)

Question 5:

Topic 5: Overhead Costing

a) Explain the classification of overhead costs.
(9 marks)
b) A company has the following overhead costs for the month:

Total overheads: $10,000

- Allocation base: 2,000 machine hours

Calculate the overhead rate per machine hour.
(11marks)

Question 6:

Topic 6: Budgeting

a) What is a flexible budget, and how does it differ from a static budget? (6marks)

b) Discuss the importance of budgeting in the decision-making process of an organization.
(6marks)

c) Given the following data for a manufacturing company:

- Fixed Costs: $50,000
- Variable Costs per unit: $10
- Units sold: 5,000 units

Calculate the total costs (both fixed and variable) for the company. (8marks)

Question 7:

a) Define the term **"Master Budget"** and explain its components. (6marks)

b) What are the **benefits** of preparing a budget for an organization? (8marks)

c) A company expects to sell 10,000 units of a product next quarter. The sales price per unit is $20. The cost of goods sold (COGS) per unit is $12. Calculate the expected **gross profit** for

the
company.
(6marks)

Question 8:

Cost Statement 8:

a) What are the **main components of a cost statement** in cost accounting? (6marks)

b) Explain the difference between **direct costs** and **indirect costs**. (6marks)

c) A company incurs the following costs:

- Direct materials: $30,000
- Direct labor: $20,000
- Indirect costs (overhead): $15,000
- Total production: 2,000 units

Calculate the **cost per unit** of production.
(8marks)

Question 9:

Question 9:

a) Define **marginal cost** and explain its significance in pricing decisions. (5marks)

b) Discuss the importance of a **cost-volume-profit (CVP) analysis** for businesses. (5marks)

c) A company has the following information for its product:

- Fixed Costs: $40,000
- Contribution Margin per unit: $15
- Desired Profit: $10,000

Calculate the number of units the company needs to sell to achieve

the desired profit. (10marks)

Question 10:

a) Explain the budgeting process for an organization of your choice. (10marks

b) Explain the cost principles as a student of this module. (10marks)

Question 11:

Question 11: (20 Marks)

(a) Explain how cost accounting helps businesses in controlling costs and improving operational efficiency.

(10 Marks)

(b) Discuss the potential impact of proper cost control on a company's profitability and long-term sustainability.

(10 Marks)

Question 12:

Question 12: (20 Marks)

(a) Discuss the key differences between job costing and process costing.

(10 Marks)

(b) Explain activity-based costing (ABC) and its advantages over traditional costing methods

(10 Marks)