CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS.

SECOND YEAR/THIRD YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE, BACHELOR OF ENTREPRENEURSHIP AND ENTERPRISE MANAGEMENT, BACHELOR OF COOPERATIVE MANAGEMENT, BACHELOR OF PROCUREMENT AND LOGISTICS MANAGEMENT AND BACHELOR OF SCIENCE IN ECOTOURISM.

BCOM 212: COST ACCOUNTING

STREAMS: BCOM, BEEM, BCOP, BPLM **TIME: 2 HOURS**

DAY/DATE: WEDNESDAY 5/12/2018 **8.30 A.M - 10.30 A.M**

INSTRUCTIONS:

- **Answer Question ONE and any other TWO Questions.**
- **Do not write anything on the question paper**

QUESTION ONE

(a) Distinguish between the following cost terminologies

(i) Direct costs and indirect costs [3 Marks]

(ii) Cost unit and unit cost [3 Marks]

(iii) Implicit cost and explicit cost [3 Marks]

(iv) Product cost and period cost [3 Marks]

(b) Differentiate between job costing and process costing. [6 Marks]

(c) Asembo Limited manufactures a product "Bandari". The company labour cost varies with labour hours. They have the following information of labour cost and labour hours for a 8 month period that ended 30^{th} August 2015 shown below:

Month	Labour hours	Labour cost
January	300	3200
February	120	1400
March	200	2300
April	170	1900
May	120	1600
June	90	1100

July	250	3000
August	180	2400

Required:

(i) Use regression analysis method to estimate the cost function. [7 Marks]

(ii) Using the equation (i) above, estimate the labour cost in December in the labour hours are expected to be 520. [2 Marks]

(iii) Use high low method to estimate the cost function [3 Marks]

QUESTION TWO

X Company Ltd makes a chemical that passes through 3 production processes 1, 2 and 3. In the month of December 2015, 3,000 litres of the basic raw material priced at Kshs.120,000 were introduced in process 1. Subsequently the following cost were incurred:

Cost element	Total (Khs.)	1	2	3
Direct material (additional)	43,750	15,000	20,000	8,750
Direct labour	55,000	20,000	25,000	10,000
Direct expenses	8,450	3,000	3,000	4,650

Normal loss per process were estimated as follows:

Process 1 5%
Process 2 2.5%
Process 3 4%

Output of each process was

Process 1 2650 units
Process 2 2500 units
Process 3 2350 units

The loss in each process represented scrap which could be sold off in the following values:

Process 1 Kshs. 10 per unit
Process 2 Kshs.22 per unit
Process 3 Kshs.32.5 per unit

There was no stock of material or work in progress at the beginning or the end of the month. The output of each process passes directly to the next process and finally to the finished goods stock.

Production overhead is absorbed by each process on the basis of 25% of direct labour cost.

Required:

(i) Prepare separate process accounts for each of the three processes. [15 Marks]

(ii) Prepare the abnormal loss/abnormal gains accounts. [5 Marks]

QUESTION THREE

(a) Why is marginal costing more suitable for managerial decision making? [4 Marks]

(b) XYZ Ltd manufactures product "M". The standard cost of producing one unit of product M is given below

Direct labour Kshs.15
Direct material Kshs.24
Variable production overhead Kshs.6
Fixed production overhead Kshs.15
Standard selling price per unit Kshs.205

Additional Information

- Fixed production overhead is based on activity level of 12000 p.a
- All fixed costs accrued evenly throughout the year
- Annual non-production costs consists of:
  Fixed cost Kshs.36,000
  Variable cost 15% of annual sales

The units produced and sold in the two quarters ended 30th September 2007 and 31st December 2007 were as follows:

	Quarter Ended 30th September 2007	31st December 2007
Units produced	2000	3200
Units sold	1500	3000

Required:

(i) Profit and loss statement for each quarter under both variable costing and full costing. [16 Marks]

(ii) Reconcile the profits for each quarter. [4 Marks]

QUESTION FOUR

(a) Bimbo Limited produces powder soap for household whose standard cost are as follows for a monthly budget of 1000 cartons.

Raw material:

- 15 g of Tallow at Kshs. 10 per kg
- 10 kg of caustic soda at Kshs.16 per kg
- Labour: 20 hours at Kshs.5 per hour

Overhead expenses which are fixed are budgeted at Kshs.40,000

The following details relates to actual results on October 2016 when 1200 cartons were actually produced and sold.

Raw material: Tallow 10800 kg at Kshs.129,600
Caustic Powder 13200 kg at Kshs.198000
Labour hours is 26400 at Kshs.145,200

Fixed overhead expenditure is Kshs.42,000

Required:

(i) Material price variance [4 Marks]
(ii) Material usage variance [4 Marks]
(iii) Material cost variance [2 Marks]
(iv) Labour rate variance [3 Marks]
(v) Labor efficiency variance [3 Marks]

(b) Marvels Company sells branded pens at Ksh.30 per unit. The variable cost per pen is Kshs.20 and fixed costs amount to Kshs.7,500 per month.

(i) State any 2 assumptions of CVP analysis. [2 Marks]
(ii) How many pens should the company sell to breakeven. [2 Marks]