

**CHUKA****UNIVERSITY****UNIVERSITY EXAMINATIONS****CHUKA AND EMBU CAMPUSES****EXAMINATION FOR THE AWARD OF CERTIFICATE IN BUSINESS  
MANAGEMENT****CIBM 00142: COST ACCOUNTING****STREAMS: CIBM Y1S1****TIME: 2 HOURS****DAY/DATE: TUESDAY 04/12/2018****2.30 P.M. – 4.30 P.M.****INSTRUCTIONS:**

- **ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE**

- (a) Define the term cost accounting and explain its importance to the management. (5 marks)
- (b) Explain the following as used in cost accounting giving examples in each case.
- |              |           |
|--------------|-----------|
| Fixed cost   | (2 marks) |
| Unit cost    | (2 marks) |
| Mixed cost   | (2 marks) |
| Product cost | (2 marks) |
- (c) The total costs and output volumes of a manufacturing company in the five months of the year have been as follows:

| Month    | Output | Total costs |
|----------|--------|-------------|
| February | 1,700  | Shs 20,500  |
| March    | 2,800  | Shs 22,250  |
| April    | 1,000  | Shs 19,950  |
| May      | 2,500  | Shs 21,500  |
| June     | 3,500  | Shs 23,950  |

**Required:**

- (i) Estimate the cost function using regression analysis (least squares). (7 marks)

- (ii) If output hits 8,500 units calculate the expected costs. (2 marks)
- (iii) Calculate the cost equation using High-low method (4 marks)
- (d) Explain four assumptions of CVP analysis. (4 marks)

### QUESTION TWO

- (a) The following information relates to Somo limited.

|                    | Kshs. Per Unit |
|--------------------|----------------|
| Direct labour      | 5              |
| Direct materials   | 25             |
| Variable overheads | <u>30</u>      |
|                    | 60             |
|                    | ==             |

Selling price of each unit is Kshs. 90.

Production and sales quantities for the first and second quarter were as follows;

|            | 1 <sup>st</sup> Quarter | 2 <sup>nd</sup> Quarter |
|------------|-------------------------|-------------------------|
| Production | 10,000                  | 10,000                  |
| Sales      | 8,000                   | 12,000                  |

Fixed overheads amounted to Kshs. 80,000

Required:

- Income/operating statement using marginal and absorption costing. (14 marks)
- (b) Explain the importance of budgeting to an organization. (6 marks)

### QUESTION THREE

- (a) The following information was extracted from the books Aida ltd regarding their stocks  
1<sup>st</sup> Jan the opening stocks was 400 units @ 50 shs each.

2/1/2015 received 350 units @ sh. 52  
5/1/2015 received 600 units @ sh. 64  
10/1/2015 received 450 units @ sh. 60  
17/1/2015 received 720 units @ sh. 65  
25/1/2015 received 300 units @ sh. 69

Issues

3/12015 issued 450 units  
7/1/2015 issued 570 units  
13/1/2015 issued 320 units  
19/1/2015 issued 200 units  
27/1/2015 issued 500 units

**Required:**

Prepare a store ledger card using FIFO method (First in First Out). (15 marks)

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

Required:

Compute the breakeven point in units and in shs (5 marks)

**QUESTION FOUR**

- (a) Explain what is meant by cash budget (3 marks)

- (b) Differentiate the following terms

Avoidable and Non avoidable costs (3 marks)

Controllable and Non Controllable Costs (3 marks)

- (c) ABC wishes to arrange credit facility with its bankers during the period of April to June 2008. Prepare a cash budget from the following information

| Particulars | Purchases | Wages  | Sales   |
|-------------|-----------|--------|---------|
| Feb 08      | 124,800   | 12,000 | 180,000 |
| March 08    | 144,000   | 14,000 | 192,000 |
| April 08    | 243,000   | 11,000 | 108,000 |
| May 08      | 246,000   | 10,000 | 174,000 |
| June 08     | 268,000   | 15,000 | 126,000 |

Additional information

50% of the credit sales are realized in the month following the sales and the remaining 50% in the second month following sales.

Creditors are paid in the month following month of purchases. They are no cash sales and cash purchases.

Wages are paid in their respective months

**Required**

Cash budget for the period April to June. (11 marks)

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