

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD OF
DIPLOMA IN ACCOUNTING**

DIAC 0113: COST ACCOUNTING

STREAMS: DIAC

TIME: 2 HOURS

DAY/DATE: MONDAY 03/12/2018

8.30 AM – 10.30 AM

INSTRUCTIONS:

Answer Question One and any other Two

1. (a) Define the term cost accounting stating its distinctive features. [5 marks]
- (b) State and explain any four objectives of cost accounting. [8 marks]
- (c) Distinguish between the following terms as used
 - (i) Cost unit and unit cost [2 marks]
 - (ii) Cost centre and cost object [2 marks]
 - (iii) Cost allocation and cost apportionment [2 marks]
- (d) Explain the following classification of costs
 - (i) Manufacturing costs and non-manual factoring costs. [2 marks]
 - (ii) Product cost and period cost [2 marks]
- (e) A company makes a single product with sales price of ksh. 12 and variable production cost per unit of ksh. 3, variable selling cost per unit of ksh. 4 and variable administration cost per unit of ksh. 1

Required:

- (i) Break-even point in units and in shillings. [4 marks]
- (ii) What level of sales will achieve a profit of ksh. 20,000 [3 marks]

Question Two

- (a) Highlight any five assumption of break-even (C.V.P) analysis. [5 marks]
- (b) During a particular period, XYZ company produced 20,000 units of product Q. out of the units produced, only 18,000 units were sold.
The analysis of sales and costs were as given below

	Ksh
Selling price per unit	5
<u>Production Cost</u>	<u>Ksh.</u>
Variable	35,000
Fixed	15,000

Required:

Prepare a comparative income statement for the period using:

- (i) Absorption costing [5 marks]
- (ii) Marginal costing [5 marks]
- (c) Explain five reasons why marginal costing is preferred to absorption costing. [5 marks]

Question Three

- (a) Highlight five differences between job costing and process costing. [10 marks]
- (b) Company Q manufactures a chemical that passes through three processes 1,2 & 3. In the month of October 6000 litres of the basic raw priced at ksh. 240,000 were introduced in process 1. Subsequently, the following costs were incurred:

	Total cost	Process 1	Process 2	Process 3
Direct material	87,500	30,000	40,000	17,500
Direct labour	110,000	40,000	50,000	20,000
Direct expenses	16,900	6,000	1,600	9,300

Normal loss per process were estimated as follows:

Process 1 – 10%

Process 2 – 5%

Process 3 – 8%

Output for each process was

Process 1 – 5300 units; process 2 – 5000 units

Process 3 – 4700 units

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

Process 1 = ksh. 20 per unit
 Process 2 = ksh. 44 per unit
 Process 3 = ksh. 65 per unit

There was no stock of materials or work in progress at the beginning or end of the month. The output of each process passes directly to the next process and finally to the finished goods stock account. Production overhead is absorbed by each process on the basis of 50% of direct labour cost.

Required:

- (i) Prepare separate process accounts for each of the three processes. [10 marks]

Question Four

- (a) The production manager of Daima manufacturers is concerned with apparent fluctuations in efficiency and wants to determine how labour costs are related to volume. The data below represents the six most recent weeks.

Week No.	Units produced	Labour cost
1	34	340
2	11	346
3	24	287
4	36	292
5	30	291
6	49	416

- (i) Determine the cost function using high-low method. [5 marks]
 (ii) Determine the cost function using regression analysis. [7 marks]
- (b) Explain the need for budgeting in an organization. [8 marks]
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