

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DIPLOMA IN ACCOUNTANCY

DIAC 0113: COST ACCOUNTING

STREAMS: DIP. ACCOUNTANCY Y1S2

TIME: 2 HOURS

DAY/DATE: TUESDAY 06/08/2019

11.30 A.M. – 1.30 P.M.

INSTRUCTIONS:

- Answer question ONE (compulsory) and any other TWO questions
- Do not write anything on the question paper

QUESTION ONE

- (a) State and explain any four objectives of cost accounting. (8 marks)
- (b) Distinguish between the following terms as used in cost accounting:
- (i) Implicit cost and explicit cost (2 marks)
 - (ii) Cost center and cost objective (2 marks)
 - (iii) Cost unit and unit cost (2 marks)
 - (iv) Fixed cost and variable cost (2 marks)
 - (v) Semi variable cost and semi-fixed cost (2 marks)
- (c) The following information relates to Maji ya Chumvi Ltd, a salt processing company for the first six months of the year 2018.

Month	Output (units)	Total Cost (Sh)
January	1,000	29,200
February	1,400	30,400
March	1,200	29,600
April	1,000	28,400
May	1,600	32,800
June	1,200	30,400

Required:

- (i) Estimate the cost function using high low method. (5 marks)
- (ii) Estimate the cost function using regression analysis. (7 marks)

QUESTION TWO

- (a) Highlight any five assumptions of cost, volume and profit (CVP) analysis. (5 marks)
- (b) XYZ ltd manufactures and sells “high density” mattress. The selling price per unit of mattress is Sh. 5,000. If the company incurs Shs. 3,000 to produce each unit of mattress and a further Shs. 100,000 for rent;
 - (i) How many mattress must it sell at break-even? (3 marks)
 - (ii) If the company wants to realize a before tax profit of Sh. 200,000, determine the number of units to be sold. (3 marks)
 - (iii) How much after tax profit will the company earn it sells 200 mattresses? [Tax rate = 30%] (4 marks)
- (c) Highlight any five importance of standard cost in an organization. (5 marks)

QUESTION THREE

- (a) Distinguish between job costing and process costing. (6 marks)
- (b) XYZ expects the following activity levels in January 2022.

Sales 14,000units
 Production 17,000 units

The company also expects an opening stock of 1,000 units as at 1st January 2022. The budgeted unit selling price and cost are as follows:

	Kshs. Per unit
Selling price	45
Direct material	11
Direct labour	8
Production overhead (Ksh 3 variable)	7
Selling and administrative overhead (50% fixed)	10

Required:

- (i) Calculate the marginal production cost per unit. (2 marks)
- (ii) Prepare a comparative income statement using marginal costing and absorption costing techniques. (12 marks)

QUESTION FOUR

- (a) State and explain any three types of standards in a standard costing system. (6 marks)
- (b) 100 units are introduced into a process at a cost of Ksh. 20 per unit. The total additional expenditure by the process is Ksh. 600. Of the units produced, 10% are normally spoiled in the course of manufacture. The spoiled units have a scrap value of Kshs. 5 per unit. Due to an accident, only 80 units were produced.

Required:

- (i) Prepare a process account. (6 marks)
 - (ii) Prepare abnormal loss account (4 marks)
 - (c) Highlight any 4 importance of budgeting in an organization. (4 marks)
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