

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DIPLOMA IN ACCOUNTING

DIAC 0113: COST ACCOUNTING

STREAMS: DIP. DIAC Y1S2

TIME: 2 HOURS

DAY/DATE: FRIDAY 06/12/2019

2.30 P.M. – 4.30 P.M.

INSTRUCTIONS:

- **Answer question ONE and any other TWO.**
- **Clearly show all your workings.**
- **Do not write anything on the question paper.**

QUESTION ONE

- (i) Briefly explain the importance of cost accounting to a firm. (5 marks)
- (ii) Discuss five characteristics of a good cost accounting system. (10 marks)
- (iii) The following data relate to ABC College for the last five years.

Year	No of students	Total incurred (Ksh)
2014	180	3,200,000
2015	200	3,600,000
2016	400	7,000,000
2017	300	3,530,000
2018	320	3,820,00

Required:

Determine the cost-estimation equation that can be used to predict the costs for college in 2019 using:

- (i) The range method. (5 marks)
- (ii) Regression analysis. (8 marks)
- Assume that the college expects to enroll 732 students in both cases.
- (iii) Discuss advantages of regression analysis method over high-low method. (4 marks)

QUESTION TWO

- (a) The following data are extracts from the books of ABC engineering firm. It has received an order to install one cooling machine for a dairy firm in Chuka town. Estimated cost for the job is:

	Kshs
Direct materials purchased	295,000
Stores issued for the job	139,920
Materials returned to supplier	13,200
Materials returned to store	26,620
Direct labour	
Machinery	299,200
Turning	52,360
Assembly, parking	110,440
Installation costs: labour & other costs	47,520

Absorb factory overhead to jobs at $66\frac{2}{3}\%$ of the total factory wages and selling and administration overheads at 25% of factory production costs (including installation charges)

Other additional information

	Ksh
Delivery overheads	
Carriage and insurance (actual)	40,700
Sales (customer quotation)	1,705,000

Required:

Prepare a job-order account and show total costs and net profit on selling price. (10 marks)

- (b) Costs may be classified in a variety of ways: Explain and discuss this statement with examples of classifications required for different purposes. (10 marks)

QUESTION THREE

- (a) Discuss assumptions of cost volume profit analysis. (5 marks)
- (b) Explain three causes of normal loss during the production process. (3 marks)
- (c) A company in Chuka town processes a range of products which include a detergent which passes through three processes before competition and transferred to the finished goods store. During the month of February 2017, the following data was obtained from the Company's records:

	Process			Total
	1	2	3	
	Ksh	Ksh	Ksh	Ksh
Basic raw materials (100,000 units)	6,000	-	-	6,000
Direct materials added in process	8,500	9,500	5,500	23,500
Direct wages	4,000	6,000	12,000	22,000
Direct expenses	1,200	930	1,340	3,470
Production overhead				16,500
	Units	Units	Units	
Output	9,200	8,700	7,900	
	%	%	%	
Normal loss in process	10	5	10	
Scrap value per unit	Ksh. 0.20	0.50	1.00	

Production overheads are absorbed as a percentage of direct wages. There was no stock at the beginning or closing of any process.

Required: Prepare

- (i) Process 1 account (4 marks)
- (ii) Process 2 account (4 marks)
- (iii) Process 3 account (4 marks)

QUESTION FOUR

- (a) Explain FOUR importance of budgeting to a firm. (2 marks)
- (b) Explain four objectives variance analysis. (4 marks)
- (c) The following information relates to a certain firm in Embu Town;
Standard materials: 2,000kgs @ ksh 5/kg
Actual materials use 2200kgs @ ksh 8/kg

Required:

- (i) Calculate material usage variance. (2 marks)
- (ii) Explain two cause of material usage variance. (2 marks)
- (d) Consider two companies with the following unit prices and variable costs:

H Company	Sh
Selling price per unit	12
Variable cost per unit	4
Fixed cost of operations per year	75,000
M company	12
Selling price per unit	8
Fixed cost of operations per year	50,000

Required:

- (i) Calculate the break-even point of company in units. (5 marks)
- (ii) If both companies intended to make a profit of Ksh 120,000, what number of unit would each company have to produce and sell? (5 marks)
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