CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATIONS FOR THE AWARD OF CERTIFICATE IN BUSINESS MANAGEMENT

CIBM 00142: COST ACCOUNTING

STREAMS: CIBM **TIME: 2 HOURS**

DAY/DATE: WEDNESDAY 08/8/2018 **2.30 P.M. – 4.30 P.M.**

INSTRUCTIONS: Answer question ONE and any other TWO questions

QUESTION ONE

(a) Explain the following terms as used in cost accounting

(i) Cost centre and cost unit [2 marks]

(ii) Manufacturing costs and non-manufacturing costs [2 marks]

(iii) Fixed costs and variable cost [2 marks]

(iv) Product cost and period cost [2 marks]

(v) Direct cost and indirect cost [2 marks]

(b) Company X produces and sells product Q whose selling price per unit is kshs. 25 and variable cost per unit is kshs 20. The total fixed cost is kshs. 20,000

Required:

(i) Determine the break-even point in units and in shillings [4 marks]

(ii) How many units of product Q will have to be sold so as to earn a before tax profit of ksh. 7000? [3 marks]

(c) The total cost and output volume of a manufacturing company in the first 6 months of the year are as follows:

Month	Jan	Feb	March	April	May	June
Output (units)	500	700	600	500	800	600
Total cost	14600	15200	14800	14200	16400	15200

Required:

(i) Estimate the cost function using high-low method [5 marks]

(ii) Estimate the cost function using regression analysis [8 marks]

QUESTION TWO

(a) Highlight any five assumptions of cost volume profit (CVP) analysis [5 marks]

(b) Kamau a sole trader produces orange juice whose selling price per glass is ksh. 150. If Kamau incurs ksh 80 to produce the glass of juice and further kshs. 3000 for rent, how many glasses of juice must he sell at breakeven? [4 marks]

(c) ABC ltd produces a simple product meant for local consumption. The monthly demand for the product varies from one month to another. During the month of October 2017, 1000 units of the product were produced and the following expenses were incurred:

Expense	Sh. 000
Direct materials	30
Direct labour	40
Rent	25
Electricity overhead (40% fixed)	27
Property rates & rent (80% variable)	50
Technical support	28
	200

(i) Using accounts analysis method, estimate the cost function [7 marks]

(ii) If 1150 units of the product are produced in December 2017, what would be the estimated cost [4 marks]

QUESTION THREE

(a) Explain why marginal costing is preferred more than absorption costing [5 marks]

(b) A company expects the following activity levels in August 2018

Sales	7000 units
Production	8500 units

There is no opening stock on 1st August 2018. Fixed overhead costs are based on normal capacity of 9600 units

The budgeted unit selling price and total cost are as follows:

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

Required:

(i) Calculate the marginal production cost and absorption production cost per unit of the product [3 marks]

(ii) Prepare income statements using marginal costing and absorption costing techniques [12 marks]

QUESTION FOUR

(a) Explain any five importance of budgeting in an organization [10 marks]

(b) Differentiate between job costing and process costing [4 marks]

(c) Explain the following types of standards

(i) Ideal standards [2 marks]

(ii) Current standards [2 marks]

(iii) Basic standards [2 marks]
