KABARAK UNIVERSITY

EXAMINATIONS

2008/2009 ACADEMIC YEAR

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: **ACCT 314**

COURSE TITLE: **COST ACCOUNTING**

STREAM: **Y3S1**

DAY: **THURSDAY**

TIME: **11.00-1.00 P.M.**

DATE: **11/12/2008**

INSTRUCTIONS:

Answer ALL the FOUR questions.
All questions carry equal marks.
Be neat and orderly.
Where necessary give your answer to two decimal places.

PLEASE TURN OVER

QUESTION ONE

Nairobi ltd wishes to study the relationship between the total costs of one of its departments and the physical output of that department. It decides to begin with a simple linear probabilistic model relating weekly total operating cost to weekly output as follows: $Y = a + bX$. Where (**Y**) is weekly total operating cost and (**X**) is weekly unit production. Nairobi ltd obtains the following data on weekly production and costs:

Weeks ago	Units produced	Total operating costs
1	1,000	Sh.2,000
2	4,000	Sh.5,000
3	10,000	Sh.9,000
4	7,000	Sh.7,000
5	3,000	Sh.3,000

(a) Required to estimate the cost function under:

i). Regression analysis. **(13mks)**

ii). High low method. **(7mks)**

(b) Explain how one can apply the accounts classification method to estimate the cost function. **(5mks)**

QUESTION TWO

Diamond ltd producer of diamond has five production processes organized as follows: shaping, graphics, moulding, sanding and finishing. The following information is available regarding production in the first department; shaping department during the month of March 2008:

Production data

- § Units in process, March 1st: 50% complete as to materials, 30% complete as to conversion …………………………………………………….…….. 200.
- § Units started into production during March 2008 ...……..……..... 5,000.
- § Units completed and transferred out to graphics Department…… 4, 800.
- § Units in process, march 31st: 40% complete as to materials, 25% complete as to conversion.…….………………………………………………………400.

Cost data

(a) Work in process inventory, March 1st 2008:

Materials ………………………………..… ksh.3, 000.

Labour …. ……………………..……….…… Ksh.500.
Overheads …………………………..…… Ksh. 500.

(b) <u>Costs added during March 2008 :</u>
Materials ………………………………… Ksh. 74,000.
Labour.. …………………………………. Ksh. 35,000.
Overheads …………………………………ksh. 35,000.

<u>Required;</u>

i) Prepare a production report for the shaping Department for March 2008 using the weighted average method. (**17mks**)

ii) Prepare journal entries to record the above information. **(4mks)**

iii) Post the above journals to relevant ledger accounts. (**4mks)**

<u>QUESTION THREE</u>

Ken ltd manufactures a line of electric garden tools that are sold in the general hardware stores. The company's controller has just received the sales forecast for the coming year for ken's three products; weeder, hedge clippers and Leaf blowers. The preliminary budget information is presented below:

	Weeder	**Hedge clippers**	**Leaf blowers**
Sales units	50,000	50,000	100,000
Contribution margin per unit	sh.1,000	sh.2,000	sh.1,700
<u>Variable cost per unit</u>			
Manufacturing	sh.1,300	sh1,200	sh2,500
Selling	sh. 500	sh. 400	sh 600

The fixed factory overheads are budgeted at sh. 200 million and the company's fixed selling and administration expenses are forecasted to be sh.60 million. The company has an effective tax rate of 40%.

Required to:

(a) Determine Ken ltd's budgeted net income. **(3mks)**

(b) Assuming the sales mix remains as budgeted; compute the break-even point both in total and for each product**.** **(12mks)**

(c) Determine the total sales ken ltd must make in order to earn a net income of sh.45 million. **(5mks)**

(d) State any five assumptions of the cost volume profit analysis that the controller will face in evaluating Ken's company budget. **(5mks)**

QUESTION FOUR

Explain the meaning, merits and demerits of the following:

(a) Activity based costing. **(9mks)**
(b) Activity based budgeting. **(8mks)**
(c) Marginal costing. **(8mks)**

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