KABARAK UNIVERSITY

UNIVERSITY EXAMINATIONS

2009/2010 ACADEMIC YEAR

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: ACCT 314

COURSE TITLE: COST ACCOUNTING

STREAM: Y3S1

DAY: THURSDAY

TIME: 9.00 – 11.00A.M.

DATE: 12/08/2010

INSTRUCTIONS

1. Answers **ANY FOUR** questions. Be neat and orderly. Show all the workings for they shall be awarded marks. All question carry equal marks.
2. Time allowed **Two** hours. Marks are shown at the end of each question

PLEASE TURNOVER

QUESTION ONE

Narok county council which is trying to estimate its cost function provides you with the following records of wages expenses and the number of employees working for the last six months ending October 2009 in the revenue collection department:

Month	Number of workers	Wages costs
May	140	Ksh.238
June	180	242
July	120	201
Aug	140	183
Sep	100	154
Oct	200	291

Required:

i) Estimate the cost function Y = a + bx under the two point method. Comment on the cost model estimated. [4**mks]**

ii) Estimate the cost function Y =a + Bx under the least square method. **[12mks]**

iii) Explain briefly six steps of developing a linear cost model **[9mks]**

QUESTION TWO:

The valentine company manufactures a product that goes through two departments prior to completion. The following information is available on work done in the mixing department during January 2010.

		Degree of completion	
	units	**materials**	**conversion**
Work in process January 1st	70,000	5/7	3/7
Units started into production	460,000		
Completed and transferred out	400,000		
Work in process January 31st	80,000	3/4	5/8

Costs in the beginning work in process and costs added during the month of January are as follows:

	Materials	**conversion**
Work in process January 1st	Ksh.35,000	Ksh.17,000
Costs added during January	Ksh.391,000	Ksh.282,000

The company uses first in first out [FIFO] method to compute unit costs. The mixing department is the first department in the process; after mixing has been completed, the units are transferred to the bottling department. A normal loss of 10% of production was anticipated and spoiled units could fetch Ksh. 0.5 per unit

Required:

(a) Prepare a production report for the mixing department for the month of January 2010. **[13mks]**

(b) Provide appropriate journal entries for the mixing department **[6mks]**

(c) Provide the necessary ledger accounts for the above journals **[6mks]**

QUESTION THREE:

(a) Discuss any five ways of classifying costs. In each case cite suitable examples. **[10mks]**

(b) Cleary discuss three key steps of attributing overheads to cost. **[9mks]**

(c) State the advantages and disadvantages of budgeting **[6mks]**

QUESTION FOUR:

Xyz ltd produces a single product and had the following budget for year ended 31st December 2009:

	US. $
Unit selling price	10
Direct material per unit	3
Direct wages per unit	2
Variable production overheads per unit	1

Budgeted fixed production overheads is $10,000 per annum while production volume budgeted is 5,000 units. There was no opening stock as at 1st January 2009. During the year ended 31st December 2009, 6,000 units were produced and out of these 4,800 units were actually sold. Administration costs were expected to be $1, 000 while selling and distribution were estimated at $500. In addition assume all costs incurred were as budgeted.

Required:

i). Profit statements for the year ended 31st December 2009 under:

- **(a) Absorption costing** **[9mks]**
- **(b) Marginal costing** **[8mks]**

ii). Prepare a profit reconciliation statement for two profits above **[3mks]**

iii). State five challenges an accountant is likely to encounter under overhead analysis and recovery **[5mks]**

QUESTION FIVE:

CMC Ltd manufactures and sells two classes of vehicles namely: **Arm, and Bamly .** The manager who is trying to estimate the company's break-even points for the next month present you with the following forecast concerning the selling prices, sales mix and variable costs per unit for the three categories of vehicles as follows;

Products	**Arm**	**Bamly**
Selling price per unit	$1000	$650
Sales units	1,000	5,000
Contribution per unit	$ 500	$250

The fixed production costs are budgeted at $300, 000 and the company's fixed selling and administration expenses are forecasted to be $ 400, 000. The company has an effective tax rate of 30%.

Required:

(a) Determine CMC ltd's budgeted net income. **[3mks]**

(b) Calculate total break even points in: (i) units (ii) Dollars **[7mks]**

(c) Compute break-even points in (i) units (ii) Dollars for each product. **[6mks]**

(d) Determine the total sales the manager must make in order to earn a net income of $.200, 000 for the next month. **[4mks]**

(e) State any five assumptions the manager is likely to encounter when using the cost volume profit model. **[5mks]**