MACHAKOS UNIVERSITY

University Examinations for 2017/2018 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ADMINISTRATION

SECOND YEAR FIRST SEMESTER EXAMINATION FOR DIPLOMA IN SUPPLIES AND PROCUREMENT

DPS 111: COST ACCOUNTING

DATE: **DATE :2HRS**

INSTRUCTIONS.

Answer question one and any other two questions
Do not write on the question paper
Additional instructions are contained in the answer booklet

QUESTION ONE (30 MARKS)

a) Explain the meaning of the term cost (2 marks)

b) State three disadvantages of engineering/work measurement method of cost estimation (3 marks)

c) List five conditions for an effective costing system. (5 marks)

d) The following information shows the sales and advertising expenditures of Kimu Lld over the past six years

YEAR	ADVERTISING(X)	SALES SH (MILLIONS) (Y)
2009	7	200
2010	10	250
2011	9	300
2012	10	320
2013	11	350
2014	13	380

REQUIRED

i. Determine the linear regression line in the form Y= a+bx

ii. Determine the total cost for 2015 and 2016 if estimated number of advertisements will be 20 and 25 respectively. (20 marks)

QUESTION TWO (20 MARKS)

a) State four reasons why management needs to understand the concept of costs (4 marks)

b) Differentiate the following terms

   i. Manufacturing cost and non-manufacturing costs
   ii. Direct costs and indirect costs
   iii. Controllable costs and non-controllable costs
   iv. Period costs and product costs (8 marks)

c) Wale wapya Golf Club has prepared the following production budget.

period	January	February	march	April	Totals
requirements	10000	11000	12000	13000	46,000

To utilize the required units of the requirements. Direct Labour hour will cost shs 2.95 per unit required and the golf club will have to incur sh 1.05 in form of direct Labour hour to utilize each unit of the requirement.

Required.

Prepare the company's direct Labour budget per month and in totals (8 marks)

QUESTION THREE (20 MARKS)

a) What are the objectives of budgeting (4 marks)

b) State four advantages of budgeting (4 marks)

Given below are the maintenance costs incurred and the number of Labour hours employed by kaloleni garage in between January and June 2016. The garage expects to use 3500 Labour hrs. In July and 6000 Labour hrs. In august

Number of hours (000)	4	5	3	6	4	2
Repair costs (shs 000)	60	90	60	100	70	50

Required

c) Using high low method method , determine both the total fixed cost and the variable costs for the garage

d) Derive the cost estimation function for the garage

e) Using the computation above determine estimated cost for July and august

(12 marks)

QUESTION FOUR (20 MARKS)

a) State three advantages of standard costing (3 marks)

b) State two limitations of standard costing (2 marks)

c) Kivi limited produces a single product called DX. The following information relates to the year ended 31Dec 2016

Opening inventory (units)	70,000
Manufactured (units)	80,000
SALES	Kshs 4,320,000
Selling price per unit	kshs 45
Variable manufacturing costs	kshs 960,000
Fixed costs	
Production	kshs 1,250,000
Selling and administration	kshs 296,500
Sales commission	kshs 1,200,000

Required:

Prepare income statements using both marginal costing and absorption costing methods (15 marks)

QUESTION FIVE (20 MARKS)

a) List the purposes of cost accounting (5 marks)

b) Chicken feed limited specialized in the wholesaling of chicken feeds. It has 5 employees whose monthly wages and salaries amount to shs.6, 400. The company owns a lorry bought two years ago at a price of shs 193,000. The current book value of the lorry is shs 96,000. The company uses shs 4,800 per month. During the month of October 2016 the company had the following transaction.

DATE	QTY BAGS RECIEVED	PRICE	VALUE	DATE	QTY BAGS DISPATCHED	PRICE	VALUE
OCTOBER 2016		SHS	SHS	OCTOBER 2016		SHS	SHS
2	400	150	60,OOO	8	300	170	5,000
10	600	165	?	15	500	180	90,000
14	700	170	?	26	800	200	160,000
27	500	180	?	30	500	?	100,0000

NB: There was an opening stock of 200 bags valued at shs. 28,000. Each bag had been bought at shs.140

Required:

a) The value of closing stock using last in first out method. (10 marks)

b) The profit for the month of October (5 marks)