The Co-operative University of Kenya

END OF SEMESTER EXAMINATIONS AUGUST-2018

EXAMINATION FOR THE DIPLOMA IN CO-OPERATIVE MANAGEMENT (YR II SEM I)

UNIT CODE: COCM 1201

UNIT TITLE: COST ACCOUNTING 1

DATE: 22ND AUGUST, 2018 **TIME: 9:00 AM – 11:00 AM**

INSTRUCTIONS:

- Answer question **ONE (compulsory)** and any other **TWO** questions

QUESTION ONE

a) Define the following terms as used in cost accounting

i. Marginal costing (1 mark)

ii. Sunk costs (1 mark)

iii. Batch costing (1 mark)

iv. Service costing (1 mark)

v. Contract costing (1 mark)

b) Briefly outline the advantages of standard costing (5 marks)

c) Fruit processors Ltd packs and sells pineapple juice, which is sold in 1 litre cans at a price of Sh.50/can. During the last financial year 350,000 cans of juice were packed of which 300,000 cans were sold. The company's operating budget provides for a production and sales level of 360,000 cans per annum.The standard cost of producing each can is Sh. 32 made up of the following costs:

	Sh.
Direct materials-2 litres @sh. 7.50/litre	15
Direct labour-1 hour @Sh. 10/hr	10
Variable overheads-Sh. 3/direct labour	3
Fixed overhead-Sh. 4/direct labour hour	4
Total	**32**

The following costs were incurred during the year

	Sh.
Direct materials purchases (800,000 litres)	6,200,000
Direct labour (325,000 hours)	3,510,000
Variable overheads	1,000,000
Fixed overheads	1,200,000

Direct material usage amounted to 710,000 litres

Required

a) Calculate the following variances:

i). Material price and efficiency (5 marks)

ii). Labour rate and efficiency variance (5 marks)

d) Compare and contrast Cost Accounting and financial Accounting (10 marks)

QUESTION TWO

a) Otieno runs a wine club. He buys six different types of wines in cases of 12 and sells the wine in cases of six, each case containing one bottles of each type.

Purchase cost per cost of 12:	Sh
Valpolicella	18.00
Bardolino	18.00
Liebfraumilch	18.60
Niersteiner	21.00
Bereich bernkastel	20.40
Piesporter	24.00
Selling price per case of 6	12.00
Variable distribution cost per case	0.50
Annual fixed expenses:	
Storage	2,000
Wages	1,000

Hint: consider each question independently

Required:

i. What is the annual break-even point in sales revenue and on unit sales? (3 marks)
ii. If 3,800 cases were sold in the year, what would Otieno's profit be? (2 marks)
iii. Otieno thinks that by spending sh 200 per month on advertising, he can achieve annual sales of 5,000 cases. What would his profit be under this scheme? (2 marks)
iv. The wages are paid to an assistant, Kimenyi, who sells the wine. Kimenyi offers to forego his salary in exchange for a Sh 0.25 commission for every case sold. If Otieno accepts Kimenyi's offer, what would be the annual break-even point in sales revenue and in units? (3 marks)
v. Otieno's target profit is Sh. 6,000. How many cases should be sold to achieve this figure:
    i. If Kimenyi's receives hid Sh 1,000 salary
    ii. If Kimenyi is paid by commission (3 marks)
vi. What level of sales produces a profit figure which is the same whether Kimenyi is paid by salary or by commission? (3 marks)

b) Outline the limitations of CVP analysis (4 marks)

QUESTION THREE

The following data have been extracted from the budgets and standard costs of Mambo Yote Limited, a company which manufactures and sells single product.

	Sh. per unit
Selling price	45.00
Direct materials cost	10.00
Direct wages cost	4.00
Variable overhead costs	2.50

Fixed production overhead costs are budgeted at Sh.400, 000 per annum. Normal production levels are thought to be 320,000 units per annum.

Budgeted selling and distribution costs are as follows:

Variable Sh.1.50 per unit sold
Fixed Sh.80, 000 per annum

Budgeted administration costs are Sh.120, 000 per annum (fixed).

The following patterns of sales and production are expected during the first six months of 2014.

	January – March	**April – June**
Sales (units)	60,000	90,000
Production (units)	70,000	100,000

There is no stock on 1 January 2014.

Required:

Prepare profit statements for each of the two quarters, in a columnar format, using the following:

a) Marginal costing (7 Marks)

b) Absorption costing (8 Marks)

c) Prepare a reconciliation statement for the results in **a** and **b** above (5 marks)

QUESTION FOUR

a) Define Zero based budgets and explain how they are prepared (5 marks)

b) You are provided with the information below for Muthokinju paints Ltd on budgeted figures for shiner paint and the actual results for the period ending 30th June 2014

Particulars	Budget	Income statement
Sales(units)	2,000	1,800
Direct labour	8,000	7,560
Direct materials(Kgs)	5,000	4,320
Variable overheads(shs)	85,000	90,000
Fixed overheads(shs)	80,000	76,000

Additional information:

The standard selling price of the shiner paint is Sh 240 per unit while the input costs are as follows. Direct labour per hour Sh 15 and direct material per kilogram is Sh 25

Required:

Prepare a flexible budget and a reconciliation statement for Muthokinju paints Ltd as at 30th June 2014 (15 marks)