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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR**  
**FOURTH YEAR, FIRST SEMESTER EXAMINATION**  
**FOR THE DEGREE OF BACHELOR OF BUSINESS**  
**INFORMATION TECHNOLOGY**

Date: 19<sup>th</sup> April, 2022  
Time: 2.30pm –4.30pm

**KBA 2408 - COST ACCOUNTING**

**INSTRUCTIONS TO CANDIDATES**

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**ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS**

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**QUESTION ONE (30 MARKS)**

- a) Absorption involves changing of overheads to cost units. Describe the methods used in overhead absorption. (6 Marks)
- b) With the help of appropriate examples, differentiate between fixed cost, variable cost and semi-variable costs. (6 Marks)
- c) Identify the assumptions of the economic order quantity concept. (6 Marks)
- d) Rachel works in an electrical socket assembly plant. The company allocates 60 hours per week to assemble the parts to the required acceptable standard, and pays a wage of Kshs. 16 per hour. Due to her huge experience in the job, Rachel is able finish her assignment in 45 hour a week. Accordingly, calculate her total earning as per the;
- i) Halsey Premium Bonus (2 Marks)
  - ii) Halsey-Weir Bonus Scheme (2 Marks)
  - iii) Rowan Premium Bonus (2 Marks)
- e) Highlight the main purposes of cost accounting. (6 Marks)

## **QUESTION TWO (20 MARKS)**

- a) Costs can be estimated using a variety of techniques. Discuss any five methods of cost estimation. (10 Marks)
- b) The information given below relates to CVS Ltd. a manufacturer of medical gloves. Overhead processing costs for the last accounting months have been as follows;

Period	Overhead costs (Ksh. '000s)	Output level ( '000 tons)
1	960	200
2	900	170
3	940	200
4	950	200
5	940	180
6	870	160
7	800	140
8	820	150
9	790	140

Required;

Develop a linear model that will assist in predicting the overhead budget for the accounting period above.

(10 Marks)

## **QUESTION THREE (20 MARKS)**

- a) Nixon, an automobile technician has been operating a garage in Mombasa for the past two years. A year ago, he converted part of his garage to a welding shop making and selling metal doors and windows. He had anticipated that the cost of the welding shop would be final, but has realized that the welding cost increased with the increase in with number of welding job assignments. The costs of welding job assignments are as follows;

Month	No. of welding jobs	Total costs (Ksh. '000s)
May	280	700
June	800	860
July	1240	110
August	1000	960
September	600	720
October	920	910
November	860	880
December	1200	260

Required:

Formulate an equation to estimate the total cost of the welding shop and compute the cost of undertaking 1,256 assignments using the high-low method. (8 Marks)

- b) Materials costing, issue and control are key determinants in cost accounting, especially for firm's seeking to be efficient. Examine the centralized and decentralized purchase systems used and highlight two advantages of each.

(8 Marks)

- c) Explain the purposes of overhead cost analysis.

(4 Marks)

#### **QUESTION FOUR (20 MARKS)**

- a) The following information is provided from the financial books of Orion Paper Ltd., a distributor of plain and embossed printing paper:

Jan 1: Purchased 10 units @ sh10/=

Jan 3: Purchased 12 units @ sh11/=

Jan 5: Issued 20 units

Jan 8: Purchased 15 units @ sh12/=

Jan 9: Issued 10 units

Jan 13: Purchased 20 units @ sh11/=

Jan 17: Issued 8 units

Jan 19: Issued 9 units

Jan 21: Purchased 16 units @ sh13/=

Jan 25: Purchased 10 units @ sh12/=

Jan 28: Issued 16 units.

Jan 30: Purchased 12 units @ sh13/=

Jan 31: Issued 8 units.

*Required:*

Using the FIFO method, compute the value of issues and closing stock as at 31<sup>st</sup> January using a store ledger card.

(10 Marks)

- b) The Japanese motor industry is notable for using the Just-In-Time inventory method in their manufacturing process. Assess the characteristics of the JIT systems.

(6 Marks)

- c) Consider a situation where a worker works 10 hours on the job when his normal working day is 7 hrs with a basic pay of Ksh. 3,000 and overtime which is 1.5 times the normal rate. Calculate his gross earnings.

(4 Marks)

**QUESTION FIVE (20 MARKS)**

- a) A company is reviewing its stock and has the following alternatives available for evaluating the optimal order size for item number 1,287
1. Purchase stock twice monthly, 100 units
  2. Purchase monthly, 200 units
  3. Purchase every three months, 600 units
  4. Purchase every six months, 1,200 units
  5. Purchase annually, 2,400 units

It is ascertained that the purchase price per unit is Sh.80 for deliveries up to 500 units. A 5% discount is offered by the supplier on the whole order where deliveries are 301 up to 1,000 and 10% reduction on the total order for deliveries in excess of 1,000.

Each purchase order incurs administration costs of Sh.50. Storage, interest on capital and other costs are Sh.25 per unit of average stock quantity held.

*Required:*

Calculate the optimum order size and advise the management accordingly.

(10 Marks)

- b) Discuss the various methods of remuneration.

s(10 Marks)