



Kasarani Campus  
Off Thika Road  
Tel. 2042692 / 3  
P. O. Box 49274, 00100  
NAIROBI  
Westlands Campus  
Pamstech House  
Woodvale Grove  
Tel. 4442212  
Fax: 4444175

**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR**  
**FOURTH YEAR, FIRST SEMESTER EXAMINATION**  
**FOR THE DEGREE OF BACHELOR OF BUSINESS AND INFORMATION**  
**TECHNOLOGY**

Date: 14<sup>th</sup> August, 2023  
Time: 11.30am – 1.30pm

**KBA 2408 - COST ACCOUNTING**

**INSTRUCTIONS TO CANDIDATES**

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

**QUESTION ONE (30 MARKS)**

- a) Your uncle is a small business person involved in the processing and packaging of coffee for sale to the local market. He has heard about accounting and was further told there is financial and cost accounting. For his small business he does not see the need for cost accounting. Explain to him or why not he may need cost accounting.

(4 Marks)

- b) Differentiate between a cost unit, a cost centre and a profit centre using relevant examples.

(6 Marks)

- c) Z-Corner Ltd has three production departments and two service departments. The following is their budgeted factory overheads for the year ended 31st December 2021.

Production departments

A	220,000
B	180,000
C	175,000

Service departments

X	45,000
Y	35,000

The service department costs are to be re-apportioned as per the following percentages:

	A	B	C	X	Y
X	20	30	35	-	15
Y	30	30	30	10	

Required: Re-apportion the service department costs to the production departments using simultaneous equation method.

(10 Marks)

- d) The opening cash balance on 1st January was Shs28, 000. The sales budgeted was as follows;

<u>Month</u>	<u>Amount (Shs)</u>
November	90,000
December	80,000
January	95,000
February	85,000
March	110,000

Analysis of records shows that debtors settle according to the following pattern:

60% within the month of sale

25% the month following

15% the month following

Extracts from the Purchases budget were as follows:

<u>Month</u>	<u>Amount (Shs)</u>
December	60,000
January	55,000
February	45,000
March	55,000

All purchases are on credit and past experience shows that 90% are settled in the month of purchase and the balance settled the month after. Wages are Shs 15,000 a month while overheads average 25% of the monthly turnover. Taxation of Shs. 8,000 is settled in February in addition to insurance claim the company must settle in March for Shs. 25,000.

Required: Cash budget for January, February and March.

(10 Marks)

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

- a) IAS2 requires that the closing stock be valued on the basis of lower of cost and or net realizable value. Discuss the importance of this statement bringing out the relevance of prudence in accounting.

(8 Marks)

- b) You are provided with the following information relating to stock

Transactions for the month of May 2017.

May 1 Received 250 units at Sh 40 each

May 7 Received 150 units at Sh 44 each

May 9 Issued 200 units

May 14 Issued 100 units

May 19 Received 300 units at Sh 50 each

May 24 Issued 150 units

May 26 Received 100 units at Sh 52 each

May 30 issued 50 units

REQUIRED: Determine the value of the closing stock using

i) Last in first out (LIFO)

ii) FIFO

iii) Weighted average.

(12 Marks)

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

- a) Explain the meaning of localized procurement. Discuss the pros and cons associated with it. (12 Marks)
- b) The following information was obtained from the books of Mwiki Wholesalers
- |                       |         |            |
|-----------------------|---------|------------|
| Consumption per week: | Minimum | 600 units  |
|                       | Normal  | 800 units  |
|                       | Maximum | 1200 units |
| Re-order period       | Minimum | 2 weeks    |
|                       | Normal  | 3 weeks    |
|                       | Maximum | 5 weeks    |
| Reorder quantity      |         | 5000 units |
- Required: Calculate
- i) Re-order level. (3 Marks)
- ii) Minimum stock level. (3 Marks)
- iii) Maximum stock level. (2 Marks)

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

The following data relates to the repair cost incurred and the number of labour hours employed by Sukari Motor Garage Ltd for six months.

Month	Jan	Feb	March	April	May	June	
Repair cost (Shs)	600,000	800,000	550,000	1,000,000	700,000		500,000
No. of hours employed	4000	5000	3000	6000	4000	2000	

Required:

Formulate a cost estimation function or equation in form of  $y = a + bx$  using:

- a) High-low method (5 Marks)
- b) Visual fit method (5 Marks)
- c) Simple linear regression method (6 Marks)
- d) Use the equations obtained above to estimate the total repair cost for the month of July if the number of labour hours employed was 7000. (4 Marks)

### **QUESTION FIVE (20 MARKS)**

- a) Discuss the weaknesses of financial accounting which lead to the development of cost accounting. (6 Marks)
- b) Explain the concept of a key factor in budgeting. (4 Marks)
- c) Account for the difference in profit reported by marginal costing as compared to absorption costing. (4 Marks)
- d) Discuss the role of budgeting and budgetary control in cost accounting. (6 Marks)