



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
FOURTH YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF BUSINESS AND INFORMATION
TECHNOLOGY**

Date: 11th April, 2024
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) In spite of rapid expansion and growth, the management of Magic Ltd are concerned that although the accounts presented disclose profits being made, the company's overdraft in the balance sheet has been increasing.

Required

As the company's Cost Accountant, draft a report to management;

- i) Detailing factors that can cause an increase in bank overdraft in the face of increasing profitability. (6 Marks)
- ii) Giving options available for improving the company's liquidity without seeking external funds. (6 Marks)
- iii) Explaining what factors should be considered when designing a wages incentive scheme? (6 Marks)
- iv) Describing the purpose of cost accounting in planning and control. (4 Marks)

- b) The following information relate to the production cost centre of a certain product:

	Ksh
Total overheads for the period	12,000
Total direct labor hours for the period	1,600
Total direct wages	3,200
Total direct materials used	6,000
Total machine hours	2,400
Total units produced	90

Using the data above, calculate the following absorption rates using the Overhead absorption rate (OAR) formula.

- i) Direct labor hour OAR (2 Marks)
- ii) Direct wages OAR (2 Marks)
- iii) Direct material OAR (2 Marks)
- iv) Prime cost OAR (2Marks)

QUESTION TWO (20 MARKS)

- a) Reduction of costs is a corrective measure and is applicable to all kinds of businesses.Highlight five tools used for cost reduction. (5 Marks)
- b) Outline the advantages of engineering estimates as a method of cost estimation. (4Marks)
- c) Based on performance, you have been provided with the following information regarding PQR Ltd for the year ended 31 December 2023:

Labour hours (Activity level)	Service costs (Shs)
300	150,000
400	155,000
350	153,000
600	192,000
310	145,000
800	200,000

Required

- i) Develop a total cost function based on the above data using the high-low method. (7 Marks)
- ii) Determine the total cost when labour hours are 1,200. (4 Marks).

QUESTION THREE (20 MARKS)

- a) Evaluate the characteristics of an effective cost accounting system. (6Marks)
- b) Glory ltd manufacturing company provides to you the following information for the month of October 2023.

STOCKS ON 1ST OCTOBER 2023

	Shs
Raw materials	800,000
Work in progress	240,000
Finished goods	400,000

STOCKS ON 31ST OCTOBER 2023

Raw material	700,000
Work in progress	340,000
Finished goods	460,000
Purchases of raw materials for October	5,000,000
Factory wages	1,600,000

Salaries of supervisors	600,000
Factory rent	200,000
Power	100,000
Sundry factory expenses	300,000
Office salaries	260,000
Sundry office expenses	140,000
Salesmen's salaries	360,000
Sundry selling expenses	120,000
Sales	10,000,000

REQUIRED

- i) Prepare a production cost statement (7 Marks)
- ii) Prepare a profit statement (7 Marks)

QUESTION FOUR (20 MARKS)

- a) Outline atleast five assumptions of Economic Order Quantity. (5 Marks)
- b) Find the EOQ where the forecasted demand is 1,000 units per month, the ordering cost is Sh 350 per order, the unit cost Sh 8 each and its estimated carrying costs are 15% per annum. (6 Marks)
- c) Explain five disadvantages of time rate method of remuneration. (5 Marks)
- d) Describe four reasons for the valuation of inventory in an organization. (4Marks)

QUESTION FIVE(20 MARKS)

Budgets are plans expressed in financial and/or quantitative terms for a specified period of time in the future in setting up a budgetary control system

- a) Give sound reasons why it is necessary for a business concern to prepare budgets (8 marks)
- b) Describe the term principal budget factor in budgetary control (6 marks)
- c) Evaluate the essentials of an effective budgetary control system (6 marks)