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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY  
UNIVERSITY EXAMINATION, 2016/2017 ACADEMIC YEAR  
THIRD YEAR, FIRST SEMESTER EXAMINATION  
FOR THE DEGREE OF BACHELOR OF SCIENCE  
(BUSINESS ADMINISTRATION)**

Date: 11<sup>th</sup> August, 2016.  
Time: 5.30pm – 7.30pm

**KAC 302 - COST ACCOUNTING**

**INSTRUCTIONS TO CANDIDATES**

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

**QUESTION ONE (30 MARKS)**

- a) The following information is provided;

Jan 1: purchased 10 units @ shs. 10  
Jan 3: purchased 12 units @ shs. 11  
Jan 5: issued 20 units  
Jan 8: purchased 15 units @ Shs.12  
Jan 9: issued 10 units  
Jan 13: purchased 20 units @ Shs. 11  
Jan 17: issued 8 units  
Jan 19: issued 9 units  
Jan 21: purchased 16 units @ shs.13  
Jan 25: purchased 10 units @ Shs.12  
Jan 28: issued 16 units  
Jan 30: purchased 12 units @ Shs. 13  
Jan 31: issued 8 units

Required;

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

(10 Marks)

- b) Describe five main objectives of cost accounting.

(5 Marks)

- c) Depending on their nature and management information needs, costs may be classified using various methods. Discuss cost classification methods citing suitable examples for each classification.

(5 Marks)

d) The following is the budget of superb Engineering works for the year 2015.

Factory overheads	Ksh. 62,000
Direct labour cost	Ksh. 98,000
Direct labour hours	155000
Machine hours	50000
Actual labour hours were	40000
Actual machine hours were	30000
Actual direct labour costs were	Ksh. 50000
Actual direct material costs were	Ksh. 45000
Actual output	1000 units

Required

Determine the overhead application rate on the basis of

Direct labour hours

Direct labour cost

Machine hours

Overhead cost

Production cost

(10 Marks)

**QUESTION TWO (20 MARKS)**

a) Briefly explain the following terms as used in cost accounting;

- i) Mixed costs
- ii) Cost behavior
- iii) Incremental costs
- iv) Stepped costs and semi fixed costs.

(8 Marks)

b) The total cost and output volumes of manufacturing company in the first six months of the year have been as follows;

Month	Output	Total cost
	,000	,000
January	5	146
February	7	152
March	6	148
April	5	142
May	8	164
June	6	152

Required;

Using the regression analysis:

Estimate the cost function and estimate the expected costs in July if output volume is expected to be 8,000 units.

(12 Marks)

**QUESTION THREE (20 MARKS)**

- a) A company uses material item BC56. The reorder quantity for this material is 12000 units. Weekly usage of the item is 1500 units per week, but there is some uncertainty about the length of the lead time between ordering more materials and receiving delivery from the supplier.  
Supply lead time in weeks

Average	2.5
Maximum	3
Minimum	1

Required;

Calculate the reorder level, the maximum inventory level and the minimum inventory level for the material item BC 56

(12 Marks)

- b) Depending on their nature and management information needs, costs are classified using various methods. Discuss four cost classification methods citing suitable examples for each classification.  
(8 Marks)

**QUESTION FOUR (20 MARKS)**

XYZ manufacturing Ltd has the following information relating to a product X.

Selling price	Sh. 25/unit
Cost card per unit	
	Sh.
Direct materials	7
Direct wages	8
Variable production overheads	<u>5</u>
	20

There is variable selling cost per unit of Sh. 0.5

The following information relates to the company

	Year1	Year 2
	Units	Units
Normal/ budgeted production	12000	12000
Actual production	14000	11500
Actual sales	13000	12500
Budgeted/actual:		
Fixed production overheads	Sh.11000	shs11000
Actual fixed selling cost	sh. 5000	Sh. 5000

There was no opening inventory at the beginning of year 1. All variable costs were as per the budget for the 2 years.

Required;

Prepare profit and loss statements under marginal and absorption costing for the 2 years.

**QUESTION FIVE (20 MARKS)**

a) Explain the following cost estimation methods;

- i) High low method
- ii) Simple regression method

(8 Marks)

b) The standard material cost for product X is as follows:

Material A: 10 kg @ 20 =200

Material B: 5 Kg @ 50= 250

Material cost per unit 450

During the period 7500 units of product X were produced

Actual results are as follows

Material A 85000 Kg purchased at Ksh. 1,615,000

Material B 41000 kg purchased at Ksh. 2,152,000

Required;

Compute the material cost, material price and material usage variances.

(12 Marks)