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KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
FOR THE CERTIFICATE IN BANKING AND FINANCE
CBF 025: ELEMENTS OF COSTING

Date: 14TH APRIL 2023
Time: 2:30PM-4:30PM

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Highlight four limitation of financial accounting which has led to development of costing and cost accounting. (4 Marks)
- b) Identify five importance of budgeting to management. (5 Marks)
- c) Define the term cost. (2 Marks)
- d) ABC Limited buy 500 units of material per year, which are acquired at Shs125 each. The ordering cost is sh 250 per order and holding costs is Shs25 per unit per annum.

Required:

- i) Calculate the economic order quantity (EOQ). (4 Marks)
- ii) Number of orders to be made based on EOQ (2 Marks)
- iii) Total ordering cost (2 Marks)
- iv) Total holding cost (3 Marks)
- v) Total annual inventory cost (3 Marks)
- e) Outline the importance of costing to management. (5 Marks)

QUESTION TWO (20 MARKS)

- a) The following relate to XY manufacturing company

| | Sh. |
|----------------------------------|------------|
| Direct Materials | 37,500 |
| Direct Wages | 37,500 |
| Direct expenses | 7,500 |
| Indirect Material | 500 |
| Other Factory expenses | 2,850 |
| Indirect factory wages | 5,000 |
| Rent for the factory building | 2,500 |
| Salary for office staff | 2,000 |
| Other office expenses | 900 |
| Office rent and rates | 500 |
| Salary for office managers | 1,500 |
| Travelling expenses for salesmen | 1,100 |
| Salaries for sales managers | 4,000 |
| Advertisement | 1,000 |
| Carriage outward | 500 |

Required

- i) Cost statement showing prime costs. (3 Marks)
 - ii) Total production. (3 Marks)
 - iii) Total administration costs. (3 Marks)
 - iv) Total selling and distribution costs and total costs. (3 Marks)
 - v) If the sales amounted to Sh 130,000 calculate the profit. (2 Marks)
- b) Highlight the features of effective inventory system. (6 Marks)

QUESTION THREE (20 MARKS)

- a) Highlight four reasons for high labour turnover. (4 Marks)
- b) List four assumptions of economic order quantity model. (4 Marks)
- c) The following information is provided;
- | | |
|---------------------|--------------------|
| Normal consumption | 300 units per week |
| Maximum consumption | 450 units per week |
| Minimum consumption | 150 units per week |
| Re-order period | 4 – 6 weeks |
| Re-order quantity | 2,400 units |

Required:

- i) Re-order level. (3 Marks)
- ii) Minimum stock level. (4 Marks)
- iii) Maximum Stock level. (3 Marks)
- iv) Average stock (2 Marks)

QUESTION FOUR (20 MARKS)

- a) Briefly explain the following cost concepts
- i) Cost unit (2 Marks)
 - ii) Cost accumulation (2 Marks)
 - iii) Profit centre (2 Marks)
 - iv) Cost recognition (2 Marks)
- b) An employee is paid rate Ksh.1000 per hour. Normal time is 40 hrs per week but employee worked for 45 hours. Calculate total pay per week if overtime is paid at 50% more than normal rate. (3 Marks)
- c) Highlight the actions to be taken to reduce labour turnover (5 Marks)
- d) Briefly explain the following inventory valuation methods
- i) First In First Out (2 Marks)
 - ii) Last in First Out (2 Marks)
 - iii) Weighted average (2 Marks)

QUESTION FIVE (20 MARKS)

Explain the difference between the following terms;

- a) Product cost and period cost (4 Marks)
- b) Fixed and variable cost (4 Marks)
- c) Direct and indirect material cost (4 Marks)
- d) Job order costing and batch costing (4 Marks)
- e) Periodic and perpetual inventory systems (4 Marks)