



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 BUSINESS AND INFORMATION TECHNOLOGY**

Date: 6<sup>th</sup> December, 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) Yang Yu Ltd was awarded a contract to tarmac a road from Kahawa to Mwihoko on 1/7/2021 and was to be completed by mid-2023. The following information was extracted from the accounting records of the company as at 30/06/2022.

**Sh.**

Materials – issued from store	5,500,000
– by a supplier to the site	14,200,000
Labour	10,100,000
Sub-contracting fee	4,501,000
Plant and machinery bought on 1/7/2021	6,000,000
Tools & consumables	126,000
Head office expense – apportioned	1,184,000

On 30/6/2022 materials at site were valued at sh. 2,100,300. On the same day outstanding wages were sh. 350,000 and subcontract work sh. 25,000. The company received sh. 36,000,000 from the contractee which represents work certified as at 30/6/2022 after deducting 15% retention money. It is estimated that work costing sh.360, 000 is not covered by the certificate. The plant and machinery specifically purchased for the project is to be depreciated at 20% straight line with no residual value. The company only takes 2/3 of the profits on the work certified to its revenue account.

Required;

- Contract account. (8 Marks)
- Contractee account. (3 Marks)
- Work in progress account. (5 Marks)
- Relevant balance sheet extracts in relation to the contract (4 Marks)

- b) Not all organisations require cost accounting. Discuss. (4 Marks)
- c) Discuss the weaknesses of financial accounting which led to the development of cost accounting. (4 Marks)
- d) Differentiate between a cost unit, a cost centre and a profit centre using relevant examples. (6 Marks)
- e) Explain the concept of a key factor in budgeting. (3 Marks)
- f) Account for the difference in profit reported by marginal costing as compared to absorption costing. (3 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 Sold 200 units at Shs80 each  
 May 14 Sold 100 units at shs85 each  
 May 19 Received 300 units at Sh 50 each  
 May 24 Sold 150 units at shs75 each  
 May 26 Received 100 units at Sh 52 each  
 May 30 Sold 50 units at shs75 each
- Required;
- Determine the value of the closing stock using;
- i) First In First Out (FIFO) (3 Marks)
- ii) Last in first out (LIFO) (3 Marks)
- iii) Weighted average. (3 Marks)
- iv) For each of the above cases calculate the gross profit. (3 Marks)

**QUESTION THREE (20 MARKS)**

- a) Discuss the circumstances under which an organisation may prefer to undertake localized procurement. (4 Marks)
- b) Discuss the pros and cons associated with centralised procurement. (8 Marks)
- c) 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)**

Mwihoko Company Ltd produces tubes for motor cycles. The following information was provided for the year 2021:-

		<u>Shs</u>
Production	20000 tubes	
Sales	15000 tubes	
<b><u>Production costs</u></b>		
Direct materials		2400000
Direct labour		600000
Variable overheads		500000
Fixed overheads		900000
<b><u>Selling and administration</u></b>		
Sales commission		250000
General expenses		160000
Overheads (fixed)		240000

The company sells each tube at Shs300

**Required:**

- a) Income statement using marginal costing approach. (10 Marks)
- b) Income statement on the basis of absorption costing. (10 Marks)

**QUESTION FIVE (20 MARKS)**

- a) Z-Corner Ltd has three production departments and two service departments. The following is their budgeted factory overheads for the year ended 31st December 2017.

Production departments		
A	220,000	
B	180,000	
C	175,000	575000
Service departments		
X	45,000	
Y	35,000	80000

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.

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- b) By use of hypothetical figures differentiate between Taylor's differential and Merrick's multiple piece rate system of wage payment. (8 Marks)