



(Knowledge for Development)

**KIBABII UNIVERSITY**

**2017/2018 ACADEMIC YEAR**

**SECOND YEAR SECOND SEMESTER**

**SUPPLEMENTARY/ SPECIAL EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF COMMERCE**

**COURSE CODE:BBM 224**

**COURSE TITLE: COST ACCOUNTING**

**DATE:** 11/10/18 **TIME:** 9:00 AM

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**INSTRUCTIONS TO CANDIDATES**

Answer Question One in Section A and Any other TWO (2) Questions in Section B  
TIME: 2 HOURS

KIBUCO observes ZERO tolerance to examination cheating

This Paper Consists of 4 Printed Pages. Please Turn Over.

**SECTION A**

**QUESTION ONE (COMPULSORY)**

- a) Explain any five ways of distinguishing Financial Accounting and Management Accounting (10marks)
- b) Explain the important conditions for effective costing system (4marks)
- c) Differentiate between
- iii. Fixed costs and Variable costs (2marks)
  - iv. Direct product costs and indirect product costs (2marks)
  - v. Controllable costs and uncontrollable costs (2marks)
- d) Company ABC Ltd has three production departments A,B and C and two service departments X and Y. The following information has been provided:

Production Department	Cost (sh.)
A	6,000
B	7,200
C	8,600
Service Department	Cost (sh.)
X	2,800
Y	4,400

The service department costs are apportioned as follows:

	X	Y
A	30%	30%
B	10%	40%
C	20%	10%
X	-	20%
Y	40%	-

**Required:**

Determine total costs in the ABC Ltd using Simultaneous equation method. (10marks)

**SECTION B (ANSWER ANY TWO QUESTIONS)**

**QUESTION TWO**

- a) Define standard costing and highlight any five advantages of standard costing ( 7 marks)
- b) List any five assumptions that underlie the CVP analysis (5 marks)
- c) The following data relates to be for a product X.

Standard cost of per unit of a product

- i. Direct material 4kg @ sh. 60 per kg
- ii. Direct labour 2 hrs @ sh. 200 per hour

Actual results for a given period

- i. Direct material 6kg @ sh. 60 per kg
- ii. Direct labour 2 hrs @ sh. 200 per hour

**Required:**

- i. Direct material usage variance (2 marks)
- ii. Direct material price variance (2 marks)
- iii. Direct labour rate variance (2 marks)
- iv. Direct labour efficiency variance (2 marks)

### QUESTION THREE

EXPO Company limited makes a chemical that passes through 3 production processes 1, 2 and 3. In the month of August 6,000 Litres of the basic raw material priced at shs. 240, 000. 00 were introduced into process 1. Subsequently the following costs were incurred

ELEMENT OF COST	TOTAL	PROCESS		
		1	2	3
		Shs.	Shs.	Shs.
Direct material	87,500	30,000	40,000	17,500
Direct labour	110,000	40,000	50,000	20,000
Direct expenses	16,900	6,000	1,600	9,300

Normal loss per process was estimated as;

Process 1: 10%

Process 2: 5%

Process 3: 8%

Output (Units) for each process was

Process 1: 5,300

Process 2: 5,000

Process 3: 4,700

The loss in each process represented scrap which could be sold with the following values:

Process 1: shs. 20 per unit

Process 2: shs. 44 per unit

Process 3: shs. 65 per unit

Additional information:

i. There was no opening stock or closing stock

ii. Production overhead is absorbed by each process on the basis of 50% of the cost of direct labour.

#### **Required:**

a. Prepare separate process accounts

(12 marks)

b. Prepare the Abnormal loss and Abnormal gains accounts

(8 marks)

#### QUESTION FOUR

- a) Define Margin of Safety (2marks)  
b) Bigwa Company produces two products P and Q and has provided the following information relating to product P and Q.

	P	Q
	Sh.	Sh.
Selling price per unit	10	12
Variable cost per unit	2	8
Fixed cost	50,000	34,000

- i. Calculate the BEP of each product in units and in shillings (4marks)  
ii. Calculate the Margin of Safety if budgeted sales are 10,000 units each (4marks)  
iii. Compute the profit of each product if sales in unit are 20% above the BEP (5marks)
- c) Highlight five assumptions of the Cost Volume Profit Analysis (5marks)

#### QUESTION FIVE

- a) Assume that the Production Manager of Mumias Sugar Company Limited is concerned about their current fluctuation in the efficiency and therefore want to determine how labour cost is related to volume of units produced. The results of the 10 most recent weeks are shown below.

Week Number	Number of units (X)	Labour cost (Y)
1	400	960
2	240	880
3	80	480
4	400	1,200
5	320	800
6	240	640
7	160	560
8	480	1,200
9	320	880
10	160	440

**Required:**

- i. Establish a cost function using the least square method of regression analysis.(10marks)
  - ii. Assume that the number of units that the production manager expects to produce in the next period is 50 units. Estimate the labour cost to be incurred in that period. (2marks)
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- b) Highlight Four advantages of budgeting (4marks)
  - c) Explain any two types of overheads (4marks)