



*(Knowledge for Development)*

**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**  
**2020/2021 ACADEMIC YEAR**

**MAIN EXAMINATION**

**FOR THE DIPLOMA IN BUSINESS MANAGEMENT**

**COURSE CODE: DAB 100**

**COURSE TITLE: COST ACCOUNTING**

**DATE: 15<sup>TH</sup> JULY, 2021 TIME: 9.00 AM – 11.00 A.M**

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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

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 2 Printed Pages. Please Turn Over.

**SECTION A: ONE COMPULSORY QUESTION**

1(a) Give two definitions of the term Cost Accounting

**(4marks)**

1(b) Use the following information to calculate the value of inventory on hand on Mar 31 and cost of goods sold during March in FIFO periodic inventory system and under FIFO perpetual inventory system.

Mar 1	Beginning Inventory	68 units @ sh.15.00 per unit
5	Purchase	140 units @ sh.15.50 per unit
9	Sale	94 units @ sh.19.00 per unit
11	Purchase	40 units @ sh.16.00 per unit
16	Purchase	78 units @ sh.16.50 per unit
20	Sale	116 units @ sh.19.50 per unit
29	Sale	62 units @ sh.21.00 per unit

**(26marks)**

**Section B: Choose any Two questions**

Q2 a) Define the term job costing

**(3marks)**

b) What are the features of MC as a technique of production

**(12marks)**

c) Define the term budget

**(1marks)**

d) Define the term management accounting

**(4marks)**

Q3 Two Left Feet Ltd manufactures a single product, the Claud. The following figures relate to the Claud for a one-year period,

Activity level		50%	100%
Sales and productions (units)		400	800
		Ksh.	Ksh.
Sales		8,000	16,000
Production costs:	Variable	3,200	6,400
	Fixed	1,600	1,600
Sales and distribution costs:	Variable	1,600	3,200
	Fixed	2,400	2,400

The normal level of activity for the year is 800 units. Fixed costs are incurred evenly throughout the year, and actual fixed costs are the same as budgeted.

There were no stocks of Claud at the beginning of the year.

In the first quarter, 220 units were produced and 160 units sold.

Now:

- a) Calculate the fixed production costs absorbed by Clauds in the first quarter if absorption costing is used,
- b) Calculate the profit using absorption costing,
- c) Calculate the profit using marginal costing,
- d) Explain why there is a difference between the answers to (c) and (d). **(20marks)**

**Q4.** A summary of the profit and loss reported in each of 3 product lines B, C, and D is as follows:

	<b>Product B</b>	<b>Product C</b>	<b>Product D</b>
	<b>Shs.000</b>	<b>Shs.000</b>	<b>Shs.000</b>
Sales revenue	60	40	40
Less variable cost	40	30	42
Contribution	20	10	(2)
Less fixed cost	15	12	10
Net profit (loss)	5	2	(12)

**Required**

1. Comment on the financial situation as presented in the above summary
2. Comment on a decision to discontinue product C where
  - a) 60% of the fixed costs charged to it relate to advertising of product C and are avoidable if discontinued OR
  - b) All of the fixed costs charged to product C are avoidable if discontinued
3. Discuss whether product D should be discontinued if
  - a) 90% of the fixed costs charged to it are company costs arbitrarily apportioned to it Or
  - b) Eliminating of its variable cost would result in an increase in material cost for products B and C because of lost discounts which would have the effect of increasing their variable costs by 5% OR

Products B and D are complementary products whose sales demand is directly related to that of each other

**(20 marks)**

- Q5** a) Discuss the Main functions of a budget committee under the budgetary control **(8 marks)**
- b) Define the term CVP Analysis citing where its applicable **(6marks)**
- c) Highlight the weakness of the break-even concept. **(6marks)**