



*(Knowledge for Development)*

**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**  
**2021/2022 ACADEMIC YEAR**  
**MAIN EXAMINATION**  
**DIPLOMA IN BUSINESS MANAGEMENT**

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**COURSE CODE: DAB 100**

**COURSE TITLE: COST ACCOUNTING**

**DATE: 13<sup>TH</sup> MAY, 2022      TIME: 9.00AM – 11.00AM**

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**INSTRUCTIONS TO CANDIDATES**

1. Answer a total of **three** questions; question **one** and any other **two** questions.
2. Question **one** carries **30** marks and each of the other two questions carry **20** marks each.
3. This examination has seven printed pages.

## QUESTION ONE - COMPULSORY

- a) The present day Cost Accountant is seen to be irrelevant whose purpose is not clear and employers are currently hiring management Accountants instead. Discuss this statement. **[ 5 marks]**
- b) Cost Accounting measures, analyses and reports financial information relating to the cost of acquiring or using resources in an entity. Reference to this statement, explain the characteristics of a good costing system **[ 3 marks]**
- c) Esambo Limited has appointed you as a Cost Accountant. After joining the organization you realize that they do not have a costing system. Explain the steps you will follow to install a good costing system. **[ 4 marks]**
- d) Sunrise transporters operate in a transport sector within Bungoma County. On 1<sup>st</sup> December 2019 the management acquired a new bus to expand their business due to increased market demand. The costs relating to initial acquisition and maintenance of the bus are as follows:

Description	Amount - Kshs
Original purchase price	6,000,000
Scrap value	1,000,000
Annual insurance premium	200,000
Annual NTSA license fee	6,000
Cost of replacement of tyres every after 25,000 kilometers	24,000
Service cost after every 5,000 kilometers	7,500
Cost of replacing parts per service	4,000
Price of fuel per liter	45

### Additional information

- The bus has a useful economic life of 4 years
- The bus covers 20 kilometers per liter
- The bus has six tyres each costing Kshs 4,000/=
- Service is carried out after every 5,000 kilometers
- The bus is projected to cover 100,000 kilometers in January 2020, 25,000 kilometers in February 2020 and 50,000 kilometers in March 2020.

### Required:

- i) Schedule for three months showing:
- Variable costs per kilometer
  - Fixed Costs per kilometer
  - Total cost per kilometer

**[8 marks]**

- e) Avamba Limited deals with manufacture of various fruit juices within Kimilili sub-county in Bungoma County. During the month of April 2020, they produced the following products through one process: White, Blue and Red. Total joint costs were Kshs 1,260,000. The output and selling prices were analyzed as follows:

Product	Units produced in litres	Selling price per unit - Kshs
White	4,000	220
Blue	3,200	280
Red	2,400	450

**Required:**

Apportion the joint costs and calculate the profit of each product using the physical units' basis. **[ 4 marks]**

- f) Achievers Limited has a multipurpose machine which can be used to shell maize, separate wheat from chaff and process ground nut oil. You have obtained the following information in Kshs regarding the three activities during the month of January 2021:

	Maize shelling	Wheat separation	Ground nut oil processing
Sales	75,000	110,000	120,000
<b>Variable costs</b>			
Material	25,000	60,000	75,000
Labour	12,500	20,000	15,000
Variable overhead	6,000	10,000	7,500

Fixed overheads amount to Kshs 17,500.

**Required:**

Using marginal costing, advice Achievers giving reasons the activity to undertake. **[ 6 marks]**

**QUESTION TWO**

- a) Distinguish between Overhead apportionment and overhead absorption. **[ 4 marks]**
- b) Turner Limited, a rubber manufacturing company had provided the following information:

Total overhead	Kshs 300,000
Total direct wages	Kshs 240,000
Total direct material cost	Kshs 250,000

Direct labour hours	75,000
Direct machine hours	50,000
Units of output	750,000

**Required:**

Calculate the following overhead absorption rates:

- i) Units of output [2 marks]
- ii) Direct Labour Hours [2 marks]
- iii) Direct machine hours [2 marks]
- iv) Percentage of material cost [2 marks]

c) The following information is made available from the costing records of Excel Limited :

(i) The original cost of the machine : Kshs 1,000,000

Estimated life : 10 years

Residual Value : Kshs 50,000

Factory operates for 48 hours per week : 52 weeks in a year

Allow 15% towards machine maintenance down time and 5% of productive time be allowed as setting up time.

(ii) Electricity used by the machine is 10 units per hour at a cost of Kshs 50 per unit.

(iii) Repair and maintenance cost is Kshs 5,000 per month.

(iv) Two operators attend the machine during operations along with two other machines. Their total wages including fringe benefits, amounting to Kshs 50,000 per month is paid.

(v) Other overheads attributable to the machine are Kshs 100,431 per year.

**Required:**

Compute the machine hour rate [ 8 marks]

**QUESTION THREE**

a) Distinguish between interlocking and integrated cost accounts [ 2 marks]

b) Khaka enterprises has provided to you the following extracts as at 1<sup>st</sup> January 2020:

	Kshs'000	Kshs'000
General Ledger adjustment account		15,000
Stores ledger control account	4,000	
Work in progress ledger control account	5,000	
Finished goods ledger control account	<u>6,000</u>	
	<u>15,000</u>	<u>15,000</u>

**At the end of the year you obtain the following information:**

Purchases for stores	28,500
Returns to suppliers	850

Direct wages	8,300	
Indirect factory wages	1,500	
Salaries of administrative staff	3,400	
Salaries of marketing staff	6,800	20,000
Production expenses	5,500	
Administrative expenses	2,700	
Marketing expenses	3,550	
Stores issued to production	27,500	
Indirect materials issued	450	
Production overheads recovered	6,850	
Administration overheads absorbed	6,500	
Marketing overheads recovered	10,000	
Goods completed during th year	43,000	
Finished goods sold during th year	50,000	
Sales	75,000	

**Required:**

Record the entries in cost accounts and prepare the trial balance at at 31<sup>st</sup> December 2020.

**[ 18 marks]**

**QUESTION FOUR**

- a) Explain the characteristics of job costing **[ 5 marks]**
- b) Asili Construction Company has won a contract for the construction of a multipurpose hall at Jitegemee high school at the cost of Kshs 300 million. As their Cost Accountant, you have been provided with the following by the Quantity Surveyor of the company:

	Kshs '000
Materials issued to the site	90,000
Materials purchased	16,700
Direct wages	
- Paid	5,900
- Accrued	360
Equipment purchased	49,800
Direct expenditure	
-Paid	1,880
- Accrued	80
- Preliminary expenses	180
- Materials returned to store	900
- Work certified	160,000
- Cost of work not certified	4,000
- Materials on site on December 31st 2020	5,500
- Value of equipment on December 31st. 2020	42,500

Jitegemee has already released Kshs 130 million to Asili contractors

**Required:**

- i) Prepare the contract account [10 marks]
- ii) Prepare the contractee account [3 marks]
- iii) Show how the various items will appear in the balance sheet as at December 31<sup>st</sup>, 2020. [2 marks]

**QUESTION FIVE**

- a) With reference to budgets:
  - Distinguish between budget and budgetary control [2 marks]
  - Explain the key or limiting factor [2 marks]
  - Explain the objectives of budgetary planning [5 marks]
  - Distinguish between budgets and forecasts [4 marks]
- b) Simama Limited manufactures two types of products for painting namely Clear and Perfect. Budgeted sales of the products for the year 2022 are given below:

Product	Quantity	Price per 5 liter container - Kshs
Clear	3,000	100
Perfect	7,000	90

The stocks of these products were confirmed as follows:

Product	Opening stock - 5 ltr containers	Closing stock - 5 litre containers
Clear	2,000	1,500
Perfect	1,900	2,500

**Required:**

- i) Prepare sales budget [4 marks]
- ii) Prepare production budget [3 marks]