



**Riara School of Business**  
*Nurturing business innovators*

**SEPTEMBER DECEMBER 2023 TRIMESTER**  
**EXAMINATION FOR DIPLOMA IN BUSINESS ADMINISTRATION**  
**DAY PROGRAMME**  
**RBM 019: COST ACCOUNTING**

**DATE: 30<sup>TH</sup> DECEMBER 2023**  
**HOURS**

**TIME: 2**

**GENERAL INSTRUCTIONS:**

- i. Students are **NOT** permitted to write on the examination paper during reading time.
- ii. This is a closed book examination. Text book/Reference books/notes are not permitted.

**SPECIAL INSTRUCTIONS**

1. Write your REGISTRATION NO. Clearly on the answer booklet(s).
2. Answer Question One and ANY other TWO questions.
3. Questions in all sections should be answered in answer booklet(s)
4. PLEASE start the answer to EACH question on a NEW PAGE.
5. For the questions, write the number of the question on the answer booklet(s) in the order you answered.
6. Write on both sides of each leaf and indicate number of each question at the top of each page.
7. Write the answers in a paragraph form unless stated otherwise.
8. Marks allocated to each question are shown at the end of the question.
9. All rough work must be done on the answer booklet and crossed through!
10. Use supplementary pages only when you have exhausted those in this book.

11. Fasten the supplementary pages to the inside back cover of this booklet.

### QUESTION ONE (Compulsory)

- a) City Star Myraba Ltd. is a manufacturing firm with interest in pastries and Chocolates. The Company has seven branches in Nairobi and Western Kenya. The management of the Company is considering a better approach in managing its factory overhead costs and raw materials management (it seeks to adopt the Just-in-Time (JIT) philosophy in reducing materials inventory. For the last two months, the Company has been recording unfavourable/adverse labour and materials variances which are largely attributed to weak internal control systems and training needs. The Board of Directors have set aside some sh. 3,500,000 to address the challenges highlighted above.

The production department is largely automated (with modern production technology): this was equally intended to reduce the cost of production labour. The cost of electricity has been rising due to high inflation and the fact that production capacity has been increasing due to a high demand of its new brand of chocolates in Western part of the country. The production process is largely machine intensive though management is considering a more efficient approach to managing production processes to better manage overhead costs.

**Required: in view of the case study above, you are required to:**

- i. Describe how Information Communication Technology (ICT) could help the company improve on managing production labour cost **(6 marks)**
- ii. Explain **THREE** possible causes of unfavourable/adverse labour variances for the company **(6 marks)**
- b) Discuss the scope of cost accounting **(6 marks)**
- c) Distinguish between fixed costs and semifixed costs **(6 marks)**
- d) Explain why Activity-Based Costing (ABC) systems are bound to be more accurate than traditional costing systems **(6 marks)**

### QUESTION TWO

Consider the following information for the production department of the ABC Ltd.

<b>Machine hours</b>	<b>Production cost ('000)</b>
90hrs	Sh. 1,500
150	2,100

60	1,200
30	900
180	2,400
150	2,100
120	1,800
180	2,400
90	1,500
30	900
120	1,800
160	1,200

**Required:** Develop a Cost function ( $Y = a + bX$ ) and do an interpretation:

- i. High-Low method (5 marks)
- ii. Least-Square method (by elimination or substitution) (10 marks)

$$\begin{aligned}\sum y &= na + b\sum x \\ \sum xy &= \sum xa + b\sum x^2\end{aligned}$$

b) Discuss the importance of variance analysis and investigation for a production firm that is experiencing a very complex set of production costs (5 marks)

### QUESTION THREE

- a) ABC Limited Company manufactures baby toys using materials B15 as the main raw material. The company purchased 40,000 kilogrammes of material B15 for sh. 159,000 (the actual price of sh. 3.98 per kilogramme. Later, 31,000 kilogrammes of material B15 were withdrawn from materials inventory for use in product of 10,000 toys. Standard Price is sh. 4.00 while the standard quantity that should have been used in production is 30,000 kilogrammes.

**Required:**

- i. Compute the Materials Price Variance (MPV) and interpret it (4 marks)
  - ii. Compute Materials Quantity Variance (MQV) and interpret it (4 marks)
- b) Describe **TWO** causes of materials price variance in for a production firm (4 marks)

- c) A soft drinks manufacturer projects to incur sh. 500,000 in total production costs (30% of the cost is bound to be variable cost while the rest of the cost will be purely fixed cost). The firm projects to make sales of sh. 750,000 (with each of the 10,000 units being sold at a unit price of sh. 75). Assuming that the firm produces a single brand of soft drinks (Softa), compute the break-even point and advise accordingly **(8 marks)**

**QUESTION FOUR**

- a) Describe responsibility accounting in relation to cost centres and revenue centres **(7 marks)**
- b) Describe **TWO** cost management practices that a cost accountant in a hospital could adopt in order to enhance efficiency **(4 marks)**
- c) A milk processing factory provides you with information that it incurred sh. 850,000 in factor overhead costs in the last manufacturing cycle. The factory manufactured 3 different brands of milk in a machine intensive process which took a total of 6,000 machine hours and 2,460 labour manpower hours as captured below:

	<u><b>Brand A</b></u>	<u><b>Brand X</b></u>	<u><b>Brand T</b></u>
Machine hours.....	1,500 hours	2,500 hours	2,000 hours
Labour hours.....	700 hours	960 hours	800 hours

**Required:**

Using the traditional factory overhead allocation method, allocate the factory overhead cost of sh. 850,000 to the 3 brands of milk **(9 marks)**