

1. (a) The following information relates to a factory with four departments: A, B, C and D.

|                                | Ksh     |
|--------------------------------|---------|
| Factory rent                   | 160,000 |
| Depreciation of plant          | 80,000  |
| Heating and lighting           | 40,000  |
| Repairs of buildings           | 600,000 |
| Supervision of factory workers | 120,000 |
| Repairs of plant               | 100,000 |

Additional information:

| Departments         | A         | B       | C       | D    |
|---------------------|-----------|---------|---------|------|
| Area occupied (M2)  | 3000      | 2400    | 16000   | 1000 |
| Number of employees | 17        | 15      | 15      | 13   |
| Cost of plant (Ksh) | 1,000,000 | 600,000 | 400,000 | Nil  |

Prepare an overhead distribution schedule. (12 marks)

(b) Explain the following cost classifications:

- (i) manufacturing costs;
- (ii) administration costs;
- (iii) selling costs;
- (iv) distribution costs.

(8 marks)

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2. (a) A factory uses coal. The factory is located between two coal mines. The following is a summary of information about the distance and the time, to and from the factory. A ten-ton lorry is used in the collection of coal from either of the coal mines.

|                     | COAL MINES |            |
|---------------------|------------|------------|
|                     | A          | B          |
| Distance to factory | 5 km       | 10 km      |
| Loading time        | 30 minutes | 20 minutes |
| Unloading time      | 10 minutes | 10 minutes |
| Speed of lorry      | 20 km/hr   | 20 km/hr   |

General expenses are estimated at Ksh 12,000 per operating hour.  
 Motor vehicle running expenses are estimated at Ksh 1,000 per kilometre.

- (i) Calculate the cost per ton-kilometre of carrying coal from each coal mine.
  - (ii) If the coal is of equal quality and price at each coal mine, from which coal mine should the purchases be made? (12 marks)
- (b) Ukweli Limited manufactures ornaments for export. Jobs are allocated to two operators, Hassan and Juma. In the month of August 2011 Hassan made 360 units while Juma made 400 units. Hassan is allowed 30 minutes per unit while Juma is allowed 25 minutes per unit produced. The basic wage rate is Ksh 25 per hour. For every hour saved, a bonus is paid at 25% of the basic wage rate. Hassan completed his job in 80 hours while Juma completed his job in 66 hours.

For each operator, compute the:

- (i) amount of bonus payable;
  - (ii) total gross wage payable;
  - (iii) wage cost per unit produced.
- (8 marks)

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5. (a) Bidii construction company commenced contract 43, on 1st January 2010. The following information relates to the contract for the year, 2010.

|   | Ksh       |
|---|-----------|
| Contract price                              | 3,000,000 |
| Direct material issued                      | 550,000   |
| Material returned to store                  | 5,000     |
| Direct labour payments                      | 480,000   |
| Accrued wages (31 December, 2010)           | 20,000    |
| Plant installed at cost                     | 300,000   |
| Site establishment cost                     | 250,000   |
| Direct expenses                             | 150,000   |
| Direct expenses accrued (31 December, 2010) | 10,000    |
| Work certified                              | 1,600,000 |
| Cost of work not certified                  | 100,000   |
| Value of plant (31 December, 2010)          | 200,000   |
| Material on site (31 December, 2010)        | 55,000    |

Prepare a contract account for the year, 2010, showing the notional profit. (12 marks)

- (b) Explain **four** reasons why firms find it advantageous to instal a cost accounting system in addition to a financial accounting system. (8 marks)

6. (a) Homa Industries Limited manufactures a product that undergoes two processes. The following data is given for the month of May, 2011.

|  |       | PROCESS |        | TOTAL  |
|--|-------|---------|--------|--------|
|  |       | 1       | 2      |        |
| Basic raw material introduced (80,000 units) | (Ksh) | 48,000  | -      | 48,000 |
| Direct material added                        | (Ksh) | 30,000  | 40,000 | 70,000 |
| Direct wages                                 | (Ksh) | 20,000  | 15,000 | 35,000 |
| Direct expenses                              | (Ksh) | 5,000   | 4,000  | 9,000  |
| Production overheads                         | (Ksh) | -       | -      | 60,000 |
| Normal loss                                  |       | 10%     | 5%     | -      |
| Output (units)                               |       | 72,000  | 68,400 | -      |

Losses have a scrap value of Ksh 2 per unit. Production overheads are recovered as percentage of direct wages.

There was no stock at the start or at the end of the processes.

Prepare:

- (i) process 1 account;
- (ii) process 2 account.

(8 marks)

- (b) Mwamburi Enterprises deals in two materials, L and S. The following details relates to the two materials:

|               |                      |
|---------------|----------------------|
| Normal usage  | 100,000 kgs per week |
| Maximum usage | 150,000 kgs per week |
| Minimum usage | 50,000 kgs per week  |

|                    |                            |
|--------------------|----------------------------|
| Re-order quantity: | Material L - 600,000 kgs   |
|                    | Material S - 1,000,000 kgs |
| Re-order period:   | Material L - 4 to 6 weeks  |
|                    | Material S - 2 to 4 weeks  |

For each type of material, calculate:

- (i) re-order level;
- (ii) maximum stock level;
- (iii) minimum stock level.

(12 marks)

7. (a) Jaribu Limited manufactures tools according to orders received. The following information relates to the overhead costs for the year 2010.

| Department | Budgeted overheads | Overhead absorption base |
|------------|--------------------|--------------------------|
| Machining  | 4000               | 2000 machine hours       |
| Welding    | 10,000             | 1000 labour hours        |
| Assembling | 5,000              | 1000 hours               |

Selling and administrative overheads are 20% of factory costs. An order for 300 a batch of tools was received and the following costs were incurred.

|                     |           |         |            |
|---------------------|-----------|---------|------------|
| Materials           | Ksh 6,300 |         |            |
| Labour:             |           |         |            |
|                     | Machining | Welding | Assembling |
| Time taken (Hrs)    | 600       | 60      | 100        |
| Rate per hour (Ksh) | 4         | 2       | 1          |

Ksh 600 was paid for the hire of a special equipment for testing the batch items. An extra 200 hours was used in the machining department for special treatment at the rate of Ksh 4 per hour.

Compute the batch cost. (12 marks)

- (b) Explain **four** characteristics of **job costing** in an organization. (8 marks)

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