1. (a) Mrefu Limited manufactures a product that passes through two processes; Refining and finishing. During the month of May 2014, 100,000 litres of raw materials were introduced into the refining process at Ksh 50 per litre. The following information relates to the two processes for the month of May 2014:

	Refining process	Finishing process
Materials (Ksh)	2,600,000	108,000
Direct labour (Ksh)	4,000,000	600,000
Normal loss (percentage of input)	10%	5%
Output (litres)	88,000	85,000
Scrap value per litre (Ksh)	40	50

The production overheads are absorbed at 80% of direct labour in each process.

Prepare:

(i) refining process account;
(ii) finishing process account.

(12 marks)

(b) Jackie Limited remunerates employees using Taylor's differential piece rate system. During the month of March 2014, three employees; Wanja, Wafula and Hamisi produced 500, 600 and 700 units respectively. The following information was extracted from the remuneration records of the company.

Normal rate per hour (Ksh)	150
Standard time per unit	20 minutes
Daily working hours	8 hours
Days worked per month	25 days

Differential rates applied:

Below standard	80%
Standard	100%
Above standard	120%

Calculate the:

(i) standard piece rate;
(ii) earnings for each employee.

(8 marks)

Name:________________________________ Index No.________________

2903/206
2906/206
2922/206
COST ACCOUNTING
Oct./ Nov. 2015
Time: 3 hours

Candidate's Signature:________

Date:____________________

THE KENYA NATIONAL EXAMINATIONS COUNCIL

DIPLOMA IN BUSINESS MANAGEMENT
DIPLOMA IN SUPPLY CHAIN MANAGEMENT
DIPLOMA IN PROJECT MANAGEMENT

COST ACCOUNTING

3 hours

INSTRUCTIONS TO CANDIDATES

Write your name and index number in the spaces provided above.
Sign and write the date of the examination in the spaces provided above.
*This paper consists of **SEVEN** questions.*
*Answer any **FIVE** questions in the spaces provided in this question paper.*
All questions carry equal marks.
Show all your working.
Candidates should answer the questions in English.

For Examiner's Use Only

Question	1	2	3	4	5	6	7	TOTAL SCORE
Candidate's Score								

This paper consists of 25 printed pages

Candidates should check the question paper to ascertain that all the pages are printed as indicated and that no questions are missing.

2. (a) The following are the estimated overheads of BOWA limited for the year to 31 December 2013:

	Ksh
Repairs of machinery	1,200,000
Rent and rates	600,000
Lighting	300,000
Power consumption	500,000
Supervisors salaries	400,000
Depreciation of machinery	960,000

Additional information:

	Department			
Cost of drivers	A	B	C	D
Value of machinery (Ksh)	1,800,000	1,200,000	800,000	1,000,000
Number of employees	40	50	30	40
Floor area (m^2)	250	300	350	100
Horse power	100	200	150	50

Prepare an overhead analysis sheet. (10 marks)

(b) Axel Logistics operates a fleet of lorries. The following are the operation details for the month ended 31 May 2014.

	Ksh
Wages: Loading and offloading	120,000
Drivers	240,000
Fuel and lubrication	80,000
Maintenance costs	150,000

Additional information:

• Days operated in May 2014	25
• Total kilometres covered	10,000
• Total trips made	365
• Total tonnage delivered	7,300
• Annual operating days	300
• Other annual costs (Ksh)	1,680,000

(i) Prepare an operating cost statement for the month ended 31 May 2014.

(ii) Calculate:

I. cost per kilometer;
II. cost per tonne;
III. cost per day;
IV. cost per trip.

(10 marks

3. (a) Pantex Manufacturers has four employees who are paid on piece rate basis. The following information relates to the four employees for the month of April 2014.

Payroll number	Name	Units produced
4001	Karanja	600
4002	Ouma	800
4003	Kerubo	750
4004	Mutua	650

Additional information:

(i) The standard rate of pay is Ksh. 40 per unit;
(ii) The standard production per month is 600 units;
(iii) Any production beyond the standard output is paid for at 25% above the standard rate;
(iv) Each employee is paid a house allowance of Ksh 10,000 per month;
(v) PAYE is deducted at 10% of gross pay;
(vi) NHIF is Ksh 320 per month;
(vii) NSSF contribution is Ksh 200 per month.

Prepare a payroll for the month of April 2014 using the format provided.

(12 marks)

PAYROLL FOR THE MONTH OF APRIL 2014								
Payroll number	Name	Basic Pay Ksh	House allowance Ksh	Gross pay Ksh	PAYE Ksh	NHIF Ksh	NSSF Ksh	Net Pay Ksh

(b) Explain each of the following terms as used in cost accounting:

(i) cost centre;
(ii) cost behaviour;
(iii) profit centre;
(iv) cost unit.

(8 marks)

4. (a) Suntrax Limited manufactures a product that passes through a single process to completion. The following information relates to the process for the month ended 31 January 2014:

(i)

Costs	**Kshs**
Materials	360,000
Labour	264,000
Overheads	172,000
	796,000

(ii) Units completed and transfered to finished goods store were 4,000.

(iii) Work-in-progress as at 31 January 2014 was 500 units whose percentage of completion was as follows:

Materials	100%
Labour	80%
Overheads	60%

Calculate the:

I. total equivalent units;
II. cost per unit;
III. value of completed production;
IV. value of work-in-progress.

(12 marks)

(b) Menza Limited has two production departments; Cutting and stitching in which production overheads are absorbed using labour hours and machine hours respectively.

The following are the budgeted figures for the year to 30 September 2014.

	Cutting Department	Stitching Department
Overheads (Ksh)	2,500,000	3,000,000
Direct labour (Ksh)	1,500,000	1,000,000
Machine hours	20,000	100,000
Direct labour hours	125,000	50,000
Direct materials (Ksh)	3,200,000	1,800,000

A customer, Mingi Limited, intends to place an order for a job. The job will require the following:

(i)

	Cutting Department	Stitching Department
Direct labour hours	15,000	6,000
Machine hours	1,000	14,000
Direct materials (Ksh)	520,000	250,000

(ii) Administration overheads for the job will amount to Ksh 400,000.

I. Prepare a cost statement for the job.

II. The customer has offered to pay Ksh 2,400,00 for the job. Advise the management of Menza limited on whether to accept the offer.

(8 marks)

5. (a) Kenda Textiles has the following production details relating to batch number LX350 completed in April 2014:

	Ksh
Direct materials	80,000
Direct labour	75,000
Direct expenses	25,000
Machine hours (Hrs)	2,000
Number of units per batch (Units)	5,000

Additional information:

(i) production overheads are charged at Ksh 10 per machine hour.
(ii) administration and distribution overheads are charged at 10% of production cost.
(iii) the firm's profit margin is 20%.

I. Prepare a cost and profit statement for batch number LX350.

II. Calculate the cost per unit.

III. Determine the selling price per unit.

IV. Given that the average cost per unit in the industry is Ksh 40, advise the management on the action to take.

(10 marks)

(b) Explain **five** characteristics of an effective cost accounting system. (10 marks)

6. (a) Washa Processors uses material TD104 in the manufacture of its products. The following information relates to the material for the month of March 2014.

March	1	Purchased 1,000 units at Ksh 40 each
	10	Purchased 2,000 units at Ksh 50 each
	15	Issued 1,500 units
	24	Purchased 3,000 units at Ksh 45 each
	31	Issued 2,500 units

(i) Prepare stores ledger account using:

I. First In First Out (FIFO) method;

II. Simple average method.

(ii) The management intends to report good performance through profit. Based on the results in (i) above, advise the management on the stock valuation method to select. (12 marks)

(b) Distinguish between each of the following set of terms.

(i) Fixed costs and variable costs;
(ii) Direct costs and indirect costs;
(iii) Production overheads and administration overheads;
(iv) Prime cost and total costs.

(8 marks)

7. (a) On 1 April 2013, Kamenjo Limited commenced construction of a dam for Daraja county at a contract price of Ksh 150 million. The following information relates to the contract for the year ended 31 March 2014.

	Ksh
Direct materials purchases	40,000,000
Direct wages paid	18,000,000
Plant installed on site	20,000,000
Materials issued from the main store	5,000,000
Overheads apportioned to the contract	8,000,000
Direct expenses	4,000,000
Value of plant on 31 March 2014	15,000,000
Materials returned to the main store	2,000,000
Materials on site on 31 March 2014	9,000,000
Unpaid wages as at 31 March 2014	3,000,000
Value of work certified	100,000,000
Cost of work not certified	16,000,000

Additional information:

(i) the contractor received Ksh 90 million from the contractee during the year.

(ii) it is the company's policy to transfer 60% of the profit to the income statement.

I. Prepare the contract account.

II. Calculate the value of work-in-progress as at 31 March 2014.

(12 marks)

(b) The following information relates to material QW38 used by Juma Manufacturers.

Maximum lead time	5 months
Minimum lead time	2 months
Maximum consumption	4,000 units per month
Minimum consumption	2,000 units per month
Annual demand	40,500 units
Ordering costs	Ksh 5,000 per order
Price per unit of material	Ksh 20

Storage cost is 25% per year of purchase price.

Calculate:

(i) Economic Order Quantity (EOQ);
(ii) Reorder level;
(iii) Maximum stock level;
(iv) Minimum stock level.

(8 marks)