2903/206 2907/206
2906/206 2922/206
COST ACCOUNTING
July 2018
Time: 3 hours

THE KENYA NATIONAL EXAMINATIONS COUNCIL

DIPLOMA IN SUPPLY CHAIN MANAGEMENT
DIPLOMA IN BUSINESS MANAGEMENT
DIPLOMA IN CO-OPERATIVE MANAGEMENT
DIPLOMA IN PROJECT MANAGEMENT

MODULE II

COST ACCOUNTING

3 hours

INSTRUCTIONS TO CANDIDATES

*This paper consists of **SEVEN** questions.*
*Answer any **FIVE** questions in the answer booklet provided.*
All questions carry equal marks.
Candidates should answer the questions in English.

This paper consists of 6 printed pages.

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

1. (a) Explain **five** duties of a cost accountant in a manufacturing firm. (10 marks)

(b) Technix Limited is preparing its budget for the year 2020. The following variable overheads have been estimated:

Department	Overhead absorption base	Hours	Overheads (Ksh)
Manufacturing	Direct labour hours	2000	280,000
Assembly	Machine hours	1800	540,000

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Additional information:

- Administration costs are 20% of the production costs.
- The firm received an order for batch X150T to produce 3000 units. The batch required direct materials of Ksh 430,000.
- The direct labour cost per hour for batch X150T is as follows:

Department	Number of hours	Cost per hour (Ksh)
Manufacturing	500	250
Assembly	200	150

- Fixed factory overheads are expected to be Ksh 200,000.

(i) Prepare a cost statement for batch X150T.

(ii) Determine the cost per unit of batch X150T.

(iii) If the customer is offering Ksh 350 per unit. Advise the management on whether to accept the offer or not. (10 marks)

2. (a) Explain each of the following terms as used in process costing:

(i) Normal loss
(ii) Abnormal loss
(iii) Equivalent units
(iv) Scrap value.

(8 marks)

(b) Wenu Limited has three production departments and two service departments. The total overheads for each department are as follows:

Production departments	(Ksh)	Service departments	(Ksh)
Manufacturing	10,000,000	Maintenance	2,200,000
Assembly	3,400,000	Canteen	800,000
Painting	2,000,000		

The service department overheads are distributed to production departments as follows:

	Manufacturing	Assembly	Painting	Maintenance	Canteen
Maintenance	35%	40%	20%	-	5%
Canteen	45%	25%	25%	5%	-

Using the repeated distribution method, Prepare an overhead analysis sheet.

(12 marks)

3. (a) Explain **four** features of job costing as used in cost accounting. (8 marks)

(b) The following information relates to three employees of Lamboka Limited for the last week of August 2017.

	Waitii	Braoni	Grini
Actual hours worked	40	39	50
Pay per hour (Ksh)	400	380	350
Output (litres)			
Product A	200	205	210
Product B	300	294	288

The standard time for product A is 6 minutes while for product B is 5 minutes.

The company pays a bonus at half the normal rate. The remuneration is time based.

For each employee, determine:

(i) Basic pay
(ii) Bonus pay
(iii) Gross pay.

(12 marks)

4. (a) Explain **four** benefits that may accrue to a firm that uses First In First Out (FIFO) method of inventory valuation. (8 marks)

(b) Hinda Limited manufactures two products X and B whose budgeted production is as follows:

Product	Units	Machine hour per unit
X	10,000	4
B	20,000	3

Direct materials cost per unit of X and B are Ksh 40 and Ksh 60 respectively.

Direct wages per unit	Ksh
X	20
B	10

Total budgeted variable overheads were Ksh 500,000.

(i) Determine the overhead absorption rate for each product.

(ii) Prepare a cost statement for the firm.

(12 marks)

5. (a) Highlight **four** differences between cost accounting and financial accounting.

(8 marks)

(b) Gatex Enterprises issues its product XP using Last In First Out (LIFO) method of inventory valuation. The following information relates to the product for the month of September 2017.

September	1	Balance b/d 1000 litres at Ksh 70 each
	3	Received 300 litres at Ksh 68 each
	8	Issued 430 litres
	15	Received 1,500 litres at Ksh 65 each
	24	Received 400 litres at Ksh 64 each
	27	Issued 700 litres
	30	Issued 1,320 litres

Prepare a stores ledger account for the month of September 2017.

(12 marks)

6. (a) Distinguish between each of the following types of costs.

(i) uncontrollable costs and controllable costs
(ii) fixed costs and variable costs
(iii) direct costs and indirect costs
(iv) preliminary costs and periodic costs.

(8 marks)

(b) Wemba Limited has been awarded a contract to build a warehouse. The contract price is Ksh 3,500,000.

The following information has been obtained for the year ended 31 December, 2017.

	Ksh
Materials at site (1 January, 2017)	250,000
Direct wages	250,000
Subcontractor's fees	210,000
Plant and machinery at cost	2,200,000
Electricity expenses	110,000
Plant and machinery (31 December 2017)	1,800,000
Architects fees	280,000
Indirect wages	120,000
Value of work certified	2,300,000

Additional information:

(i) As at 31 December, 2017
- Electricity expenses outstanding was Ksh 20,000
- Materials returned from site was valued Ksh 90,000

(ii) Work valued at Ksh 380,000 has been completed but not yet certified. C

(iii) A retention of 20% is allowed.

Prepare a contract account for the year ended 31 December 2017.

(12 marks)

7. (a) Explain **five** benefits that may accrue to a firm that implements a time based remuneration system. (10 marks)

(b) Watalii Limited has three cars for hire. The budgeted costs are as follows:

Fuel consumption per day per car	20 litres
Fuel cost per litre	Ksh 101
Driver's wage per day	Ksh 1,500
Maintenance cost per day per car	Ksh 1,000 x 10 x 3

The company has obtained an order for 10 days by a customer who needs all the cars.

The customer has offered to pay Ksh 6,000 per day for each car. 6 x 3

The cost of fuel and the driver's wages are borne by the company.

(i) Prepare a cost statement for the service.

(ii) Based on results in (i) above, advice the management on whether to accept or reject the offer.

(10 marks)

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