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COST ACCOUNTING

November 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 ENTREPRENEURSHIP
DIPLOMA IN PROJECT MANAGEMENT
DIPLOMA IN INVESTMENT MANAGEMENT
DIPLOMA IN MARITIME TRANSPORT LOGISTICS**

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.
Show ALL your workings.
Candidates should answer the questions in English.*

This paper consists of 7 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 **four** differences between cost accounting and financial accounting. (8 marks)
- (b) Sortum Limited uses material PX in its production. On 1 May 2018, the opening inventory was 110 units valued at Ksh. 12,650. The following transactions relate to the material for the month of May 2018.

May

- 4 Purchased 400 units at Ksh. 120 each
- 13 Issued 270 units
- 17 Purchased 140 units at Ksh. 115 each
- 18 Purchased 420 units at Ksh. 114 each
- 20 Issued 580 units
- 22 Issued 60 units
- 24 Purchased 145 units at Ksh. 118 each
- * 24 Issued 35 units
- 28 Issued 165 units
- 30 Purchased 210 units at Ksh. 112 each

The firm uses Last in First Out (LIFO) in valuing materials issue.

Prepare a stores ledger account for the month of May 2018. (12 marks)

2. (a) Explain **four** disadvantages of time rate method of remuneration. (8 marks)

- (b) Mema Limited processes oil which passes through Process I and Process II to completion. On 1 May 2018, Process II had an opening inventory of 30,000 units with the following costs:

	Ksh.
Materials	200,000
Labour	150,000
Overheads	290,000

During the month 10,000 units were passed from Process I to Process II. The costs incurred were:

	Ksh.
Materials	240,000
Labour	308,400
Overheads	228,000

34,000 units were completed and transferred to finished goods account. At the end of the month there were 6,000 units, at the following level of completion:

	Percentage of completion
Materials	100%
Labour	70%
Overheads	50%

- (i) Determine the equivalent units of each of the following element of cost:
- (I) materials;
 - (II) labour;
 - (III) overheads.
- (ii) Determine the value of closing Work in Progress (WIP).
- (iii) Prepare Process II account.

(12 marks)

3. (a) Explain the difference between each of the following costs:

- (i) controllable costs and non-controllable costs;
- (ii) fixed costs and variable costs;
- (iii) direct costs and indirect costs;
- (iv) production costs and administration costs.

(8 marks)

(b) Diba Constructors was contracted by Xemat Limited to build an office block at a price of Ksh. 5,000,000. The following information relates to the contract for the year ended 31 December 2017.

Balances as at 1 January 2017:	Ksh.
- Materials on site	180,000
- Plant on site	1,800,000
Plant on purchases	2,000,000
Subcontractors' fee	50,000
Value of work certified	4,000,000
Direct wages	300,100
Materials purchased	400,000
Inspection and consultancy fee	80,000
Hire of machinery	150,000
General expenses	420,000
Cost of work not yet certified	1,200,000
Electricity paid	200,000

Additional information:

(i) It is the policy of the company to transfer $\frac{2}{3}$ of the notional profit to the income statement.

(ii) As at 31 December 2017

- Materials on site Ksh. 250,000
- Plant on site Ksh. 2,200,000
- Electricity paid in advance Ksh. 155,200

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

(12 marks)

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4. (a) Explain **four** characteristics of an effective cost accounting system. (8 marks)
- (b) Wangari Limited operates three production departments (mixing, assembly and packing) and two service departments maintenance and canteen. The budgeted costs and the activity for each department is as follows:

	Production Department			Service Department	
	Mixing	Assembly	Packaging	Maintenance	Canteen
Total overheads (Ksh.)	2,000,000	1,200,000	800,000	680,000	400,000
Number of employees	20	15	5	-	-
Machine hours	15,000	13,000	12,000	-	-

The service department costs are directly re-apportioned to the production departments.

Determine the total overheads in each production department. (12 marks)

5. (a) Explain **four** factors to be considered when selecting the basis of absorbing overheads. (8 marks)
- (b) Feta Limited uses batch costing in its production. The following are the budgets for the year 2020.

Departments	Budgeted overheads	Budgeted hours
	Ksh.	
Manufacturing	880,000	2,200
Machining	500,000	2,000
Assembly	360,000	1,800

The company received an order for 26,300 units, batch number B12. The following information relates to the batch.

Direct materials: Ksh. 290,000

Direct Labour	Manufacturing	Machining	Assembly
Hours worked	200	170	120
Cost per hour (Ksh.)	160	150	100

- (i) Prepare a batch cost statement;
- (ii) Determine the cost per unit.

(12 marks)

6. (a) Explain **four** reasons for the valuation of inventory in an organization. (8 marks)

(b) Mjenzi Limited remunerates its employees on a time rate basis. The following information relates to three employees for the first week of January, 2018.

	Sema	Rudi	Peti
Total hours worked	36	42	39
Standard hours per unit	2	3	1.5
Output (units)	20	15	26

Additional information:

- The standard hours per week is 40 hours.
- The basic wage rate is Ksh. 100 per hour.
- Bonus is paid at 30% of the basic wage rate.
- Overtime is paid at a time and half of the basic wage rate.

For each employee determine the:

- basic wage payable;
- gross wage payable.

(12 marks)

7. (a) Explain **four** features of factory job costing. (8 marks)
- (b) Sherebe Limited provides catering services for events in Nairobi.

The firm has received an order from a customer to serve 80 persons at a price of Ksh. 30,000. The following are the estimates for the order.

Cost of food purchased	Ksh. 19,000
Number of waiters	1 waiter for every 20 persons
Number of cooks	3 cooks
Wages per waiter	Ksh. 500
Wages per cook	Ksh. 1,000
Transportation of equipment and staff	Ksh. 6,000
Cost of hiring equipment	Ksh. 8,000

- (i) Prepare a cost statement for the order;
- (ii) Advise the management on whether to accept the order or not.

(12 marks)

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