

2903/206      2922/206  
2906/206      2924/206  
2907/206      2925/206  
**COST ACCOUNTING**  
**July 2019**  
**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**  
**DIPLOMA IN INVESTMENT MANAGEMENT**  
**DIPLOMA IN MARITIME TRANSPORT LOGISTICS**

**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 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) Highlight **four** differences between financial accounting and cost accounting. (8 marks)
- (b) Kutu limited allows workers to take 8 minutes to produce one unit. The workers are paid Ksh 100 per hour. During the first week of October 2018, John produced 480 units in 52 hours.
- (i) Determine the wage payable to John for the week under:
- I. Rowan scheme;
  - II. Halsey scheme.
- (ii) Based on the results in (i) above, advise the management on the cost effective scheme to choose. (12 marks)
2. (a) Explain the function of each of the following documents as used in material control:
- (i) quotation;
  - (ii) purchase order;
  - (iii) invoice;
  - (iv) materials requisition note. (8 marks)

- (b) The following information relates to a production department for the month of June 2018:

Inventory 1 June 2018:	<b>Ksh</b>
- Raw materials	60,000
- Work-in-progress	32,000
Inventory 30 June 2018	
- Raw materials	85,000
- Work-in-progress	28,000
Purchase of raw materials	530,000
Carriage inwards	20,000
Direct wages	240,000
Factory overheads	210,000
Administration overheads	90,000
Selling and distribution overheads	124,000

Prepare a cost statement showing:

- (i) prime cost;
- (ii) factory cost;
- (iii) total cost. (12 marks)

3. (a) Rex limited has four production departments; A, B, C and D. The following overheads relate to the firm for the year ended 30 June 2018:

Overhead	Ksh
Rent	100,000
Repairs to buildings	50,000
Supervision	80,000
Insurance to plant	60,000
Depreciation of plant	56,000
Light and heat	20,000

The following information is also available:

	Departments			
	A	B	C	D
Area in square metres (M <sup>2</sup> )	1,500	1,200	800	500
Number of employees	35	30	25	10
Value of plant (Ksh)	120,000	80,000	60,000	40,000

Prepare an overhead analysis sheet. (12 marks)

- (b) Explain the meaning of each of the terms as used in process costing:

- (i) normal loss;
- (ii) abnormal gain;
- (iii) waste;
- (iv) scrap. (8 marks)

4. (a) The following data relates to Job number 006 that passes through three departments; A, B and C.

Raw Materials	Ksh
Materials issued from store	85,000
Materials purchases	27,000

Direct labour:

- Department: A 50 labour hours at Ksh 12 per hour.  
 B 200 labour hours at Ksh 20 per hour.  
 C 120 labour hours at Ksh 10 per hour.

## Additional information:

- The factory overheads are absorbed based on direct labour hours. The rate of absorption for departments A, B and C are Ksh 3, Ksh 7 and Ksh 6 respectively.
- Administration and selling overheads are absorbed at 10% of the factory cost.
- Profit is charged at 25% of the cost.

(i) Prepare a job cost sheet showing:

- I. prime cost;
- II. factory cost;
- III. total cost.

(ii) Determine the price to be quoted for the job. (10 marks)

(b) A company lorry carries nine tonnes on a single trip and deliveries are made to three different towns; A, B and C. The table below shows the distance covered to each town and the respective quantities delivered.

From	To	Distance (Kilometres)	Quantity delivered (Tonnes)
Company premises	Town A	20	3
Town A	Town B	10	2
Town B	Town C	<u>30</u>	<u>4</u>
		<u>60</u>	<u>9</u>

The lorry returns empty after delivery to town C. The following are the costs per trip:

	Ksh
• Fuel	4,000
• Wages : Driver	1,500
: Assistant driver	800

Calculate the:

- (i) cost per tonne - kilometre;
- (ii) cost per kilometre. (10 marks)

5. (a) Smart clothing limited operates three departments. The following are the budgeted overheads and the units of absorption for each department.

Department	Amount of overhead (Ksh)	Overhead Absorption Base
Preparation	150,000	15,000 labour hours
Machinery	200,000	25,000 machine hours
Finishing	300,000	30,000 labour laws

The following costs relate to Batch No. x220 produced and sold during the year 2018:

- Raw materials                      Ksh 100,000
- Labour:
  - Preparation                      150 hours at Ksh 12 per hour
  - Machining                        100 hours at Ksh 30 per hour
  - Finishing                         100 hours at Ksh 10 per hour

Additional information:

- Selling and administration overheads are absorbed at 10% of production costs.
- Profit is 20% of the total costs.

Calculate the:

- (i) overhead absorption rate of each department;
- (ii) total cost of the batch;
- (iii) selling price of the batch.

(8 marks)

- (b) Mjengo construction company was awarded a contract to construct a building in the year 2010. The contract is nearing completion. The following data relates to the contract for the year ended 31 August 2018:

	Ksh
Materials on site: 1 September 2017	1,260,000
Materials purchased	5,300,000
Direct expenses:	
- Paid	2,400,000
- Accrued	20,000
Plant purchased and installed	800,000
Direct wages	
- Paid	4,700,000
- Accrued	60,000
Establishment charges	320,000
Materials returned to stores	190,000
Value of work certified	16,500,000
Cost of work not yet certified	2,500,000
Materials on site: 31 August 2018	520,000
Value of plant: 31 August 2018	30,000
Cash received from client	13,000,000

- (i) Prepare a:

- I. contract account;
- II. contractee account.

- (ii) Calculate the amount of profit to be taken. (12 marks)

6. (a) Explain **four** benefits of cost accounting to a manufacturing organization. (8 marks)

- (b) Zetu Manufacturers uses material K10 in its production. The following transactions relate to the materials for the month of September 2018:

**2018**

- September 4 Bought 100 units at Ksh 40 each  
 8 Issued 60 units  
 12 Issued 30 units  
 15 Bought 40 units at Ksh 35 each  
 20 Issued 30 units  
 22 Bought 50 units at Ksh 40 each  
 23 Issued 50 units  
 24 Bought 160 units at Ksh 43 each  
 30 Issued 100 units

For the month of September 2018:

- (i) Prepare a stores ledger account using the First-In-First-Out (FIFO) method;  
 (ii) Determine the value of the closing inventory. (12 marks)

7. (a) Differentiate the following terms applied when costing for overheads:

- (i) under absorption and overabsorption;  
 (ii) controllable costs and non-controllable costs. (8 marks)

- (b) Pita Limited manufactures product K20 that passes through two processes; 1 and 2. 2000 kilograms of materials at a cost Ksh 50 per kilogram is introduced to process I. The following additional information relates to process 1:

	Ksh
Labour cost	30,000
Production overheads	23,000

Normal loss is estimated at 10%.

The actual output from process 1 was 1580 kilograms.

- (i) Prepare process 1 account;  
 (ii) Based on the results in (i) above, advise the management on the process losses. (12 marks)

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