

2903/206 2922/206
2906/206
COST ACCOUNTING
July 2017
Time: 3 hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL
DIPLOMA IN SUPPLY CHAIN MANAGEMENT
DIPLOMA IN BUSINESS 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.
Show ALL your workings.
Candidates should answer the questions in English.*

This paper consists of 8 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) Superb Driving School has two branches; City and Rural. The following information relates to the branches for the year 2015.

	City	Rural
Number of vans	12	8
Annual insurance fee per van (Ksh.)	20,000	20,000
Annual distance covered per van (km)	36,500	29,200
Charge per student (Ksh.)	6,000	5,500
Fuel cost per km (Ksh.)	100	100
Maintenance cost per km (Ksh.)	30	45
Number of instructors	12	8
Number of students	9,800	7,500
Monthly salary per instructor (Ksh.)	24,000	20,000

Additional information:

- Administration costs and security costs for City and Rural for the year were Ksh. 800,000 and Ksh. 600,000 respectively.
 - Administration costs and security costs are to be apportioned according to the number of vans in each branch.
- (i) Prepare annual operating income statement for each branch.
- (ii) The management intends to close one of the branches based on performance. Using the results obtained in (i) above; advise the management.

(9 marks)

- (b) ✓ County Contractors were awarded a contract to construct a county assembly hall at a price of Ksh. 60,000,000. The work started on 1 January, 2014. The following details relate to the contract for the year ended 31 December, 2015.

	Ksh.
Direct materials: Balance (1 January 2015)	200,000
Delivered direct to site	7,000,000
Issued from stores	500,000
Returned from site	85,000
Sold from site (cost Ksh. 70,000)	42,000
Balance (31 December, 2015)	225,000
Direct wages: Paid	2,050,000
Accrued	36,000
Plant: Balance (1 January, 2015)	850,000
Sent to site	1,020,000
Balance (31 December, 2015)	700,000
Direct expenses: Paid for the year	310,000
Paid in advance	24,000
Site overheads	192,000
Allocated head office expenses	299,000
Cost of work completed but not certified	2,100,000
Cash received in respect of work certified	27,000,000

Additional information:

- Retention money has been agreed at 10% of work certified.
- It is the company's policy to transfer a third of notional profit to the income statement.

Prepare contract account for the year ended 31 December, 2015.

(11 marks)

2. (a) Sweetest Bakers produces loaves of bread in batches of 600 pieces using two types of materials (M_1 and M_2) and two types of labour (L_1 and L_2). The following are the costs associated with a single batch:

		Quantity	Price
		Kg.	Ksh.
Direct material:	M_1	90	75
	M_2	50	40
		Hours	Rate (Ksh.)
Direct labour:	L_1	5	200
	L_2	5	150
		Ksh.	
Production overheads		6,000	
Other overheads		7,500	

Mark up is at 25%.

Determine the:

- cost price per loaf;
- selling price per loaf.

(8 marks)

- (b) Turbo Enterprises has received a job order from a customer. The job will pass through two departments: A and B.
The following costs relate to the job.

		Ksh.
Department A:	Direct materials	140,000
	Direct labour	60,000
Department B:	Direct materials	88,000
	Direct labour	80,000

Overhead absorption rates are as follows:

Department A - 60% of prime cost

Department B - 30% of direct material cost

- Prepare job cost sheet.
- The customer is willing to pay Ksh. 500,000 for the job.
Advise the management on whether to accept the order or not.

(12 marks)

3. (a) Explain **four** duties of a cost accountant in a manufacturing firm. (8 marks)
- (b) Mapato Enterprises values material issues using First In First Out (FIFO) method. The information below relates to material MM-17 for the month of May 2016.

Purchases:

Date	Units	Price per unit (Ksh.)
May 3	250	30
9	320	32
16	410	35
24	360	33

Issues:

May 5	280
18	700
27	350

Inventory as at 1 May 2016 was composed of 130 units valued at Ksh. 3,900.

Prepare stores ledger account for the month of May 2016.

(12 marks)

4. (a) Explain each of the following terms:

- (i) Product costs;
 (ii) Period costs;
 (iii) Variable costs;
 (iv) Fixed cost.

(8 marks)

- (b) Agula is an employce of Kingsize Suppliers. He is paid a basic monthly salary of Ksh. 12,000. In addition, units delivered are paid for as per the following schedule:

Units delivered	Rate per unit (Ksh.)
First 400	30
Next 600	35
Next 800	40
above 1,800	50

During the month of January 2016, he delivered 2,100 units.

- (i) Calculate his total earnings for the month.
 (ii) Determine the number of units he has to deliver in order to earn Ksh. 97,250 in the month of February 2016.

(12 marks)

5. (a) The following forecasts have been made by the cost accountant of Tawa Manufacturers for the year 2017.

Output (Units)	12,000
Overheads	Ksh. 4,800,000
Direct materials	Ksh. 19,200,000
Direct labour (24, 000 hours)	9,600,000

Calculate overhead absorption rate (OAR) based on:

- (i) output;
- (ii) percentage on direct materials cost;
- (iii) direct labour hours;
- (iv) percentage on direct labour.

(8 marks)

- (b) Mara Limited produces a single product that passes through two processes, I and II.

The following information relates to the processes for the month of June 2016.

	Process	
	I	II
	Ksh.	Ksh.
Materials introduced (70 units)	28,000	-
Additional direct materials	180,000	160,000
Direct labour	58,000	95,000
Normal loss (percentage on input)	10%	5%
Scrap value per unit (Ksh.)	1,000	3,000
Actual output (units)	60	58

Production overheads amounting to Ksh. 80,000 was apportioned to Process I and Process II in the ratio of 7:3, respectively.

Prepare:

- (i) process I account;
- (ii) process II account;
- (iii) abnormal loss account;
- (iv) abnormal gain account.

(12 marks)

6. ✓ (a) The following data relating to material NP-009 has been provided by Nyota Processors for the month of January 2016.

Maximum consumption	420 kg per day
Minimum consumption	400 kg per day
Reorder quantity	4,400 kg
Maximum reorder period	5 days
Minimum reorder period	3 days

Calculate:

- (i) reorder level;
- (ii) minimum stock level;
- (iii) maximum stock level;
- (iv) average stock level.

(8 marks)

(b) Sonny Manufacturers has three production departments: P, Q and R. The following are the budgeted costs for the year 2017.

	Ksh.
Factory maintenance	960,000
Rent and rates	160,000
Depreciation (plant)	400,000
Insurance: - Plant	1,000,000
- Stock in trade	120,000
- Buildings	400,000
- Motor vehicles	300,000

Additional information:

	Department		
	P	Q	R
Area (m ²)	80	60	20
Value of plant (Ksh. '000')	300	400	100
Value of buildings (Ksh. '000')	400	400	200
Average stock (Ksh. '000')	160	50	90
Value of motor vehicles (Ksh. '000')	2,000	3,000	5,000

Prepare an overhead analysis sheet.

(12 marks)

7. (a) Explain **four** internal checks that can be used to prevent fraud in wage payment. (8 marks)

(b) The following information relates to process X in a firm for the month of May 2016. The output of process X is transferred to finished goods account. At the start of the month, 5,500 units were introduced into process X at the following costs:

	Ksh.
Materials introduced	4,400,000
Additional materials	3,120,000
Labour	265,000
Overheads	787,500

During the month 5,000 units were transferred to finished goods account. At the end of the month, the closing work-in-progress was 500 units which were at the following stages of completion:

	Percentage
Materials introduced	100
Additional materials	40
Labour	60
Overheads	50

- (i) Prepare a statement of equivalent production.
- (ii) Determine the value of closing work-in-progress.
- (iii) Prepare process X account.

(12 marks)

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