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COST ACCOUNTING
June/July 2023
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.
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** factors that should be considered when choosing a method of remunerating employees in an organization. (8 marks)
- (b) The following information relates to overheads incurred by Santah Limited for the year 2022.

Department	(Ksh)	Absorption base	Number of hours
X	300,000	Direct labour hours	2,500
Y	500,000	Direct labour hours	4,800
Z	100,000	Machine hours	1,200

Additional information:

- The selling and distribution overheads are absorbed at 5% of production cost.
- The firm's profit mark up is 20%.
- The firm has received an order for 500 units for Job No.155T, which is estimated to incur costs as follows:

Direct materials Ksh.420,000

Direct labour:

Department X - 110 hours at Ksh.80 per hour
 Department Y - 60 hours at Ksh.70 per hour
 Department Z - 40 hours at Ksh.65 per hour
 - 50 machine hours at KSh.100 per hour

The customer has offered to pay Ksh.600,000 for this job.

- (i) Prepare a cost statement for Job No.155T.
 (ii) Advise the management on whether to accept the order or not. (12 marks)

2. (a) Explain **four** disadvantages of using Last in First Out (LIFO) method of stock valuation. (8 marks)
- (b) Sarah and Meshack are employees of Salama Enterprises. The company pays its employees at a rate of Ksh.300 per hour. The following details relate to the last week of March 2023.

Employee	Hours worked
Sarah	40
Meshack	53

Additional information:

- (I) The company allows employees to work for 48 hours per week.
- (II) Bonus is paid using the Rowan scheme.
- (III) Overtime is paid at a time and a half.

For each employee, determine the:

- (i) Basic pay for the week.
- (ii) Gross pay for the week.

(12 marks)

3. (a) Dirah Limited intends to remove cotton soil from a plot measuring 50 by 100 feet. The information relates to the costs.

Lorry hire	Ksh.2,500 per load
Supervision fee	Ksh.2 per 10 square feet
Permit fee	Ksh.3,000
Expected lorries	22 fully loaded
Excavation cost	Ksh.33,000

The company has received an offer of excavating and disposing the cotton soil from the plot at a contract price of Ksh.80,000.

- (i) Prepare an operation cost statement.
- (ii) Advise the management on whether to accept the offer or not.

(8 marks)

- (b) Twanze Limited produces a perfume that undergoes two processes to completion. The following information relates to the month of April 2023.

	Process I Ksh.	Process II Ksh.
Raw materials introduced (50,000 kg)	600,000	-
Added materials (268 kg)	-	2,680
Direct labour	180,000	20,000
Direct expenses	77,000	266,100

Additional information:

- (I) Normal loss expected in process I and process II is 3% and 1% respectively.
- (II) Production overheads are absorbed on the basis of direct labour cost.
--Total production overheads for the month were Ksh.400,000.
- (III) Scrapped units are sold at Ksh.3 per unit.
- (IV) The output from process I and process II was 47,732 units and 47,550 units respectively.

Prepare:

- (i) Process I account.
- (ii) Process II account.

(12 marks)

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

- (i) Abnormal loss.
- (ii) Abnormal gain.
- (iii) Normal loss.
- (iv) Scrap value.

(8 marks)

- (b) The following information relates to contract PX awarded to ABF limited for the year ended 31 December 2022.

	Ksh.
Material purchases	810,000
Plant purchases	1,900,000
Sub-contractor's fee	100,000
Direct wages	600,000
Value of work certified	1,850,000
Cost of work not certified	450,000
Electricity expenses	50,000

Additional information:

- The contract price was Ksh.2,400,000.
- Depreciation on plant is charged at the rate of 25% per annum.
- Cash received during the year was Ksh.1,850,000.
- On 31 December 2022, unpaid wages amounted to Ksh.80,000.

Prepare:

- Contract account.
- Contractee's account.
- Profit and loss account extract.

(12 marks)

5. (a) Explain four limitations of Job order costing in a manufacturing firm. (8 marks)

(b) Sema Limited has three production departments and two service departments. The following overheads were incurred during the year 2022.

Production departments	Ksh.
- Machining	1,600,000
- Cutting	2,000,000
- Stitching	800,000
Service departments	
- Canteen	200,000
- Maintenance	600,000

Additional information:

- The service department costs are apportioned to the production departments as follows:

	Production Department			Service Department	
Canteen	40%	20%	30%	-	10%
Maintenance	60%	10%	25%	5%	-

- Apportion the service department costs to the production departments using simultaneous equations.
- Determine the total overheads for each production department.

(12 marks)

6. (a) Explain **four** functions of a cost accountant in a manufacturing firm.

(8 marks)

(b) Fillah Limited had two production departments J and K and two service departments, L and M. The overheads incurred during the year 2022 is as follows:

	Ksh
Indirect labour	3,800,000
Lighting	360,000
Rent	1,200,000
Depreciation on machinery	750,000

Additional information:

Departmental data	Department			
	J	K	L	M
Area occupied (m)	15	30	10	5
Value of machinery (Ksh)	3,000,000	2,000,000	1,000,000	1,500,000
Number of employees	20	11	4	3

Prepare an overhead apportionment sheet.

(12 marks)

7. (a) Explain **four** characteristics of batch costing.

(8 marks)

(b) The following information relates to Ebbat enterprises for the year ended 31st December 2022.

	Ksh
Raw materials (1 January 2022)	40,000 ✓
Raw materials (31st December 2022)	50,000 ✓
Labour cost	1,260,000 ✓
Factory power	260,000 - O.H ✓
Plant at cost	4,000,000 ✓
Factory supervisor's salary	150,000 - O.H ✓
Carriage on raw materials	110,000 ✓
Work in progress (1 January, 2022)	70,000 ✓

Work in progress (31 December 2022)	90,000
Materials returned to suppliers	35,000 ✓
Purchases of raw materials	720,000 ✓

Additional information:

- (i) Depreciation on plant is at the rate of 5% per annum on cost.
- (ii) A third of the labour cost is indirect cost.
- (iii) The manufacturing profit is at 20%.

Prepare a cost statement.

(8 marks)

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