



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

The paper consists of **SEVEN** questions.
Candidates should answer **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.

- (a) Explain **four** challenges that may be encountered when installing a cost accounting system. (8 marks)

- (b) The following information relates to Nairobi Enterprises: *— material casing*

Receipts of materials: *— purchases*

Date	Quantity	Cost per unit
2016		Ksh.
June 2	600	4
4	400	5
16	500	6
24	500	7

Issues of materials: *— sales*

Date	Quantity
2016	
June 10	500
20	300
30	600

Prepare a stores ledger account for the month of June 2016 using the First In First Out (FIFO) method of stock valuation. (12 marks)

- (a) Mala Limited manufactured products under Batch No. M25 in department X and Y. The following costs were incurred:

Direct materials	Ksh 450,000
Department X:	300 labour hours at Ksh 400 per day
Y:	500 labour hours at Ksh 300 per hour

Factory overheads are absorbed on labour hours at the rate of Ksh 100 per hour in department X and at Ksh 150 per hour in department Y. Administration overheads are 15% of factory costs.

Additional information:

The company produced 1500 units for Batch No. M25.

- (i) Calculate the cost per unit.
- (ii) A customer has offered to buy the Batch at Ksh 800,000. With reasons, advise the management on whether to accept the offer or not. (12 marks)

(b) Explain **four** factors that should be considered before choosing the method of charging overheads to cost centres. (8 marks)

3. (a) The following information was extracted from the books of account of Hivo Manufacturers.

(Costing)
Ab-Jay (11/10)
Casting

Distinction

	Ksh
Direct materials ✓	1,500,000
Direct wages ✓	1,300,000
Depreciation of factory buildings ✓	50,000
Insurance: Officer buildings ✓	80,000
Factory buildings ✓	70,000
Delivery van expenses	150,000
Depreciation of office buildings ✓	200,000
Salaries: Supervisor ✓	120,000
Office staff ✓	720,000
Light and water: Factory ✓	22,000
Office ✓	18,000
Advertisement	80,000
Sales	5,000,000

Prepare a cost statement showing:

- (i) Prime cost
- (ii) Production cost
- (iii) Total cost of sales
- (iv) Net profit

(12 marks)

(b) The information below was extracted from the books of Pona General Hospital for the year 2015:

Number of beds	1,000
Number of in-patients	16,330
Cost break-down:	Ksh
Cost of drugs	10,050,000
Medical staff cost	13,600,000
Cost of support services	3,700,000
Cost of general services	3,900,000

Additional information:

- Take one year to be 365 days
- The hospital's occupancy rate is 85%.

Calculate:

- (i) Average length of stay in Pona General Hospital
- (ii) Cost per in-patient day for the hospital.

$Re\text{-order level} = \frac{27,600}{5} = 5,520$
 $Minimum\ stock\ level = 27,600 - (5,520 \times 5) = 2,040$
 $Average\ stock\ level = \frac{27,600 + 5,520 + 2,040}{3} = 11,720$
 $Re\text{-order level} = \frac{4600 \times 4}{2} = 9200$
 $Minimum\ stock\ level = 4600 - (4000 \times 4) = 1000$
 $Average\ stock\ level = \frac{4600 + 4000 + 3400}{3} = 4000$
 $Re\text{-order level} = \frac{8000 \times 4}{2} = 16000$
 $Minimum\ stock\ level = 4600 - (8000 \times 4) = -27400$
 $Average\ stock\ level = \frac{4600 + 4000 + 3400}{3} = 4000$

1. (a) The following information relates to the stocks of Kiwanda Limited

- Maximum consumption 4600 units per week
- Normal consumption 4000 units per week
- Minimum consumption 3400 units per week
- Re-order period 4-6 weeks
- Re-order quantity 8000 units

Calculate:

- (i) Re-order level
- (ii) Minimum stock level
- (iii) Maximum stock level
- (iv) Average stock level.

$1. Re\text{-order level} = \frac{8000}{2} = 4000$
 $2. Minimum\ stock\ level = Re\text{-order level} - [Normal\ consumption \times Re\text{-order period}] = 4000 - (4000 \times 4) = -12000$
 $3. Maximum\ stock\ level = R.O.Q + R.O.P \times quantity = 8000 + 4 \times 8000 = 32000$
 $Average\ stock\ level = \frac{4000 + 32000 + (-12000)}{3} = 10000$

(b) Gemee Limited manufactures ornaments for export. The company allocates jobs for ornaments to its three operators; Mwelu, Kimaru and Charo. In a period of one week, the units produced and standard time allowed were as follows:

Labour Cost

	Unit produced	Standard Time allowed (Hrs)	Time taken (Hrs)
Mwelu	108	30	46
Kimaru	144	25	49
Charo	177	20	55

The basic wage rate is Ksh 240 for the employees. Hours worked in excess of the basic week hours are paid for at the basic wage rate plus two thirds of the basic wage rate. A bonus is paid at 30% of the basic wage rate for time saved. A working week has 40 hours.

(i) For each employee, calculate:

- (I) the amount of bonus payable.
- (II) to gross wages payable.

(ii) A customer has offered Ksh 120 for the ornament produced by Mwelu. Advise the management of Gemee Limited on whether to accept the offer or not. (12 marks)

(a)
 10/10/15
 1/10/15

Bora Contractors Limited was awarded a contract by Masinaani University to construct lecture halls at a contract price of Ksh 500,000,000, starting 1 April 2015. The following information relates to the contract

	Ksh
Machinery sent to site	100,000,000
Materials sent to site	70,000,000
Labour at site	48,000,000
Materials returned from site	10,000,000
Overheads charged (allocated)	80,000,000
Work certified by architect	270,000,000
Cash received	240,000,000
Value of work not yet certified	90,000,000
Materials on hand (31.3.2016)	5,000,000
Wages accrued (31.3.2016)	500,000
Value of machinery (31.3.2016)	50,000,000

10/10/15
 1/10/15

Prepare:

- (i) Contract account.
- (ii) Contractee account.

(10 marks)

10/10/15
 1/10/15

(b) Zeta Limited manufactures a drink which passes through two processes before completion and transfer to finished goods store. The following information was available for March 2016.

	Process	
	A	B
	Ksh	Ksh
Basic raw materials (20000 units)	40,000	-
Direct materials added	60,000	180,000
Direct wages	52,000	290,000
Direct expenses	48,000	69,575
Scrap value per unit	2.50	4

10/10/15
 1/10/15

Normal loss in process input was at 10% for Process A and 5% for Process B.

Production overheads is absorbed in the process at 75% of direct wages.

A $72 \times 52,000 = 3,744,000$ B $75 \times 290,000 = 217,500$

Prepare:

- (i) Process A account.
- (ii) Process B account.
- (iii) Normal process loss account

Handwritten notes:
 Helpful in decision-making
 Budgetary control
 Profit planning
 Effective cost control
 Fixation of selling price
 Element of cost and cost behaviour (10 marks)

6. (a) Explain four benefits that may be derived from cost classification by an organisation. (8 marks)

(b) Kapeo Limited has two departments A and B. The budgeted and actual data for the month of July 2016 is provided below:

	Dept	Direct wages	Labour hours	Machine hours	Production overheads
Budgeted	A	240,000	2000	5000	2,050,000
	B	800,000	4000	2500	3,400,000
Actual	A	400,000	2500	5500	
	B	700,000	4500	2000	

Additional information:

(i) During the month of July 2016, product Exe was made utilising the following costs and time (hours)

Department	Direct wages	Labour hours	Machine hours
A	36,000	40	25
B	34,000	35	30

(ii) The direct material cost of the job was Ksh 150,000.

(iii) Departmental production overheads were absorbed as follows:

Department	
A	Labour hours
B	Machine hours

Determine

(I) The cost of product Exe using a simple factory-wide overhead absorption rate on labour hours.

(II) Cost of product Exe using departmental overhead absorption rates. (12 marks)

(labour costing)

Explain four factors that should be considered before choosing a suitable method for labour remuneration. (8 marks)

Furniture Limited has two production departments, 1 and 2 and two service departments, X and Y. The departmental distribution summary for June 2016 period has the following totals:

Production departments:	Ksh
Department 1	120,000
Department 2	80,000
Service departments:	
Department X	20,000
Department Y	35,000

The expenses of the service departments are apportioned on a percentage basis as follows:

	Production department		Service department	
	1	2	X	Y
Service department X	40%	20%	-	40%
Service department Y	30%	50%	20%	-

Prepare a statement showing the apportionment of the two service departments' expenses to the production department using the repeated distribution method (up to Ksh 275.2 for department Y). (12 marks)

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