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**COST ACCOUNTING**  
**November 2022**  
**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.  
All questions carry equal marks.  
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.**

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**Turn over**

1. (a) Explain **four** duties of a cost accountant in a manufacturing firm. (8 marks)
- (b) Katana Limited uses material M50 in its production process. The following information relates to the material for the month of June 2022.

2022

June 1 Purchased 2,000 units at Ksh. 100 per unit  
9 Purchased 520 units at Ksh. 105 per unit  
10 Issued 1,400 units  
12 Received 800 units at Ksh. 115 per unit  
14 Received 600 units at Ksh. 125 per unit  
16 Issued 1,240 units  
20 Issued 480 units  
25 Received 1,000 units at Ksh. 110 per unit  
30 Issued 760 units

Prepare a stores ledger account using the weighted average cost method of stock valuation. (12 marks)

2. (a) Differentiate between each of the following type of costs:
- (i) Fixed costs and variable costs;
  - (ii) Product costs and period costs;
  - (iii) Relevant costs and irrelevant costs;
  - (iv) Controllable costs and non-controllable costs.

(8 marks)

- (b) Mara Transport Company operates a fleet of six buses between two towns, 75 kilometres apart. The seating capacity of each bus is 40 passengers. The following information relates to the company for the month of April 2022.

	<b>Ksh</b>
Salaries to drivers	36,000
Salaries to office staff	15,000
Diesel and oils	103,200
Repairs and maintenance	12,000
Insurance	24,000
Depreciation	39,000
Interest on loan	30,000

Additional information:

- Actual passengers carried were 80% of the seating capacity.
  - All the buses operated on all days of the month.
  - Each bus made one round trip per day.
- (i) Prepare an operating cost statement showing:
- (I) total fixed costs;
  - (II) total variable costs;
  - (III) total costs;
  - (IV) cost per passenger-kilometre.
- (ii) Determine the bus fare to be charged per passenger in order to make a profit of Ksh. 201,600 in a month. (12 marks)

$$\begin{array}{r}
 25210 \\
 2409 \\
 \hline
 28120 \\
 1240 \\
 \hline
 1280
 \end{array}$$

- 3 ✓ (a) Rex Limited has three production departments  $R_1$ ,  $R_2$  and  $R_3$  and two service departments,  $S_1$  and  $S_2$ .

The following are the overheads for each department.

Production Departments	Ksh
$R_1$	80,000
$R_2$	100,000
$R_3$	120,000
Service Departments	
$S_1$	39,904
$S_2$	20,000

Overheads of the service departments are apportioned as follows:

	$R_1$	$R_2$	$R_3$	$S_1$	$S_2$
$S_1$	40%	30%	20%	-	10%
$S_2$	20%	40%	20%	20%	-

- (i) Using the simultaneous equation method, reapportion the service department overheads to the production departments.

- (ii) Determine the total cost for each production department.

(10 marks)

- (b) ✓ Daky Limited manufactures Product Q that passes through Process 1 and Process 2. The output of process 2 is transferred to finished goods account. At the beginning of the month of May 2022, 6,000 units were transferred from Process 1 to Process 2. During the month, the following costs were incurred.

	Ksh
Materials	6,810,000
Additional materials	2,203,200
Labour	480,240
Overheads	528,000

During the month, 4,800 units were transferred to the finished goods account. At the end of the month, closing work in progress was 1,200 units at the following stages of completion.

Materials	100%
Additional materials	50%
Labour	60%
Overheads	40%

- (i) Prepare a statement of total equivalents units.
- (ii) Determine the:
- (I) cost per unit;
  - (II) value of work in progress.

(10 marks)

4. (a) Explain **four** measures that a firm may take to prevent fraud in the payroll.

(8 marks)

- (b) The following are the budgeted overheads of Smart Clothing Company Limited for the year 2021.

Department	Amount Ksh.	Bases of overhead absorption
Pattern drafting	3,000,000	15,000 labour hours
Cutting	2,000,000	10,000 labour hours
Machining	4,000,000	20,000 machine hours
Finishing	1,500,000	5,000 labour hours

- Selling and administration costs are charged at 12% of factory cost.
- Profit is at the rate of 20 % of the total cost.
- The following data relates to Job Order Number X005.

3990/4  
20000  
59904

**JOB NO. X005**

Raw Materials Ksh. 120,000

Direct labour

1/10 x 39904

- Pattern drafting 100 labour hours at Ksh. 100 per hour
- Cutting 120 labour hours at Ksh. 50 per hour
- Machining 140 machine hours at Ksh. 40 per hour
- Finishing 150 labour hours at Ksh. 20 per hour

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- (i) Prepare a job cost statement for Job Number X005.
- (ii) A customer is willing to pay Ksh. 340,000 for the job.

Advise the management on whether to accept the job order or not.

(12 marks)

5. (a) The following information relates to Liku Manufacturing Company for the year 2023.

Budgeted output	50,000 units
	<b>Ksh.</b>
Budgeted direct materials	2,000,000
Budgeted direct labour (25,000 hours)	500,000
Budgeted overheads	1,000,000

Calculate the Overhead Absorption Rate (OAR) based on:

- (i) unit of output;
  - (ii) direct labour hours;
  - (iii) percentage on direct material cost;
  - (iv) percentage on direct labour cost.
- (8 marks)

- (b) Kibex Limited manufactures and sells product K12 in batches. The firm has received an order to manufacture 4,000 units of the product. The following information relates to the order.

	<b>Batch No. 007</b>
	Ksh.
Direct materials	350,000
Direct labour	
Department	
A	130 direct labour hours at Ksh. 50 per hour
B	85 direct labour hours at Ksh. 100 per hour
C	110 machine hours at Ksh. 60 per hour
D	200 machine hours at Ksh. 40 per hour

- Overheads are absorbed at the rate of Ksh. 20, Ksh. 40, Ksh. 50 and Ksh. 30 for departments A, B, C and D respectively.
- Selling and administration costs are absorbed at 10% of factory cost.
- Profit is at 25% of the total cost.

Prepare a batch cost statement for batch No. 007, showing the:

- prime cost;
- factory cost;
- total cost;
- selling price.

(12 marks)

6. (a) Highlight **four** features of contract costing.

(8 marks)

(b) The following information relates to the employees of Pepea Limited for the month of May 2022.

Clock No.	Name	Number of hours worked	Rate per hour	Salary Advance
			Ksh	
011	James	190	120	6,000
012	Joyce	180	100	5,000
013	Jadline	200	160	8,000
014	Glory	210	100	8,000
015	Robert	170	130	5,000
016	Kelly	200	140	7,000

Additional information:

- Normal working hours per month are 170 hours. Overtime is payable at a time and half the basic rate.
- P.A.Y.E is at the rate of 10% of the gross wage.
- N.S.S.F of Ksh. 200 is deducted from each employee.
- NHIF of Ksh. 500 is deducted from each employee.

Prepare the payroll of Pepea Limited for the month of May 2022.

(12 marks)

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7. (a) The following costs were incurred by Tawa Limited during the month of June 2022.

	<b>Ksh.</b>
Rent	100,000
Salaries	260,000
Repairs and maintenance	120,000
Insurance	20,000
Raw materials	60,000
Wages	10,000

Calculate the total:

- (i) fixed cost;
- (ii) variable cost.

(8 marks)

(b) Panday Limited manufactures Product X30 that passes through two processes, A and B. During the month of September 2022, 6,000 units of raw materials costing Ksh. 480,000 was introduced in Process A. Subsequently, the following costs were incurred.

	<b>Process</b>	
	<b>A</b>	<b>B</b>
	<b>Ksh.</b>	<b>Ksh.</b>
Additional direct materials	60,000	80,000
Direct labour	80,000	100,000
Direct expenses	12,000	10,000
Production overheads	28,000	28,500

Additional information:

- Normal loss was estimated at 10% and 5% for Process A and Process B respectively.
- Output from Process A and Process B was 5,000 units and 4,700 units respectively.

The scrap from Process A and Process B is sold for Ksh. 20 per unit and Ksh. 44 per unit respectively.

Prepare:

- (i) Process A account;
- (ii) Process B account;
- (iii) abnormal loss account.

(12 marks)

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