

2908/304

ACCOUNTING AND CONTROL

November 2018

Time: 3 hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL

DIPLOMA IN HUMAN RESOURCE MANAGEMENT

MODULE III

ACCOUNTING AND CONTROL

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) Explain **four** assumptions that underlie the cost volume profit (C-V-P) analysis. (8 marks)
- (b) The following statements of financial position were prepared from the records of Mapato Limited as at 30 June 2016 and 2017.

| | 2016 | | 2017 | |
|-------------------------|----------------|------------------|----------------|------------------|
| | Ksh | Ksh | Ksh | Ksh |
| Non current assets | | | | |
| Equipment at book value | | 2,350,000 | | 2,669,000 |
| Current assets | | | | |
| Inventory | 180,000 | | 165,000 | |
| Accounts receivable | 340,000 | | 282,000 | |
| Cash and bank balances | <u>120,000</u> | <u>640,000</u> | <u>98,000</u> | <u>545,000</u> |
| | | 2,990,000 | | 3,214,000 |
| Current liabilities | | | | |
| Accounts payable | 111,000 | | 168,000 | |
| Loan from bank | <u>200,000</u> | <u>311,000</u> | <u>150,000</u> | <u>318,000</u> |
| | | <u>2,679,000</u> | | <u>2,869,000</u> |
| Capital | | | | |
| Balance b/f | | 2,000,000 | | 2,562,000 |
| Net profit for the year | | <u>679,000</u> | | <u>334,000</u> |
| | | <u>2,679,000</u> | | <u>2,896,000</u> |

During the year 2017, the firm bought equipment for Ksh. 436,000.

Prepare a statement of cash flow for the year ended 30 June 2017. (12 marks)

2. (a) Classify each of the following costs as either production cost, administrative cost or selling and distribution cost. (8 marks)
- Lubricating oil for plant.
 - Depreciation on carpet in the resource manager's office.
 - Repairs on delivery van.
 - Salaries paid to supervisors in the factory.
 - Security fees to a security firm.
 - Repairs on computer used by the secretary in the human resource department.
 - Sales commission.
 - Wages to casual factory workers.

- (b) The following information relates to Yamax Traders for the year ended 31 August 2017.

| | Ksh |
|-----------------------------|-----------|
| Gross profit | 1,425,000 |
| Buildings at cost | 1,000,000 |
| Equipment at cost | 500,000 |
| Salaries and wages | 520,000 |
| Repairs | 140,000 |
| Rental income (sub-letting) | 160,000 |
| Accounts payable | 318,000 |
| Opening inventory | 116,000 |
| Drawings | 40,000 |
| Accounts receivable | 265,000 |
| Capital | 1,544,000 |
| Closing inventory | 134,000 |
| Cash and bank balances | 148,000 |

Additional information:

- Building and equipment are depreciated at rate of 20% and 30% respectively.
- Rental income owing as at 31 August 2017 was Ksh. 4,000.

Prepare:

- (i) income statement for the year ended 31 August 2017;
- (ii) Statement of financial position as at 31 August 2017. (12 marks)

3. (a) Nyamai Traders started a business on 1 April 2018 with Ksh. 308,500 in the bank account. The following transactions took place during the month:

2018

- April 2 Withdrew Ksh. 150,000 cash from the bank for business.
 5 Bought stationery Ksh. 2,500 in cash.
 6 Paid rent Ksh. 16,000 by cheque.
 8 Purchased goods Ksh. 20,000 on credit from Ngene.
 12 Bought furniture Ksh. 13,800 by cheque.
 16 Withdrew cash from bank Ksh. 8,000 for personal use.
 20 Sold goods to Talel Ksh. 15,000 on credit.
 24 Settled Ngene's account in full in cash after deducting 5% cash discount.
 25 Cash sales amounted to Ksh. 12,000.
 26 Talel settled his account by cheque after being allowed a 6% discount.

April 28 Banked Ksh. 35,000 from the cash till.

Prepare a three column cash book for April 2018.

(9 marks)

- (b) The financial year of Mulenda Enterprises ends on 31 December. The following information relates to bad debts and accounts receivable for each of the years 2015, 2016 and 2017.

| | Bad debts written off during the year | Accounts receivable |
|-----------|--|------------------------|
| | Ksh | Ksh |
| Year 2015 | 40,000 | 1,600,000 |
| 2016 | 48,000 | 1,500,000 |
| 2017 | 36,000 | 2,300,000 |

Provision for bad debts is provided for at the rate of 3% of the accounts receivable at the end of each year.

For each of the years, prepare:

- (i) bad debts account;
(ii) provision for bad debts account.

(11 marks)

4. (a) The reported net profit of Ndemu Traders was Ksh. 160,000 for the year ended 31 December, 2017. The proprietor had expected a higher profit than that reported.

On investigation, the following errors were revealed:

- (i) The sales day book had been overcast by Ksh. 16,000.
(ii) Payment of rent of Ksh. 4,000 had been omitted from the books.
(iii) Discounts allowed Ksh. 3,000 had been entered in the discounts received account.
(iv) Purchases of goods for Ksh. 4,600 in cash had been recorded as Ksh. 64,000.

Prepare a statement of corrected net profit.

(8 marks)

- (b) The following information relates to estimates made for Makini Traders for the months of September to December, 2017.

| | September | October | November | December |
|-----------|-----------|-----------|-----------|-----------|
| | Ksh | Ksh | Ksh | Ksh |
| Sales | 2,000,000 | 4,000,000 | 5,200,000 | 4,500,000 |
| Purchases | 1,200,000 | 3,600,000 | 3,500,000 | 3,600,000 |
| Wages | 240,000 | 240,000 | 280,000 | 300,000 |

Additional information:

- Assets costing Ksh. 50,000 will be acquired in October but paid for in December, 2017.
- Dividends amounting to Ksh. 1,210,000 will be paid in the month of November, 2017.
- 40% of sales are on credit and are settled one month after sale.
- All the purchases are one month credit terms.
- Wages are paid for in the month in which they are incurred.
- Sales commission of 8% on sales is paid in each month of sale.
- Cash in hand on 1 October, 2017 is expected to be Ksh. 160,000.

- (i) Prepare a cash budget for the month October, November and December, 2017 in columnar format.
- (ii) The management of the firm has negotiated with a bank for an overdraft facility if a cash deficit occurs. Advise the management on the month in which the firm will need the facility. (12 marks)

5. (a) Explain **four** advantages of using control accounts. (8 marks)
- (b) Machoka earns a basic salary of Ksh. 24,000 per month and a commission on sales as per the following graduated scale:

| Sales (Ksh) | Percentage commission |
|-----------------|-----------------------|
| First 2,000,000 | Nil |
| Next 3,000,000 | 2% |
| Next 4,500,000 | 3% |
| Above 9,500,000 | 5% |

- (i) During the months of June 2018, Machoka made sales amounting to Ksh. 1,040,000. Calculate his gross earnings for the month.
- (ii) Determine the sales that Machoka must make in order to earn Ksh. 231,000 in a month.
- (iii) The management has option to pay Machoka a commission of 20% on the total sales of Ksh. 1,040,000 without a salary. Advise the management on the best option. (12 marks)

6. (a) Explain the meaning of each of the following accounting concepts:

- (i) materiality;
- (ii) monetary measurement;
- (iii) prudence;
- (iv) accrual.

(8 marks)

(b) The following are the account balances of Ondeni Traders as at as at 31 July, 2018.

| | Ksh |
|--|-----------|
| Purchases | 1,895,000 |
| Inventory (1 August 2017) | 72,000 |
| Capital | 1,074,000 |
| Carriage outwards | 85,000 |
| Cash in hand | 156,000 |
| Returns inwards | 47,000 |
| Furniture at cost | 81,000 |
| Accounts payable | 67,000 |
| Cash at bank | 327,000 |
| Accounts receivable | 85,000 |
| Discounts allowed | 42,000 |
| Provision for depreciation on furniture | 16,000 |
| Discounts received | 36,000 |
| Carriage inwards | 24,000 |
| Motor vehicles at cost | 420,000 |
| Provision for depreciation on motor vehicles | 96,000 |
| Drawings | 24,000 |
| Bank loan | 348,000 |

Prepare a trial balance as at 31 July, 2018.

(12 marks)

7. (a) Mwanzo Enterprises have provided the cash book (bank column only) and a bank statement for the month of November, 2017 as follows:

Cash Book

| 2017 | Ksh. | 2017 | | | |
|------------|---------------|----------------|------------|----------------|----------------|
| November 1 | Balance b/d | 318,500 | November 8 | H. Farah | 126,000 |
| | 1 T. Njoro | 27,300 | | 28 F. Hellen | 15,100 |
| | 18 C. Anyango | 45,000 | | 31 Balance c/d | 288,900 |
| | 29 A. Jebet | <u>39,200</u> | | | |
| | | <u>430,000</u> | | | <u>430,000</u> |

Bank Statement

| Transaction | DR | CR | Balance |
|-------------------------|---------|--------|---------|
| 2017 | Ksh | Ksh | Ksh |
| November 1 Balance b/d | | | 318,500 |
| 3 Deposit from customer | | 18,000 | 336,500 |
| 5 T. Njoro | | 27,300 | 363,800 |
| 13 Dividends | | 3,500 | 367,300 |
| 14 H. Farah | 126,000 | | 241,300 |
| 22 C. Onyango | | 45,000 | 286,300 |
| 30 Bank charges | 12,200 | | 274,100 |

Prepare:

- (i) An updated cash book.
 (ii) A bank reconciliation statement. (8 marks)

- (b) Banti Enterprises operate a petty cash book on an imprest system. The monthly cash float is Ksh. 10,000 and is restored on the first day of the month. On January, 2018, the petty cashier had a balance of Ksh. 1,400. He received the amount for reimbursement on the same day. The following payments were made during the month:

2018

| | |
|-----------|----------------------------------|
| January 3 | Petrol, Ksh. 1,600 |
| 5 | Paints, Ksh. 700 |
| 6 | Pens, Ksh. 400 |
| 8 | Taxi fare, Ksh. 800 |
| 10 | Bus fare Ksh. 400 |
| 15 | Printing papers, Ksh. Ksh. 1,100 |
| 20 | Faith, a creditor, Ksh. 1,000 |
| 22 | Lubricant, Ksh. 900 |
| 24 | Tyre repairs, Ksh. 410 |
| 26 | Envelopes Ksh. 800 |

Prepare a petty cash book for the month of January, 2018 using the following analysis columns:

- Motor expenses
- Stationery
- Travelling
- Miscellaneous.

(12 marks)

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