

2908/304

ACCOUNTING AND CONTROL

July 2019

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 9 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

- (a) On 1 August 2018, Twiga Retails had a balance of Ksh 17,300 in cash and Ksh 26,000 in the bank.

The following transactions took place during the month:

August 1	Bought stationery for Ksh 2,500 in cash.
7	Sold goods amounting to Ksh 57,200 and received cash.
10	Paid Pengo Limited Ksh 39,600 by cheque in full settlement of their account of Ksh 44,000.
12	Banda Traders settled their account of Ksh 30,000 by cheque after deducting a cash discount of 10%. <i>No discount</i>
15	Paid general expenses for Ksh 5,100 in cash.
17	Safi saloon settled their account of Ksh 8,000 by cheque after deducting a cash discount of 5%.
25	Took Ksh 31,000 of the cash and deposited it into the business bank account.
26	Paid wages amounting to Ksh 12,000 in cash.
27	Paid rates of Ksh 8,200 by cheque.
30	Bought goods for Ksh 2,800 in cash.
31	Paid Sane Manufacturers Ksh 11,400 by cheque after deducting a cash discount of Ksh 600.

Prepare a three column cash book for the month of August 2018. (11 marks)

- (b) Motta Limited remunerates its employees on a weekly basis using the Halsey bonus scheme. The standard production rate is 15 units per hour. The normal working hours per week is 40 while the basic hourly rate is Ksh 80.

The following information relates to the output by Petero, an employee, during the month of February 2019.

	Units
Week I	630
Week II	720
Week III	600
Week IV	750

For all week, determine Petero's:

- basic pay;
- bonus pay;
- gross earnings.

(9 marks)

2. (a) Explain each of the following costing terms:

- (i) fixed cost;
- (ii) variable cost;
- (iii) semi-variable cost;
- (iv) direct cost;
- (v) indirect cost.

(10 marks)

(b) The following balances were extracted from the books of account of Maarifa Traders as at 31 December 2018.

	Ksh
Sales	1,700,000
Purchases	852,000
Furniture	678,000
Returns outwards	39,000
Returns inwards	26,000
Bank	257,000
Capital	1,000,000
Salaries and wages	395,000
Office expenses	103,000
Accounts receivable	468,000
Accounts payable	197,000
Bank loan	300,000
Discounts allowed	49,000
Discounts received	37,000
Fixed deposit account	388,000
Carriage inwards	57,000

Prepare a trial balance as at 31 December 2018.

(10 marks)

3. (a) Tawala Enterprises had the following balances as at:

	1 January 2018	31 December 2018
	Ksh	Ksh
Electricity accrued	4,000	6,000
Rates prepaid	800	1,200
Commission receivable due	2,100	1,600

Additional information:

- Payments made by cheque during the year ended 31 December 2018 were:

	Ksh
Electricity	53,000
Water	12,000
Rates	3,700

- Commission received during the year ended 31 December 2018 amounted to Ksh 15,000.

Prepare:

- electricity and water account;
- rates account.
- commission receivable accounts.

(8 marks)

(b) Mraba Retailers had the following balances at 31 December 2018:

	Ksh
Purchases	1,125,800
Sales	1,900,000
Electricity	38,000
Returns inward	17,000
Returns outwards	12,900
Salaries	395,200
Commission received	11,600
Inventory (1 January 2018)	349,700
Carriage inwards	36,500
Carriage outwards	61,400
Discounts allowed	50,800
Discounts received	40,000
Repairs and maintenance	22,700
Bad debts	42,900
Office equipment at cost	250,000
Provision for doubtful debts (1 January 2018)	27,800

Additional information:

- Inventory was valued at Ksh 272,100 on 31 December 2018.
- On 31 December 2018, electricity accrued amounted to Ksh 7,000.
- Equipment is to be depreciated at 10% per annum on cost.
- The provision for doubtful debts as at 31 December 2018 was Ksh 20,000.

Prepare an income statement for the year ended 31 December 2018. (12 marks)

4. (a) On 30 April 2019, the cashbook (bank column) of Ziwx Traders had a credit balance of Ksh 31,000 while the bank statement had a credit balance of Ksh 34,600 on the same date.

On comparison, the following discrepancies were revealed:

- I. Some customers had made direct deposits into the bank amounting to Ksh 121,000.
- II. Bank charges of Ksh 2,450 was reflected on the bank statement only.
- III. Cheques totalling Ksh 201,300 deposited by the firm had not been reflected on the bank statement.
- IV. Interest received of Ksh 5,800 was reflected on the bank statement only.
- V. A cheque of Ksh 14,350 from a customer was returned as unpaid by the bank.
- VI. Cheques amounting to Ksh 156,900 issued to suppliers had not been presented for payment.

Prepare:

- (i) an updated cash book;
- (ii) a bank reconciliation statement as at 30 April 2019.

(10 marks)

- (b) Sky Manufacturer makes a single product. The current production is 27,000 units per annum.

The following information relates to the product:

	Ksh
Selling price per unit	140
Production cost per unit:	
Direct materials	20
Direct labour	30
Variable overheads.	10

The annual fixed costs are Ksh 2,400,000.

- (i) Determine the:

- (I) break even point in units;
- (II) break even point in shillings;
- (III) current profit or loss.

- (ii) Advise the management on the action to take based on the results in (i) above.

(10 marks)

5.

- (a) The following balances relate to Mteja Enterprises as at 1 June 2018:

		Ksh
Sales ledger:	Debit balance	372,500
	Credit balance	1,800
Purchases ledger:	Debit balances	4,300
	Credit balance	219,400

✓ The transactions during the month of June were as follows:

	Ksh
Credit sales	650,200
Credit purchases	304,100
Receipts from debtors	589,300
Cheque payments to creditors	298,700
Bad debts	11,500
Dishonoured cheques	45,000
Returns outwards	52,100
Returns inwards	34,900
Discounts received	19,800
Cash payments to creditors	44,800
Discount allowed	26,900
Interest charged on customers overdue accounts	3,600

Prepare a:

- (i) sales ledger control account;
- (ii) purchases ledger control account.

(10 marks)

- (b) Kilele intends to start a business with Ksh 800,000 in cash on 1 July 2018. The following estimates are available:

	Sales Ksh	Purchases Ksh	Salaries and expenses Ksh
2018			
July	200,000	80,000	170,000
August	500,000	270,000	190,000
September	700,000	310,000	220,000

Additional information:

- Half of the sales will be made on cash basis while the balance will be paid the following month.
- Suppliers will be paid one month after the purchase.
- Salaries and expenses will be paid at the end of every month.
- A rent of Ksh 160,000 will be paid at the beginning of every quarter.
- A motor vehicle will be purchased for Ksh 60,000 in July 2018 and it will be paid in August 2018.

Prepare a cash budget for each of the months of July, August and September 2018.

(10 marks)

6.

(a) Explain each of the following accounting concepts:

- (i) Dual aspect.
- (ii) Money measurement.
- (iii) Materiality.
- (iv) Going concern.
- (v) Consistency.

(10 marks)

(b) The following are the statements of financial position of Rada Traders as at 31 December:

	2017	2018
	Ksh	Ksh
Non-current assets:		
Buildings	2,500,000	4,800,000
Motor vehicles	<u>1,700,000</u>	<u>1,300,000</u>
	4,200,000	6,100,000
Current assets:		
Inventory	150,000	250,000
Accounts receivable	390,000	420,000
Cash	<u>60,000</u>	<u>130,000</u>
	<u>600,000</u>	<u>800,000</u>
	<u>4,800,000</u>	<u>6,900,000</u>
Capital	2,500,000	3,700,000
Add net profit	<u>1,200,000</u>	<u>1,800,000</u>
	3,700,000	5,500,000
Non-current liabilities:		
Bank loan	860,000	400,000
Current liabilities:		
Accounts payable	240,000	120,000
Bank overdraft	<u>—</u>	880,000
	<u>240,000</u>	<u>1,000,000</u>
	<u>4,800,000</u>	<u>6,900,000</u>

(i) For each of the years, calculate:

- (I) current ratio;
- (II) quick ratio;
- (III) return on total asset;
- (IV) Debt-equity ratio.

(ii) Comment on the liquidity position of the firm.

(10 marks)

7. (a) Explain **four** types of errors that may not be disclosed by a trial balance. (8 marks)

(b) On 1 May 2019, the petty cashier of Watalii Traders was given a cash float of Ksh 32,000 by the chief cashier.

The petty cashier made the following payments during the first week of May:

2019		Ksh
May 1	Registered mail	2,800
2	Bus fare	1,700
2	Cell phone airtime	2,000
3	Stamps	500
3	Letter headed papers	1,600
3	Train fare	2,200
4	Pens	400
5	Telephone bill	1,900
5	Box files	600
6	Post office box rent	3,000
6	Air ticket	10,000

Prepare a petty cash book using the following analysis columns.

- postage;
- stationery;
- travelling;
- telephone.

(12 marks)

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