Name: ______________________________________ Index No: ________________/_______

Candidate's Signature: ______________

Date: ______________________________

2908/304
ACCOUNTING AND CONTROL
November 2015
Time: 3 hours

THE KENYA NATIONAL EXAMINATIONS COUNCIL

DIPLOMA IN HUMAN RESOURCE MANAGEMENT

MODULE III

ACCOUNTING AND CONTROL

3 hours

INSTRUCTIONS TO CANDIDATES

Write your name and index number in the spaces provided above.
Sign and write the date of examination in the spaces provided above.
This paper consists of ***SEVEN*** *questions.*
Answer ***FIVE*** *questions in the spaces provided in this question paper.*
ALL *questions carry equal marks.*
Show all your workings.
Do not remove any pages from this question paper.
Candidates should answer the questions in English.

For Examiner's Use Only

Question	1	2	3	4	5	6	7	TOTAL SCORE
Candidate's Score								

This paper consists of 24 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** benefits of budgeting to an organisation. (8 marks)

(b) Norton Limited Manufactures a single product. The selling price per unit of the product is Ksh.400. The variable costs per unit of the product are as follows:

	Kshs
Direct materials	140
Direct labour	110
Variable production overheads	30
Variable selling overheads	20

The company expects to manufacture and sell 4,000 units during the year 2015. The fixed overheads for the year 2015 are expected to be Ksh.210,000.

(i) Determine:

(I) the budgeted profit for the year 2015.
(II) the break-even point in units and in shillings.
(III) the margin of safety in units and in shillings.

(ii) The management intends to increase the selling price to Ksh.500. The company will incur an advertising expenditure of Ksh.450,000 which will increase the sales volume by 500 units.

Advise the management on whether the selling price should be increased or not. (12 marks)

2. (a) The following costs relate to Job PK200:

	Kshs
Direct materials	30,000
Direct labour	20,000
Factory overheads	24,000

Additional information:

(i) Administration overheads is 10% of factory cost.
(ii) Distribution overheads are Ksh.400.
(iii) Selling overheads are Ksh.1.5 per unit. The job consists of 800 units.
(iv) The company earns a profit of 20% on cost for each job.

Prepare a statement for Job PK200 showing:

- Prime cost
- Factory cost
- Total cost
- Sales

(9 marks)

(b) The following information relates to Patience Traders for the month of June 2014.

	Kshs
Sales ledger balance 1 June 2014	57,240 DR

Summary of transactions during the month:

	Kshs
Cash received from debtors	1,560
Cheques received from debtors	93,585
Credit sales	106,350
Bad debts written off	4,590
Discounts allowed	4,470
Returns inwards	2,460
Cash refunded to a customer	555
Dishonoured cheques	20,000

Prepare the sales ledger control account.

(11 marks)

3. (a) The management of Komesha Manufacturers in concerned about the increasing fraud in the payment of wages in the year 2013, this was estimated at Ksh.600,000.

Explain **four** measures that the management should take to prevent the fraud. (8 marks)

(b) The net income for year ended 31 December 2013 was Ksh.4,800,000. The trial balance did not balance. The credit balances exceeded the debit balances by Ksh.180,000.

On scrutiny, the following errors were revealed.

(i) The sales were overcast by Ksh.210,000.
(ii) Rent was undercast by Ksh.60,000.
(iii) Rates were overcast by Ksh.150,000.
(iv) A cash payment of Ksh.90,000 to a creditor was recorded in the cash book only.
(v) Purchases for Ksh.582,000 was recorded in the books as Ksh.285,00.
(vi) Discounts received were undercast by Ksh.30,000.

Prepare:

(i) the suspense account.

(ii) the statement of corrected Net income.

(12 marks)

4. (a) Explain each of the following accounting terms:

(i) Business entity concept.
(ii) Consistency concept.
(iii) Realisation concept.
(iv) Going concern concept.

(8 marks)

(b) The following information was obtained from the books of account of Pangala Traders as at 1 January 2014:

	Kshs
Cash	500,000
Inventory	700,000
Accounts receivable	600,000
Prepaid insurance	200,000
Premises	3,000,000
Furniture	1,600,000
Bank overdraft	300,000
Accounts payable	1,000,000

During the year ended 31 December 2014:

(i) The proprietor withdraw Ksh.40,000 for personal use.
(ii) The net profit was Ksh.200,000.
(iii) The proprietor converted his house with a value of Ksh.2,000,000 into business use.

(I) Prepare a trial balance as at 1 January 2014 showing the initial capital.

(II) Determine the capital as at 31 December 2014.

(12 marks)

5. (a) On 1 January 2014, Charo started a business with Ksh.200,000 in cash.
The following transactions took place during the first week of January 2014:

2014

Jan.	2	Deposited Ksh.100,000 of the cash in the business bank account.
	3	Purchased stationery worth Ksh.20,000 in cash
	4	Bought goods worth Ksh.40,000 by cheque.

(i) Prepare ledger accounts to record the transaction.
(ii) Balance off the ledger accounts.
(iii) Extract a trial balance as at 4 January 2014.

(9 marks)

(b) The following transactions relate to Watamu Traders for the month of November 2014:

Nov.	1	Bought goods for Ksh.30,000 from Kahanjam on credit
"	3	Bought goods for Ksh.80,000 from Makanga on credit
"	5	Returned goods to Kahanjam worth Ksh.5,000
"	8	Paid Kahanjam on account less 10% cash discount
"	12	Bought goods for KSh.70,000 from Kato on credit
"	15	Sold goods to Tila for Ksh.100,000 on credit
"	18	Returned goods worth Ksh.8,000 to Kato
"	22	Tila returned goods worth Ksh.9,000
"	27	Sold goods for Ksh.20,000 to Marimba on credit

Enter the transactions above in the following books:

(i) Purchases journal.
(ii) Sales journal.
(iii) Return inwards journal.
(iv) Return outwards journal.

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6. (a) Explain **four** limitations of using ratios in analysing financial statements.

(8 marks)

(b) Kimeto Traders operates a petty cash book on an imprest system with a weekly cash float of Ksh.50,000.

On 2 June 2014, the cashier gave Ksh.50,000 to the petty cashier.

The following payments were made by the petty cashier during the first week of June 2014.

			Ksh
June	2	Petrol	6,000
	3	Kimaru - Travelling expenses	300
	3	Stamps	2,000
	4	Mariti - Travelling expenses	1,000
	5	Clearing expenses	5,000
	7	Vehicle repairs	6,000

Reimbursement is made at the end of every week.

Prepare a petty cash book with the following analysis columns.

- Motor expenses
- Staff travelling
- Stamps
- Clearing expenses

(12 marks)

7. (a) The following balances were extracted from the books of Wetu Enterprises as at 30 December 2013:

	Ksh
Sales	30,000,000
Inventory (1 January 2013)	500,000
Carriage inwards	20,000
Purchases	20,000,000
Return inwards	400,000
Return outwards	200,000
Rent	40,000
Salaries	800,000
Telephone	10,000
Insurance	100,000
Premises	800,000

(i) On 31 December 2013:
- Salaries accrued were Ksh.45,000
- Prepaid Insurance was Ksh.18,000
- Inventory was valued at Ksh.320,000

(ii) Premise are depreciated at 8% per annum.

(I) Prepare an income statement for the year ended 31 December 2013.

(II) The targeted annual profit was Ksh.12,000,000. Advise the management on the action to take based on the information obtained in (I) above.

(11 marks)

(b) The following is the cash book (bank column) and the bank statement of Wama Traders for the month of October 2014:

Cash Book (Bank Column)

2014			Ksh	2014			Ksh
Oct.	1	Balance b/f	500,000	Oct.	7	Zawadi Bookshop	50,000
"	8	Zainabu	24,000	"	14	Mumo	17,000
"	23	Wanja	33,000	"	25	Ali	24,000
"	29	Akeyo	45,000	"	31	Balance c/d	511,000
			602,000				602,000

Bank Statement

2014			Dr Ksh	Cr Ksh	Balance Ksh
Oct.	1	Balance b/f			500,000
"	8	Cheque		24,000	524,000
"	12	Zawadi Bookshop	50,000		474,000
"	18	Mumo	17,000		457,000
"	22	Mwendwa		33,000	490,000
"	25	Cheque		33,000	523,000
"	28	Bank charges	3,000		520,000

Prepare:

(i) an updated cash book.

(ii) a bank reconciliation statement.

(9 marks)