

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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