

2405/305
ELEMENTS OF ACCOUNTS
Oct./Nov. 2016
Time: 3 Hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL

DIPLOMA IN APPLIED STATISTICS

ELEMENTS OF ACCOUNTS

3 hours

INSTRUCTIONS TO CANDIDATES

You should have the following for this examination:

Answer booklet;

Scientific calculator/ Mathematical tables.

This paper consists of SIX questions.

Answer any FIVE of the SIX questions.

All questions carry equal marks.

Maximum marks for each part of a question are indicated.

Candidates should answer the questions in English.



This paper consists of 10 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) The following trial balance was extracted from the books of Mwangaza Traders as at 31st December 2015.

	Dr (Shs)	Cr (Shs)
Capital <i>Bl</i>		393,800
* Carriage inwards <i>Cr</i>	3,800	
* Purchases <i>Cr</i>	237,200	
* Sales <i>Cr</i>		390,400
Furniture at cost <i>Bl</i>	72,000	
Accounts receivable <i>Bl</i>	156,000	
Accounts payable <i>Bl</i>		93,800
* Inventory <i>Bl</i>	118,400	
* Salaries and wages <i>Cr</i>	34,000	
Drawings <i>Bl</i>	50,000	
Buildings <i>Bl</i>	97,400	
Bank <i>Bl</i>	39,600	
* Office expenses <i>Cr</i>	40,000	
* Rent and rates <i>Cr</i>	29,600	
Totals	878,000	878,000

Additional information:

- Inventories as at 31st December 2015 was valued at Ksh 53,000.
- Accrued salaries and wages amounted to Kshs 1600.
- Depreciation is as follows: Furniture at 15% p.a. and buildings 20% p.a.
- Provision for doubtful debts is 4% of debtors.

Required:

- (i) Prepare an income statement for the year ended 31st December 2015.
- (ii) Financial statement as at 31st December 2015. (12 marks)
- (b) Explain **one** reason why each of the following stakeholders would require accounting information for their business:

- (i) managers; \rightarrow to know to increase production or reduce output.
- (ii) the government; \rightarrow to determine the amount of tax.
- (iii) owners of the business; \rightarrow to know whether the business is making a loss or profit.
- (iv) investors. \rightarrow the viability of the business.

(8 marks)

2.

- (a) The following is the cash book (Bank column) and the bank statement of Tamaa Traders for the month of May 2016.

Cash Book Bank Column					
2016		Kshs	2016	Kshs	
May 2	Balance b/d	90,200	May 4	Ngambo	60,400
May 9	J. Kombo	45,100	May 18	JM Ltd	58,600
May 21	Sales	26,000	May 26	Muli	18,200
May 24	Mwendwa	40,900	May 27	Mungai	10,000
May 31	Bona	35,000	May 30	Jambo	41,700
			May 31	Bed	48,300
		<u>237,200</u>			<u>237,200</u>

Bank b/d + 2,300

Bank Statement

2016		Debit (Kshs)	Credit (Kshs)	Balance (Kshs)
May 1	Balance b/d		90,200	90,200
May 9	Deposit		45,100	135,300
May 10	Withdrawal	60,400		74,900
May 21	Cash deposit		26,000	100,900
May 26	Mwendwa		40,900	141,800
May 27	Cheque (103)	18,200		123,600
May 28	Bank charges	1,640		121,960
May 29	Lodger fees	2,420		119,540
May 30	Direct deposit		15,100	134,640
May 31	Standing order	14,000		<u>120,640</u>

Prepare:

- (i) an adjusted cash book as at 31st May 2016;
 (ii) bank reconciliation statement as at 31st May 2016.

Adjusted	Bank	Balance
90,200	120,640	120,640
26,000		
17,100		
76,200		
Bank b/d	120,640	
		120,640

(12 marks)

- (b) Distinguish between the following terms as used in cost accounting:

- (i) direct and indirect costs;
 (ii) fixed and variable costs;
 (iii) relevant and irrelevant costs;
 (iv) controllable and uncontrollable costs.

(8 marks)

3. (a) The following transactions were extracted from the books of Tendereza Limited as at 30th April 2016.

	Kshs
Sales	8,400,000
Purchases	4,600,000
Stock opening	1,440,000
Ordinary share capital	3,600,000
Profit and loss account	780,000
Provision for doubtful debts	36,000
16% debentures	225,000
Fixed assets	4,200,000
Provision for depreciation of fixed assets	1,480,000
General expenses	390,000
Returns inwards	108,000
Returns outwards	140,000
Debtors	1,260,000
Directors fees	150,000

Additional information:

Stock as at 30th April 2016, Kshs 900,000.

Provision for doubtful debts to be maintained at 5% on debtors.

Depreciation on fixed assets is provided at 18% p.a. on Book value.

Corporation tax rate is 30%.

The Directors proposed that:

- Kshs 560,000 be transferred to general reserve
- a 12% ordinary dividends to be paid.

Prepare:

- trading profit and loss appropriation account;
- account for the year ended 30th April 2016.

	7,292,000
	1,440,000
	8,732,000
	8,292,000
	540,000
	2,292,000

(10 marks)

- (b) John and Tom are in partnership sharing profit and loss in the ratio of 3:2 respectively. The following is a trial balance of their business as at 31st December 2015.

	Dr (Shs)	Cr (Shs)
Capital - John		200,000
- Tom		100,000
Current account - John	25,600	
- Tom		31,800
Drawings - John	35,200	
- Tom	47,000	
Motor van at cost	290,000	
Provision for depreciation on motor van		70,000
Debtors	42,000	
Creditors		50,500
Sales		442,400
Bank	67,200	
Stock	84,500	
Purchases	212,700	
Salaries	59,800	
General expenses	19,000	
Bad debts	11,700	
	<u>894,700</u>	<u>894,700</u>

Additional information:

Closing stock as at 31st December 2015 was Ksh 96,300.

Included in the general expenses is a prepaid insurance of Kshs 2,000 while outstanding general expenses were Ksh 7,400.

Motor vehicles are depreciated at 20% on cost.

Interest on fixed capital is 10% p.a.

Tom is to receive a salary of Kshs 24,000 p.a.

Provision for doubtful debt is to be created at 5% on debtors.

Prepare:

- trading profit and loss account for the two partners;
- partners current accounts.

(10 marks)

4. (a) The following information was extracted from the books of Ngam Traders as at 31st December 2015.

	Kshs
Stock on 1 st January 2015	
Raw materials	500,000
Work in progress	760,000
Finished goods	840,000
Stock on 31 st December 2015	
Raw materials	600,000
Work in progress	640,000
Finished goods	900,000
Sales	12,000,000
Purchase of raw materials	5,600,000
Carriage on raw materials	140,000
Direct wages	1,600,000
Salaries 40% factory 60% office	1,240,000
Returns on raw materials	260,000
Rent 30% factory 70% office	200,000
Factory electricity	300,000
Auditors fee	250,000
Depreciation on delivery van	360,000
Depreciation on office equipment	120,000
Royalties	70,000

Additional information:

- Good manufactured are transferred on cost plus 20%.

For the year ended 31st December 2015, prepare:

- manufacturing account;
- trading account.

(12 marks)

- (b) Faraja Limited operates two departments namely: textiles and electronics. The following information relates to the two departments as at 31st May 2016.

	Textiles	Electronics
2016	Kshs	Kshs
Inventory: 1/5/16	400,000	300,000
Inventory: 31/5/16	600,000	500,000
Purchases	2,200,000	600,000
Sales	3,600,000	1,800,000
Wages	560,000	1,000,000

Additional information:

Operating expenses

- Rent and rates	400,000
- Administration	480,000
- Heating and lighting	280,000

The following expenses are apportioned in accordance with the floor space occupied:

- Rent and rates;
- heating and lighting
- Textile department occupies $\frac{2}{3}$ of the floor space.
- Administration expenses to be apportioned in proportion to sales.

Prepare departmental trading profit and loss account for the year ended 31st May 2016. (8 marks)

5. (a) The opening cash balance of Ufanisi Traders as at 1st January 2016 was Kshs 5,000. The budgeted sales were as follows:

	Kshs
November 2015	80,000
December 2015	90,000
January 2016	75,000
February 2016	75,000
March 2016	80,000

Analysis of records shows that debtors settle their accounts according to the following patterns:

- 60% within the month of sales
- 25% in the following month
- 15% two months after sale

The purchase budget was as follows:

December 2015	60,000
January 2016	55,000
February 2016	45,000
March 2016	35,000

Additional information:

All purchases are on credit. Past experience shows that 90% of the purchases are settled in the month of purchase and the balance settled in the month after.

Wages are Kshs 15,000 per month.

Overheads are Kshs 20,000 per month including Kshs 5,000 depreciation settled monthly.

Taxation of Kshs 8,000 was to be settled in February 2015.

The company was to receive settlement of an insurance claim of Kshs 25,000 in the month of March 2016.

Prepare a cash budget for the months of January, February and March 2016.

(12 marks)

(b) The following transactions were extracted from the books of Ukulima market for the month of March 2016.

- 1/3/16 Owner started business with Kshs 50,000 cash.
- 2/3/16 Received Kshs 20,000 cash as bank loan.
- 4/3/16 Bought stock Kshs 5,000 and paid in cash.
- 8/3/16 Deposited part of the cash in hand Kshs 8,000 into business bank account.
- 11/3/16 Converted personal vehicle into business vehicle worth Kshs 10,000.
- 15/3/16 Bought stock Kshs 7,000 on credit from Isaac.
- 20/3/16 Bought furniture of Kshs 2,000 and paid by cash.
- 24/3/16 Paid Isaac Kshs 3,000 by cash.
- 30/3/16 Withdrew Kshs 1,000 cash from the business for personal use.

(i) Prepare balanced ledger accounts to record the above transactions.

(ii) Extract a trial balance for the month of March 2016.

(8 marks)

6. (a) The following are the summarized financial statement of Solomon Limited for the years ended 31st December 2014 and 2015.

Profit and Loss Account		
	2014	2015
	Kshs 000	Kshs 000
Sales	6,000	6,000
Cost of sales	<u>3,000</u>	<u>3,600</u>
	3,000	2,400
Operational expenses	<u>1,800</u>	<u>1,800</u>
	1,200	600
Dividends	<u>600</u>	<u>600</u>
	600	000
Profit B/f	<u>150</u>	<u>750</u>
	<u>750</u>	<u>750</u>
<hr/>		
Balance sheet as at	2014	2015
	Kshs '000	Kshs '000
Land and building	12,000	2,370
Plant and equipment	180	180
Motor vehicle	1,290	1,890
Investments at cost	1,500	2,400
Stock	<u>1,650</u>	<u>1,950</u>
Debtors	1,200	1,500
Bank	90	-
	<u>7,110.00</u>	<u>10,290</u>
Ordinary share of Kshs 20 each	✓ 1,200	1,500
Share premium	✓ 360	420
Profit and loss	✓ 750	750
10% debentures	-3,000	4,500
Creditors	<u>1,200</u>	<u>1,800</u>
Proposed dividend	600	600
Bank	-	120
Revaluation reserve	-	<u>600</u>
	<u>7,110</u>	<u>10,290</u>

Additional information:

80% of the sales are made on credit.

Take one year = 365 days

(i) For the years ended December 31st 2014 and 2015, determine:

- (I) current ratio; *2.47 = 21500/8700*
 (II) acid test ratio;
 (III) gross profit margin;
 (IV) net profit percentage. *21500/97000*

(ii) Comment on the liquidity and profitability of the business over the same period. (12 marks)

(b) The following balances were extracted from Metameta Football Club for the year ended 31st December 2015.

Receipts and payments			
2015	Kshs	2015	Kshs
Bank balance	48,000	Payment supplies	7,000
Subscription	25,000	Transport	1,800
Sales	22,000	Electricity	1,600
Donations	4,000	Equipment	10,000
		Honorarium	2,400
		Repairs	3,600
		Stationery	1,000
		Wages	2,000
		Furniture	19,000
		Bank balance c/d	50,600
	<u>99,000</u>		<u>99,000</u>

Additional information

	1/1/2015	31/12/15
	Kshs	Kshs
Stock	6,000	5,000
Creditors	3,200	5,800
Debtors	4,280	6,410
Motor vehicle	16,000	15,000
Subscription owing	2,300	3,400

Prepare:

- (i) trading profit and loss account;
 (ii) income and expenditure account for the year ended 31st December 2015. (8 marks)

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