

2405/305
ELEMENTS OF ACCOUNTS
Oct./Nov. 2017
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;

Mathematical tables/non-programmable scientific calculator.

This paper consists of SIX questions.

Answer any FIVE 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 6 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 the following terms:

- (i) prepaid expenses;
- (ii) owners equity;
- (iii) depreciation;
- (iv) accrued income.

(8 marks)

(b) Mr. Pata, the petty cashier of Sawa Traders received Ksh. 4,720 on March 1 2014 from head cashier. For the month, details of petty cash expenses are as follows:

Date	Details	Amount
2014 March		
2	Taxi fare	200
3	Courier services	350
4	Postal stamps	100
5	Stationery	535
6	Taxi fare	240
7	Refreshments	300
8	Postal stamps	55
12	Computer stationery	650
14	Bus fare	150
16	Call charges	150
18	Officer sanitation including disinfectant	220
19	Refreshments	400
20	Courier services	320
22	Off loading charges	150
23	Taxi fare	200
25	Airtime	150
28	Postage	250
30	Office stationery	300

Prepare:

- (i) petty cash book for the month of March 2014;
- (ii) journal.

(12 marks)

2. (a) Outline **four** reasons for preparing a national budget.

(4 marks)

(b) Explain **two** methods a company may use to raise capital.

(4 marks)

(c) Mwanza and Pili are in partnership sharing profits and losses in the ration of 3:2 respectively. The profit for the year was Ksh. 65,460. The partnership agreement provides:

- Interest to be paid on the partner's opening capital balances at a rate of 5% per annum.
- Interest on drawings at a rate of 8% per annum on all drawings during the year.
- Partner's salaries of Mwanza Kshs. 9,000, Pili Ksh. 6,000.

At the beginning of the year, the partners capital and current account balances were:

	Capital	Current
Mwanza	Ksh. 110,000 Cr	Ksh. 15,655 Cr
Pili	Ksh. 80,000 Cr	Ksh. 4,137 Dr

During the year, Mwanza's drawings were Ksh. 18,000 and Pili's drawings were Ksh. 31,000.

Prepare:

- profit and loss appropriation account;
- current accounts for both Mwanza and Pili.

Handwritten notes:
 Net profit
 Add interest on drawings
 less interest on capital
 less salaries share
 Balance of profit (12 marks)

- Outline **four** principles of the co-operative movement in Kenya. (4 marks)
max benefit
 - In January 2015, the owner of Waza Manufacturing Limited was provided with the following information:

	2013 (Actual)	2014 (Budgeted)
Stock turnover	90 days	80 days
Creditor turnover	28 days	37 days
Current ratio	1.7:1	1.5:1

Handwritten notes:
 Current a/c
 Bal c/d
 Interest on drawings
 Drawings
 Bal c/d
 Bal c/d
 Interest on capital
 Salaries
 Profit share

Using the information provided:

- outline **four** strategies that Waza Manufacturing Limited may employ to improve turnover in 2014; (4 marks)
- explain **two** negative effects that the increase in creditors turnover may have on Waza Manufacturing Limited; (2 marks)
- comment on the change in current ratio for Waza Manufacturing Limited. (2 marks)

(c) On 30 June 2014, the bank column of Amani's cash book showed a debit balance of Ksh. 7,250. On examination of the cash book and bank statement it was found out that:

- Out of total cheques amounting to Ksh. 8,000 issued, cheques amounting to Ksh. 5,800 have been presented for payment up to 30 June 2014.
- Out of total cheques amounting to Ksh. 6,000 sent to bank for collection, cheques of Ksh. 4,100 were credited in passbook up to 30 June 2014.
- On 28 June, a customer deposited Ksh. 3,500 directly in the bank account but it was entered only in passbook.
- Debit side of Amani's cashbook (bank column) has been overcast by Ksh. 100.
- No entry has been made in the cashbook for the rent of Ksh. 800 paid by bankers according to Amani's standing instructions.
- The pass book showed a credit of Ksh. 320 for interest and a debit of Ksh. 50 for bank charges, but these have not been entered in the cash book.

Prepare a bank reconciliation statement as on 30 June 2014. (8 marks)

(a) (i) Describe the 'Last in First Out' method of stock taking.

(ii) Outline five advantages of the Last in First Out method of stock taking. (7 marks)

(b) The following information relates to Wema Manufacturing Limited as at 31 May 2014:

	Dr (Ksh)	Cr (Ksh)
Opening stock:		
Raw materials	70,000	
Work in progress	6,000	
Finished goods	21,400	
Furniture and machinery	45,000	
Purchases		
Raw materials	211,000	
Finished goods	10,000	
Cash	3,000	
Factory rent ✓	14,000	
Office rent and taxes	4,000	
Factory salary ✓	17,000	
Office salary	12,000	
Sales		320,000

Additional information:

- provide 10% depreciation on machinery and furniture.
- closing stock

Raw materials	Ksh. 50,000
Work in progress	11,000
Finished goods	35,000
- Salary outstanding as at 31 May 2015:

Factory	2,000
Office	500
- Outstanding factory rent Ksh. 1,000.

Prepare:

- (i) manufacturing account for the year ended 31 May 2015;
- (ii) trading account for the same period. (13 marks)

5. (a) (i) Explain the term 'dependent departments'.
 (ii) Outline **four** advantages of departmental accounting. (6 marks)

- (b) Omega Limited had two departments A and B. The following data relates to the two departments for the year ended 31 March 2014.

	A	B
Opening stock	36,000	20,000
Purchases	132,000	44,000
Debtors at the end of the period	15,000	10,000
Sales	180,000	10,000
Closing stock	45,000	21,000
Value of furniture in each department	20,000	10,000
Floor space occupied by department (sqm)	3,000	2,000
Number of employees in each department	25	15

Additional information:

Carriage inwards	Ksh. 2,000	✓
Carriage outwards	Ksh. 1,800	✓
Salaries	Ksh. 32,000	✓
Discount allowed	Ksh. 1,500	✓
Rents, rates and taxes	Ksh. 5,000	✓
Depreciation on furniture	Ksh. 600	✓
Provision of bad debts at 5%	✓	
Discount received	Ksh. 1,200	✓

Prepare departmental Trading and Profit and Loss Account for the year ended 31 March 2014. (14 marks)

6. (a) The following transactions relate to Mwanga Limited for the year ended December.

	Ksh		Ksh
Sales	360,000	Sundry debtors	30,000
Sales return	10,000	Rent received	3,000
Purchases	262,000	Discount received	3,000
Return outwards	12,000		
Carriage inwards	4,000	Taxes and insurance	3,000
Opening stock	40,000	Provision for doubtful debts	2,000
Direct expenses	6,000	Bad debts	1,500
Capital	60,000	Salaries	20,000
Furniture	5,000	Dividend paid	6,000
Bank overdraft	12,000	General expenses	5,000
Buildings	45,000	Rent paid	3,000
Plant and Machinery	40,000	Bill receivable	21,500
Sundry creditors	23,000		
Bills payable	30,000		

Additional information:

- Stock as at the end of 31 December 2013 Ksh. 42,000.
- Depreciation made on:
 - Plant and machinery 2,000
 - Building 1,000
- Provision for doubtful debts at 5% on sundry debtors.
- Outstanding rent Ksh. 1,000.
- Prepaid salaries Ksh. 1,000.
- Interest on capital at 5%.

Prepare:

- (i) Trading, Profit and loss account ;
- (ii) Balance sheet for the year ended 31 December 2013. (16 marks)

- (b) Outline four advantages of using computerized accounting systems. (4 marks)

Handwritten notes:
 Section 22 a/c
 20,000 / prepaid salaries a/c
 Bank / IS
 2,000 / IS
 rent a/c
 Bank / 3,000 / IS
 Accrued rent a/c / 1,000 / IS
 3,000 / 2,000

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