

2908/304
ACCOUNTING AND CONTROL
July 2017
Time: 3 hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL
DIPLOMA IN HUMAN RESOURCES 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 8 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 each of the following accounting terms:

- (i) Consistency;
- (ii) Prudence;
- (iii) Going concern;
- (iv) Historical cost.

(8 marks)

(b) The following balances were extracted from the books of Egeso Enterprises for the year ended 31 December 2016:

	Ksh
Debtors in sales ledger	49,850 (Dr)
Creditors in purchase ledger	28,010 (Cr)
Credit sales	40,400
Cash sales	18,080
Cash purchases	15,930
Credit purchases	27,600
Creditors paid off	26,500
Receipts from debtors	44,100
Discounts received	1,450
Discounts allowed	1,540
Returns outwards	1,795
Bills payable accepted	2,240
Bills receivable	5,300
Bad debts	1,495
Transfer from debtors' ledger to creditors ledger	400

Prepare:

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

(12 marks)

2. (a) Explain **four** uses of the journal proper.

(8 marks)

- (b) The following balances were extracted from the books of Werungha Enterprises for the year ended 28 February 2017:

	1 March 2016	28 February 2017
	Ksh	Ksh
Insurance prepaid	94,000	84,000
Rates prepaid	52,000	-
Rates owing	-	24,000
Electricity accrued	70,000	46,000
Rent accrued	104,000	-
Rent prepaid	-	28,000
Rent receivable owing	-	90,000
Rent receivable prepaid	80,000	-

The following payments and receipts were made during the year ended 28th February 2017:

	Ksh
Insurance	180,000
Rates	104,000
Electricity	96,000
Rent	190,000
Rent received	480,000

Prepare:

- (i) insurance account;
 - (ii) rates account;
 - (iii) electricity account;
 - (iv) rent account;
 - (v) rent receivable account. (12 marks)
3. (a) Explain **four** errors that do not affect a trial balance. (8 marks)
- (b) Ekidor and Onyango are employees of Bonanza industries in Kza County. The following information relates to the two employees for two weeks in the month of April 2017.

	Employee	
	Ekidor	Onyango
Units produced	3,600	4,000
Time allowed per unit (minutes)	1.5	1.5
Time taken (hours)	84	92
Basic hourly rate (Ksh)	50	50

- The normal working hours per week is 40 hours. Overtime is paid for at double the normal rate.
- The firm remunerates its employees using Halsey bonus scheme.

(i) For each of the employees, calculate the:

- I. basic pay;
- II. overtime pay;
- III. bonus pay;
- IV. gross wages;
- V. labour cost per unit produced.

(ii) Advise the management on the employee to be promoted on the basis of efficiency. (12 marks)

4. (a) The following information relates to Njokwa Traders for the month of November, 2016.

2016	Ksh
Nov. 1 Balance in cash	400,000
1 Balance at bank	1,000,000 (Cr)
2 Cash sales	600,000
3 Received a cheque for Ksh. 150,000 from Okapi, after allowing him a cash discount of Ksh. 10,000.	
5 Mlolwa settled his account of Ksh. 180,000, after a cash discount of Ksh. 30,000 was allowed. The payment was made by cheque.	
10 Paid creditor Yakubo Ksh. 125,000 by cheque, after receiving a cash discount of Ksh. 5,000.	
17 Deposited a cheque into a bank for Ksh. 300,000 from a private saving.	
18 Paid wages by cash Ksh. 110,000.	
25 Withdrew cash for personal use Ksh. 10,000.	
30 Withdrew from bank for office use Ksh. 40,000.	

- (i) Prepare a three column cash book;
- (ii) Comment on the management of cash. (12 marks)

(b) Jopa Enterprises operates a cement manufacturing firm. The fixed cost for the year 2016 amounted to Ksh. 50 million and the variable cost per unit was Ksh. 250. The total sales for the year amounted to 15 million. Each unit was sold at Ksh. 1,500.

Determine:

- (i) the break-even point in shillings;
- (ii) the break even point in units;
- (iii) the sales to earn a target profit of Ksh. 120,000,000 in the year 2017. (8 marks)

5. (a) The following balances were extracted from the books of Kapendo Enterprises as at 31 March 2017:

	Ksh
Gross profit	5,850,000
Inventory (31 March 2017)	1,750,000
Accounts payable	2,050,000
Capital	3,950,000
Provision for depreciation on equipment (01.04.2016)	1,600,000
Equipment	4,500,000
Accounts receivable	2,500,000
Insurance	735,000
Rent and rates	800,000
Wages and salaries	2,230,000
Bank balance	1,850,000
Provision for bad debts	90,000
Drawings	825,000
Discount received	150,000
Long term loan	1,500,000

Additional information:

- Equipment is to be depreciated at 25% on reducing balance basis.
- Loan interest owing amounted to Ksh. 20,000.
- Rent paid in advance amounted to Ksh. 40,000.
- Provision for doubtful debts to be adjusted to 5% of accounts receivable.

Prepare:

- (i) income statement for the year ended 31 March 2017;
 (ii) statement of financial position as at 31 March 2017. (12 marks)

- (b) Classify each of the following expenses as either fixed cost or variable cost.

- (i) Wages;
 (ii) Salary to supervisor;
 (iii) Electricity bill;
 (iv) Rent;
 (v) Depreciation;
 (vi) Insurance;
 (vii) Repairs and maintenance;
 (viii) Distribution expenses. (8 marks)

6. (a) The following are financial statements of Ngware Traders for the years ended 31 December 2015 and 31 December 2016.

Income statement for the years ended 31 December:

	2015	2016
	Ksh	Ksh
Sales	2,800,000	4,400,000
Less:		
Opening inventory	414,000	660,000
Purchases	<u>872,000</u>	<u>1,384,000</u>
	1,296,000	2,044,000
Closing inventory	<u>(596,000)</u>	<u>(284,000)</u>
Cost of sales	<u>700,000</u>	<u>1,760,000</u>
Gross profit	2,100,000	2,640,000
Less: Expenses		
Administration	480,000	660,000
Selling and distribution	<u>248,000</u>	<u>308,000</u>
	<u>728,000</u>	<u>968,000</u>
Net profit	<u>1,372,000</u>	<u>1,672,000</u>

Statement of financial position as at 31 December:

	2015	2016
	Ksh	Ksh
Non-current assets		
Motor vehicles	2,200,000	4,000,000
Furniture	<u>560,140</u>	<u>459,720</u>
	2,760,140	4,459,720
Current assets		
Inventory	596,000	284,000
Accounts receivable	309,480	514,480
Cash	<u>45,000</u>	<u>13,020</u>
	<u>3,710,620</u>	<u>5,271,220</u>
Capital	1,902,620	3,724,620
Net profit	<u>1,372,000</u>	<u>1,672,000</u>
	3,274,620	4,946,620
Current liabilities		
Accounts payable	332,800	317,600
Bank overdraft	<u>103,200</u>	<u>7,000</u>
	<u>3,710,620</u>	<u>5,271,220</u>

For each of the years 2015 and 2016, calculate the:

- (i) gross profit margin,
- (ii) net profit margin,
- (iii) current ratio;
- (iv) quick ratio,
- (v) inventory turnover rate;
- (vi) fixed assets turnover.

(12 marks)

- (b) Thermo Limited has three production departments, A, B and C. The departmental managers are requested by the management to present their annual budgets. As an account, explain to the departmental managers of a firm four principles of budgeting.

(8 marks)

7. (a) The following information was extracted from the books of Mtoni Enterprises for the year ended 31 December 2016:

	Ksh
Capital	640,000
Purchases	500,000
Carriage inwards	27,500
Furniture	240,000
Sales	1,240,000
Land & Buildings	840,000
Return outwards	20,000
Commission received	25,000
Discount allowed	10,000
Inventory	300,000
Bad debts	7,500
General expenses	39,500
Salaries and wages	50,000
Returns inwards	9,000
Accounts receivable	50,000
Accounts payable	200,000
Heating and lighting	20,000
Office expenses	31,500

Prepare a trial balance as at 31 December 2016.

(10 marks)

For each of the years 2015 and 2016, calculate the:

- (i) gross profit margin,
- (ii) net profit margin,
- (iii) current ratio;
- (iv) quick ratio;
- (v) inventory turnover rate;
- (vi) fixed assets turnover. (12 marks)

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Discount allowed	10,000
Inventory	300,000
Bad debts	7,500
General expenses	39,500
Salaries and wages	50,000
Returns inwards	9,000
Accounts receivable	50,000
Accounts payable	200,000
Heating and lighting	20,000
Office expenses	31,500

Prepare a trial balance as at 31 December 2016. (10 marks)

- (b) On 28 February 2017, the cashbook (bank column) balance of Mbalamwezi Ltd failed to agree with the bank statement on the same date. The cashbook balance showed Ksh. 1,410,000 (Dr) while the bank statement had Ksh. 795,000 (Cr). The following discrepancies were revealed:

- I. Bank charges amounting to Ksh. 75,000 were only in the bank statement.
- II. A standing order of Ksh. 216,000 had been effected by the bank.
- III. The credit side of the cashbook was overcast by Ksh. 54,000.
- IV. A cheque of Ksh. 168,000 had been dishonoured.
- V. The debit side of the cash book had been undercast by Ksh. 298,200.
- VI. A direct deposit of Ksh. 150,000 had not been posted in the cashbook.
- VII. Cheques amounting to Ksh. 109,200 had not been presented for payments.
- VIII. Cheques from customers amounting to Ksh. 507,000 had not been credited by the bank.

Prepare:

- (i) updated cashbook;
- (ii) bank reconciliation statement as at 28 February 2017. (10 marks)

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