

1. (a) The Chief Accountant of Royal company is to prepare the overhead analysis for the forthcoming year, 2012. The company has two production cost centres, **machining** and **assembly** and two service cost centres **maintenance** and **stores**. The following information concerns the cost centres.

	Machining	Assembly	Maintenance	Store
Number of employees	25	32	8	4
Area occupied	5,000	3,000	1,000	800
Maintenance hours	9,200	2,800	1,450	1,050
Machine hours	31,000	9,000	1,000	1,000
Direct labour hours	8,000	15,000	-	-

Additional information:

The company has estimated the following overheads in the year 2012.

	Ksh
Power cost	21,000
Rent cost	29,400
Canteen cost	8,280
Machining	84,000
Assembly	71,000
Maintenance	28,000
Stores	31,000

Using the information given above, prepare an overhead analysis sheet to show total cost as per each cost centre. (8 marks)

- (b) XYZ Company Ltd manufactures a single product. An extract from a variance control report together with relevant standard cost data is shown below.

	Ksh
Standard selling price per unit	70
Standard direct material cost per unit (Ksh 2)	10
Budgeted total material cost of sales	2,300 per month
Budgeted profit margin	6,900 per month

Actual results for February:

	Ksh
Sales revenue	15,200
Total direct material cost	2,400
Direct material price variance	800 adverse
Direct material usage variance	400 favourable

4. (a) Masaka provision shop in Mombasa has provided the following information for the year ended 31 December, 2010.

Trial balance as at 31 December 2010

	DR Ksh	CR Ksh
Capital		125,000
Purchases	45,000	
Carriage outwards	2,000	
Inventory	25,000	
Sales		120,000
Carriage Inwards	1,200	
Advertising	3,500	
Insurance	2,400	
Salaries	12,000	
Discount allowed	3,400	
Discount received		1,950
Accounts receivable	25,000	
Accounts payable		15,500
Telephone expenses	450	
Bank	14,500	
Machinery	18,000	
Buildings	110,000	
	<u>262,450</u>	<u>262,450</u>

Additional information:

- Closing inventory Ksh 25,000;
- Telephone bill Ksh 50 is due;
- Insurance Ksh 600 has been paid in advance.

Prepare:

- (i) Trading, profit and loss account for the year ended 31 December, 2010;
- (ii) The balance sheet as at 31 December, 2010. (12 marks)
- (b) Highlight **four** factors that are considered when determining a wage payment system. (8 marks)

5. (a) Zed Ltd manufactures chemical A106. The company's production overheads vary with the volume of production, in litres. The volume of production and the amount of overheads for ten months ended 30 October, 2010 are presented below:

Month	Volume of production	Production overhead
	Litres	Ksh
January	150	1,800
February	120	1,400
March	170	1,900
April	200	2,300
May	250	1,600
June	120	2,400
July	180	2,400
August	300	3,200
September	220	2,700
October	90	1,100

Required:

- (i) Use the High-Low method to determine an equation in the form of, $y = a + bx$;
 - (ii) Using the equation in (i) above, determine the overhead for the production of 350 units;
 - (iii) Determine the production units if production overhead cost is Ksh 4,000. (12 marks)
- (b) The following information was extracted from the sales budget of Exe Ltd.

Month	Sales
	Ksh
June	800,000
July	700,000
August	900,000

Sales are made in both credit and cash terms. Cash sales constitute 50% of the total sales and attracts a cash discount of 2%. Generally, 30% of debtors pay after one month and then 19% within 2 months. The remainder are considered irrecoverable.

Prepare the cash budget extract for the three months, showing the sales receipts.

(8 marks)

7. (a) Kwetu Ltd is considering investing in two projects which are mutually exclusive, viz, old car or a new motor bike. The expected cash flows from the two projects are as follows:

Year	Old Car	Motor Bike
0	(200,000)	(200,000)
1	100,000	100,000
2	150,000	20,000
3	50,000	40,000
4	80,000	60,000
5	60,000	150,000

The cost of capital is 15%.

- (i) Determine the Discounted Pay Back Period for each project;
- (ii) Advise the management on the project to invest in according to the result obtained in (i) above. (8 marks)
- (b) The following are the summarised financial statements of Buvoyo Ltd for the year ended 30 June, 2011.

	Ksh
Sales	4,320,000
Cost of sales	<u>2,440,000</u>
Gross profit	1,880,000
Operating expenses	<u>846,000</u>
Net profit before interest and tax	1,034,000
Debenture interest	<u>40,000</u>
Net profit before tax	994,000
Corporation tax	<u>298,200</u>
Net profit after tax	695,800
Ordinary dividends	<u>270,000</u>
Retained profits for the year	<u>425,800</u>

Balance sheet as at 30 June 2011

	Ksh	Ksh
Ordinary share capital		900,000
Profit and loss		648,000
10% debentures		450,000
		<u>1,998,000</u>
Represented by:		
Fixed assets		1,620,000
Current assets:		
Inventory	792,000	
Accounts receivable	450,000	
Cash	171,000	
	<u>1,413,000</u>	
Less: Current liabilities:		
Accounts payable	261,000	
Proposed dividends	270,000	
Taxation	504,000	
	<u>1,035,000</u>	
		<u>378,000</u>
		<u>1,998,000</u>

(i) Calculate the following ratios:

- I Current ratio;
- II Acid test ratio;
- III Rate of stock turnover;
- IV Total assets turnover;
- V Gross profit margin;
- VI Net profit margin.

(ii) Comment on the liquidity and profitability positions of the company from the ratios ascertained in (i) above.

(12 marks)