

2908/304
ACCOUNTING AND CONTROL
November 2021
Time: 3 hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL
DIPLOMA IN HUMAN RESOURCE MANAGEMENT

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 the information needs of each of the following users of financial statements:

- (i) suppliers;
- (ii) government;
- (iii) lenders;
- (iv) employers.

(8 marks)

(b) The following information relates to Abdi, an employee of Tanga Limited for the month of June 2021:

Wage rate per hour	Ksh. 100
Time allowed per month	160 hours
Time taken	142 hours

Calculate the total wage payable to Abdi based on:

- (i) Halsey scheme;
- (ii) Halsey - Weir scheme;
- (iii) Rowan scheme.

(12 marks)

2. (a) Explain four objectives of installing a cost accounting system in a business organisation.

(8 marks)

(b) The following balances were extracted from the books of account of Otama Traders as at 30 June:

	2020 Ksh	2021 Ksh
Rent income prepaid	1100,000	—
Rent income owing	—	120,000
Rent expense prepaid	—	58,000
Rent expense accrued	140,000	—
Insurance prepaid	120,000	110,000
Rates prepaid	84,000	—
Rates owing	—	60,000
Electricity accrued	54,000	42,000

The following is the cash book summary for the year ended 30 June 2021.

Cash Book Summary			
	Ksh		Ksh
Rent income	600,000	Rent	220,000
		Electricity	107,000
		Insurance	210,000
		Rates	118,000

Prepare:

- (i) insurance account;
- (ii) rent income account;
- (iii) rent expense account;
- (iv) electricity account;
- (v) rates account.

(12 marks)

3. (a) On 30 June 2021, the cash book (bank column) of Kapit Limited showed a debit balance of Ksh 1,419,000 while the bank statement showed a credit balance of Ksh 1,100,000 on the same date. Upon investigation, the following discrepancies were revealed:

- Cheques amounting to Ksh 450,000 issued to suppliers had not yet been presented to the bank for payment.
- Bank charges amounted to Ksh 20,000.
- A standing order of Ksh 315,000 had been paid by the bank.
- The credit side of the cash book had been overcast by Ksh 270,000.
- Dishonoured cheques amounted to Ksh 354,000.
- Uncredited cheques amounted to Ksh 350,000.

Prepare:

- (i) an updated cash book;
- (ii) a bank reconciliation statement as on June 2021.

(10 marks)

- (b) Bama Limited manufactures and sells product X20. The following information relates to the product for the year 2020:

Selling price	Ksh 100
Variable cost per unit	Ksh 60

The total fixed costs per annum were Ksh 600,000.

Determine the:

- (i) break even point in units and in shilling;
- (ii) percentage margin of safety if the actual output was 18,000 units;
- (iii) number of units to be sold to earn a profit of Ksh 200,000.

(10 marks)

4. (a) Explain four functions of budgets in a business organisation.

(8 marks)

- (b) The following are the financial statements of Melly Enterprises:

Income statement for the year ended 31 December

	2020	2019
	Ksh '000'	Ksh '000'
Sales	144,000	140,000
Cost of sales		
Opening inventory	26,800	3,200
Purchases	125,200	143,600
<i>C.O.S.A.S</i>	152,000	146,800
Closing inventory	(32,000)	26,800
<i>Costs</i>	120,000	120,000
Gross profit	24,000	20,000
Selling and distribution costs	(7,200)	(2,800)
Administrative costs	(8,160)	(9,500)
	<u>15,360</u>	<u>12,300</u>
Net profit	<u>8,640</u>	<u>7,700</u>

Statement of financial position as at 31 December:

	2020	2019
	Ksh '000'	Ksh '000'
Assets <i>Assets</i>		
Non-current assets		
Land and buildings	20,000	20,000
Furniture and fittings	21,750	18,840
Motor vehicles	12,000	11,160
Investments	—	30,400
	<u>53,750</u>	<u>80,400</u>
Current assets		
Inventory	32,000	26,800
Accounts receivable	28,800	11,200
Cash at bank	8,950	11,360
	<u>69,750</u>	<u>49,360</u>
Total assets <i>Total assets</i>	<u>123,500</u>	<u>129,760</u>
Capital and liabilities	241,100	32,100
Capital	99,360	91,660
Add: Net profit	8,640	7,700
	108,000	99,360
Accounts payable	15,500	30,400
<i>short term Liability</i>	<u>123,500</u>	<u>129,760</u>

Total liabilities

$$A = C - L$$

$$L = C - A$$

$$C = A + L$$

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(i) For each of the year 2019 and 2020, calculate the:

- I. Return on Capital Employed (ROCE);
- II. Gross profit margin;
- III. Current ratio;
- IV. Acid-test ratio;
- V. Inventory turnover ratio.

(ii) Comment on the performance of the business in regard to:

- I. profitability;
- II. liquidity.

(12 marks)

5. (a) The following transactions relate to Baxy Limited during the month of June 2021:

2021

- June 1 Started business with Ksh 780,000 at the bank and Ksh 410,000 cash in hand
- 3 Purchased goods for Ksh 60,000 paying by cheque
- 6 Sold goods worth Ksh 20,000 on credit to Tom Traders
- 10 Paid wages Ksh 12,000 in cash
- 14 Sold goods amounting to Ksh 220,000 and received cash
- 25 Received a cheque from Tom traders in full settlement of their account
- 30 Deposited Ksh 20,000 of the cash into the bank account

Prepare ledger accounts to record the transactions above.

(8 marks)

(b) On 30 June 2021, the trial balance of Jacky Traders did not agree. The debits exceeding the credits by Ksh 333,000. Upon investigations, the following errors were revealed:

- (i) The sales day book was undercast by Ksh 360,000.
- (ii) Electricity bill was overcast by Ksh 105,000.
- (iii) Rent received of Ksh 210,000 had been recorded in the cash book only.
- (iv) Discounts allowed of Ksh 110,000 had been credited to the discounts received account.
- (v) Purchase of furniture for Ksh 650,000 had been entered in the purchases account.
- (vi) A sale of goods for Ksh 90,000 to John had been debited to Jane's account.
- (vii) The cash account had been undercast by Ksh 140,000.
- (viii) A cheque for Ksh 224,000 received from Otoyoy had been recorded in the bank account as Ksh 242,000.

Prepare:

- I. a general journal to record the correction of the errors above;
- II. a suspense account duly balanced.

(12 marks)

6. (a) The following balances were extracted from the books of Tarime Traders as at 1 June 2021:

	Ksh
Sales ledger: Debit balances	1,410,000
Credit balances	820,000
Purchases ledger: Credit balances	1,200,000
Debit balances	910,000
Totals for the month:	
✓ Interest charged on customers' overdue accounts	220,000
✓ Customers dishonoured cheques	410,000
✓ Bad debts written off	340,000
✓ Cash receipts from credit customers	520,000
✓ Interest charged by suppliers on overdue accounts	180,000
✓ Payment to creditors	320,000
✓ Contra settlements	110,000
✓ Credit sales	1,650,000
✓ Credit purchases	980,000
✓ Discounts allowed	160,000
✓ Discounts received	170,000
Balances as at 30 June 2021:	
Sales ledger (credit)	430,000
Purchases ledger (debit)	520,000

Prepare a:

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

(10 marks)

- (b) Amur Limited manufacturers' and sells three products X, Y and Z. The following are the operating statements for each of the products:

	Product X Ksh	Product Y Ksh	Product Z Ksh
Sales	32,000,000	50,000,000	45,000,000
Total costs	<u>36,000,000</u>	<u>42,000,000</u>	<u>30,000,000</u>
Profit/loss	<u>(4,000,000)</u>	<u>8,000,000</u>	<u>15,000,000</u>

Two thirds of the total costs are variable.

- (i) For each of the products, prepare operating statements using marginal costing technique.
 (ii) Advise the management on whether to drop product X or not. (10 marks)

7. (a) The following balances were extracted from the books of Talia Traders as at 31 December 2020.

	Ksh
✓ Sales	2,150,000
✓ Returns inwards <i>sales return</i>	150,000
✓ Carriage inwards	110,000
✓ Inventory (1 January 2020)	800,000
Inventory (31 December 2020)	650,000
✓ Purchases	1,200,000
Wages and salaries ✓	300,000
Rent expense ✓	160,000
Carriage outwards ✓	60,000
Furniture and fittings (at cost)	240,000
Bad debts written off ✓	55,000
Accumulated provision for depreciation on furniture (1 January 2020)	60,000

Additional information:

- (i) As at 31 December 2020:
 • Accrued salaries were Ksh 20,000
 • Prepaid rent was Ksh 40,000
 (ii) Depreciation on furniture and fittings is to be provided for at the rate of 10% per annum on reducing balance.

Prepare an income statement for the year ended 31 December 2020. (10 marks)

- (b) The following information relates to the employees of Kaln Traders for the month of June 2021.

Clock No	Name	Number of hours worked	Wage rate	Advance	Deductions	
			per hour	paid	NSSF	NHIF
			Ksh	Ksh	Ksh	Ksh
001	David	162	100	5,000	800	200
002	Ben	190	140	10,000	800	200
003	Tom	192	120	8,000	800	200
004	Robert	200	100	8,500	800	200
005	Mary	220	130	10,000	800	200

Addition information:

- (i) Normal working hours per month are 160 hours.
- (ii) Overtime is paid at the rate of 50% above the normal rate.
- (iii) PAYE is payable at the rate of 10% of the gross wage.

Prepare a payroll for the month of June 2021.

(10 marks)

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