

2908/304

ACCOUNTING AND CONTROL

November 2022

Time: 3 hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL

DIPLOMA IN HUMAN RESOURCE 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 5 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) Alex and Ben are employees of Ranger Enterprises. The firm operates for 8 hours per day 5 days in a week. The normal hourly rate of pay is Ksh 400. Hours worked in excess of normal time are treated as overtime and paid for as follows:

Week days	$1\frac{1}{4}$ the normal rate
Saturdays	$1\frac{1}{2}$ the normal rate
Sunday	Double the normal rate

During the first week of August 2022, they worked as follows:

Alex	49 hours including 2 hours on Saturday and 3 hours on Sunday
Ben	55 hours including 10 hours on Saturday and 1 hour on Sunday

Calculate the gross earnings for each employee for the first week of August 2022. (10 marks)

- (b) Mwatta started business on 1 January 2022 with Ksh 400,000 in cash. The following transactions took place during the month of January:

- January 1 Purchased good for Ksh 20,000 in cash.
 6 Bought a computer for Ksh 40,000 in cash.
 10 Opened a business bank account and deposited Ksh 67,000.
 15 The proprietor withdrew Ksh 2000 from bank for personal use.
 31 Sold goods for Ksh 38,000 and received a cheque.

- (i) Prepare ledger accounts to record the transactions above.
 (ii) Balance off that ledger account. (10 marks)

- 2 (a) Explain four uses of financial ratios. (8 marks)

- (b) Tamulu Enterprises is in the process of preparing its budget for the year 2023. The following information relates to the first 4 months of the year 2023.

	Overheads	Sales	Salaries	Rent	Purchases
	Ksh	Ksh	Ksh	Ksh	Ksh
January	25,000	169,000	140,000	24,000	138,000
February	32,000	178,000	140,000	24,000	110,000
March	45,000	150,000	140,000	24,000	122,000
April	27,000	160,000	140,000	24,000	120,000

Additional information:

- (i) 75% of sales are made in cash.
 (ii) 60% of credit sales are settled one month after sale and the balance two months after sale.

60% of 37,000 = 22,200

- (iii) All purchases are made on credit. Suppliers are paid after one month.
- (iv) Furniture worth Ksh 21,000 will be bought in January 2023 and payment will be made in February 2023.
- (v) The expected cash balance on 1 February 2023 is Ksh 250,000.
- (vi) Rent is paid on quarterly basis in advance, the first payment is to be made on 1 January 2023.
- (vii) Overheads and salaries are settled in the month incurred.

Prepare a cash budget for each of the months of February, March and April 2023.

(12 marks)

3. (a) Explain four benefits that may accrue to an organisation that operates a petty cash book. (8 marks)

- (b) The following information relates to Emma processors for the year ended 30 April 2022.

	Ksh
Factory rent	320,000 P
Inspectors salaries	180,000 f
Commission for salespersons	260,000 S
Lighting and heating in the production manager's office	15,000 P
Repairs to delivery van	228,000 S
Insurance on plant	110,000 P
Warehouse expenses	45,000 P
Depreciation on plant	60,000 P

Determine the total:

- (i) production costs;
- (ii) selling and distribution costs. (12 marks)

4. (a) Explain four features of a good wage payment system. (8 marks)

- (b) The trial balance of Zaidi Traders as on 31 December 2021 failed to balance. The income statement prepared for the period showed a net profit of Ksh 880,000. Upon investigations, the following errors were revealed.

- (i) opening inventory had been undervalued by Ksh 2,500.
- (ii) insurance premium of Ksh 74,000 had been recorded in the books as Ksh 47,000.
- (iii) sales day book had been undercast by Ksh 13,000.
- (iv) payment of water bill for Ksh 8,000 had been omitted from the books.

- (v) purchases had been overcast by Ksh 6,000.
 (vi) wages of Ksh 1,600 had been entered in the wages account as Ksh 11,600.

Prepare a statement of corrected net profit for the year ended 31 December 2021. (12 marks)

5. (a) Highlight **four** benefits of installing a cost accounting system in an manufacturing organization. (8 marks)
- (b) The following information relates to equipment owned by Kalali Limited.

Equipment	Date of purchase	Cost Ksh
X	1 January 2019	600,000
Y	1 January 2021	900,000

The equipment is depreciated at the rate of 20% per annum using straight line method.

For each of the years ended 31 December 2019, 2020 and 2021, prepare:

- (i) equipment account;
 (ii) accumulated provision for depreciation on equipment account. (12 marks)

6. (a) Explain **four** uses of a budget in a business organization.
- (b) The following balances were obtained from the books of account of Demask Traders as at 31 December 2021.

	Ksh
Net profit for the year ✓	1,060,000
Motor vehicles at cost ✓	8,050,000
Accumulated provision for depreciation on motor vehicles ✓	4,000,000
Inventory ✓	220,000
Capital (1 January 2021) ✓	4,783,000
Accounts receivable ✓	36,000
Cash in hand ✓	244,000
Accounts payable ✓	41,000
Cash at bank ✓	1,288,000
Furniture at cost ✓	74,000
Accumulated provision for depreciation on furniture ✓	28,000

Prepare a statement of financial position as at 31 December 2021. (12 marks)

7. (a) Highlight four limitations of cost-volume profit (C.V.P) analysis. (8 marks)

(b) The bank statement of Mtaa Enterprises issued on 31 December 2021 showed a credit balance of Ksh 109,600 while the cash book (bank column) had a debit balance of Ksh 185,300, on the same period. Upon investigations, the following discrepancies were revealed:

- (i) a debtor had paid Ksh 8,000 directly into the bank account
- (ii) bank charges amounted to Ksh 3,500
- (iii) a standing order of Ksh 31,000 had been effected by the bank.
- (iv) unpresented cheques totalled Ksh 16,800
- (v) a cheque for Ksh 46,000 had been dishonoured
- (vi) uncredited cheques totalled Ksh 20,000.

Prepared:

- I. an updated cash book;
- II. a bank reconciliation statement.

(12 marks)

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