1. (a) Explain **five** users of financial statements of an organisation. (10 marks)

(b) The following information was extracted from the financial statements of Kaluma Limited for the year ended 31 December 2015.

	Ksh
Accounts receivable	8,400,000
Cash	3,100,000
Inventories	2,500,000
Sales	46,700,000
Cost of goods sold	38,100,000
Total current liabilities	17,300,000

- All sales were made on credit.

The following are the average ratios for the industry:

Current ratio	2:1
Acid test ratio	1:1
Accounts receivable turnover	11.20 times
Inventory turnover	19.40 times

(i) Calculate each of the following ratios: Ordering cost =

(I) Current ratio
(II) Acid test ratio
(III) Accounts receivable turnover
(IV) Inventory turnover

(ii) Evaluate the company's performance against the industry average.

(10 marks)

2. (a) Tready Limited has forecasted its annual demand of commodity KX to be 3,000,000 units. The purchase price of each unit is Ksh. 20. The annual holding cost per unit is 5% of the purchase prince. The cost of making an order is Ksh. 300.

(i) Calculate the:

(I) economic order quantity (EOQ) = $EOQ = \sqrt{\frac{2DS}{C1}}$
(II) total inventory cost. total inventory $= \frac{D}{EOQ}$

(ii) The management is planning to change the current EOQ to 80,000 units. Advise the management on the viability of the plan.

(10 marks)

(b) A manufacturing company has two departments, A and B. Department A manufactures two products; P and Q. The products may be sold internally to department B or to an external market. The internal transfers are at cost.

The following is the cost structure of product P and product Q.

	Product P	Product Q
Selling price	160	200
Variable costs	120	140

(i) Sales to the external market require an additional 20% on cost.
(ii) The department has limited labour hours available.
(iii) The labour hours required for each product are 2.5 hours and 5 hours for product P and product Q respectively.
(iv) Department B requires product Q from department A for its manufacturing process.

I Determine the price to be charged:

(I) for supply of product Q to department B
(II) to the external market

II Advise the management of department A on the market to concentrate on.

(10 marks)

3. (a) Explain **five** limitations of relying on credit cards as a source of finance for a business organisation. (10 marks)

(b) The following data ware extracted from the records of Baharia Manufacturing Company.

Average usage	50 units per week
Minimum usage	300 units per week
Maximum usage	650 units per week
Economic order quantity	25,000 units
Re-order period	4 - 8 weeks

Determine the:

(i) Re-order level
(ii) Maximum stock level
(iii) Minimum stock level
(iv) Average stock level

(10 marks)

4. (a) Peter, Karim and Tom are engaged in the production of cakes in department X, Y and Z respectively. It is expected that 4,000 cakes should be produced in a five day week of 8 hours each.

- Employees in department X are paid at rate of Ksh 100 per hour.
- Employees of department Y are paid at the rate of Ksh 1,000 per day
- Employees of department Z are paid Ksh 8 per cake produced.

In the month of December 2015, it was ascertained that each worker put in 240 hours producing 3,820 cakes in a period of 21 days. Overtime and bonus do not apply in this company.

Calculate the amount of wages earned by each employee during the month.

(9 marks)

(b) Mamudi is a trader who buys and sells food items at Walima market. The following information relates to the business over a six month period from January 2015 to June 2015.

	Purchases	Sales
January	24,000	34,000
February	28,000	44,000
March	26,000	36,000
April	28,000	28,000
May	30,000	32,000
June	36,000	36,000

Additional information:

- On 1 May 2015, a new hand cart was purchased for Ksh 16,000. The old hand card was sold on 15 June for Ksh 10,000
- Overhead expenses amounted to Ksh 1,600 and are paid one month after expenditure
- Wages of Ksh 2,000 are paid in the month that they are incurred
- All sales are on credit and they are on a two-month credit period
- One-half of the purchases are on credit and are settled one after the purchase
- The expected bank overdraft as at 1st March 2015 was Ksh 2,000.

(i) Prepare a cash budget for each month from March 2015 to June 2015.

(ii) Comment on the cash position for the period.

(11 marks)

5. (a) The following production cost relate to Africo Limited for the six months ended 30 June 2015.

Month	Cost (Ksh millions)	Production volume ('000 units)
January	500	30.0
February	520	37.0
March	440	29.0
April	510	30.2
May	516	30.6
June	460	29.6

(i) Using high-low method, determine the:

(I) total fixed cost
(II) Variable cost per unit
(III) Cost functions

(ii) Predict the cost for the month of July when output is expected to be 13,000 units.

(10 marks)

(b) The following is the trial balance of Kamwithi Enterprises as at 31 December, 2012.

Particulars	Debit (Ksh)	Credit Ksh)
Buildings	15,000,000	
Machinery	14,500,000	
Furniture and fittings	2,500,000	
Opening inventory	5,000,000	
Purchases	90,000,000	
Accounts receivable	5,250,000	
Administration	2,500,000	
Electricity	300,000	
Rent paid	1,375,000	
Interest on loan	500,000	
Sales		102,500,000
Salaries	3,300,000	
Bad debts written off	500,000	
Communication expenses	750,000	
Creditors		4,075,000
10% loan		5,000,000
Repair expenses	410,000	

Capital		30,800,000
Motor vehicle expenses	390,000	
Commission paid	100,000	
	142,375,000	142,375,000

Closing inventory was valued at Ksh 6,000,000 on 31 December, 2015.

Prepare an income statement for the year ended 31 December, 2015.

(10 marks)

6. (a) Mohamed and sons Limited intends to sell product TX at an exhibition organised by the association of manufacturers. They purchase the products at Ksh 500 each, and are allowed to return all unsold products. The exhibition stands is charged a rent of Ksh 200,000 per event payable in advance. The products will be sold at Ksh 900 each.

(i) Determine the number of units of the product to be sold in order to:

(I) break-even

(II) In order to realise a profit target of Ksh 1.8 million

(ii) Shally, one of the customers at the exhibition has offered to buy the entire stock of product TX at a price of Ksh 650 each. Advise the management on whether to accept offer

(8 marks)

(b) Ndedero Limited manufactures and sells fruit juices. The standard cost per unit is as follows:

<u>Standard Costs</u>

	Ksh
Direct material per kg	20
Direct labour per hour	20
Variable overheads	4
Fixed overheads	10
Standard cost	54
Standard margin	6
	60

The actual results for a 4-week period is as follows.

Actual costs	Ksh
Sales	957,000
Direct materials 15,000 kg @ Ksh 12	180,000
Direct labour 25,000 hours @ Ksh 18	450,000
Variable overheads	25,000
Fixed overheads	50,000
Net profit	252,000

The budgeted output was 15,500 units while the actual output is 16,500 units.

Calculate each of the following variances:

(i) Materials price variance
(ii) Materials usage variance
(iii) Labour rate variance
(iv) Sales margin price variance
(v) Sales margin quantity variance

(12 marks)

7. (a) A company has two alternative projects A and B, with an initial cash outlay of Ksh 500,000 and Ksh 600,000 respectively. Each project has an economic life of 5 years. Project A has a residual value of Ksh 50,000 while project B has no residual value. Annual profits before depreciation for each project is Ksh 200,000.

(i) Using the Accounting rate of return (ARR) method, advise the management on the project to undertake.

(ii) Outline **two** limitations of using the above method in decision making.

(10 marks)

(b) Highlight **five** characteristics of process costing systems. (10 marks)

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