

2805/304
ACCOUNTANCY
March/April 2025
Time: 3 hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL

DIPLOMA IN BANKING AND FINANCE

ACCOUNTANCY

3 hours

INSTRUCTIONS TO CANDIDATES

This paper consists of SIX questions in TWO sections; A and B.

Answer FOUR questions as follows:

Question 1 (compulsory) and any other ONE question from section A.

Any TWO questions from section B.

Show all your working.

Candidates should answer the questions in English.

This paper consists of 11 printed pages.

Candidates should check the question paper to ascertain that all the pages are printed as indicated and that no questions are missing.

SECTION A (60 marks)

Answer Question 1 (compulsory) and other ONE question from this section.

1. (a) The following are the financial statements of Kummi Limited for the years ended 31 December 2023 and 2024.

(I) **Income Statement**
For the year ended 31 December

	2023 Ksh. '000'	2024 Ksh. '000'
Sales	5,000	6,500
Less: Cost of sales	(2,400)	(3,770)
Gross profit	2,600	2,730
Less: Operating expenses	702	555
Debenture interest	48	30
	750	585
Net profit before tax	1,850	2,145
Taxation	(470)	(375)
Net profit after tax	1,380	1,770
Less: dividends	(1,000)	(1,500)
Retained profits for the year	380	270
Retained profits brought forward	<u>2,080</u>	<u>2,460</u>
Retained profits carried forward	2,460	2,730

(II) **Statement of financial position as at 31 December**

	2023 Ksh. '000'	2024 Ksh. '000'
Non current assets:	12,150	11,794
Less: Depreciation	(1,890)	(2,130)
	10,260	9,664
Current assets:		
Inventory	2,754	3,808
Accounts receivable	702	1,240
Bank	216	528
	<u>3,672</u>	<u>5,576</u>
	<u>13,940</u>	<u>15,240</u>

Capital and liabilities:		
Ordinary shares of Ksh. 10 each	10,000	10,900
Retained profits	<u>2,460</u>	<u>2,730</u>
	12,460	13,630
Non-current liabilities:		
12% Debentures	400	250
Current liabilities		
Accounts payable	110	240
Dividends	500	750
Taxation	470	370
	<u>1,080</u>	<u>1,360</u>
	<u>13,940</u>	<u>15,240</u>

- (i) For each of the years 2023 and 2024.
Calculate the;

- (I) Gross profit margin.
- (II) Net profit margin.
- (III) Current ratio.
- (IV) Quick ratio.
- (V) Total debt to equity ratio.
- (VI) Return on assets.
- (VII) Earnings per share.

- (ii) Comment on the performance of the company in terms of:

- Liquidity;
- Profitability.

(16 marks)

- (b) Sautix Limited is in the process of preparing its budgets for the first quarter of the year 2025.

The following is the statement of financial position of the firm as at 31 December 2024.

	Ksh.	Ksh.
Equipment		2,450,000
Current assets:		
Inventory	190,000	
Accounts receivable	460,000	
Bank	<u>522,000</u>	<u>1,172,000</u>
		<u>3,622,000</u>
Share capital (100,000 ordinary shares of Ksh.25 each)		2,500,000
Revenue reserves		990,000
Current liabilities:		
Accounts payable		132,000
		<u>3,622,000</u>

Additional information:

(I) Estimates

		Sales Ksh	Purchase Ksh	Operating expenses Ksh
2024	December	460,000	132,000	65,000
2025	January	610,000	140,000	73,000
	February	750,000	160,000	84,000
	March	700,000	210,000	108,000

- (II) All sales are made on credit. Debtors settle their accounts one month after sale.
 (III) All purchases are made on credit. Suppliers are paid one month after purchase.
 (IV) All expenses are paid in the month they are incurred.
 (V) In January 2025, the company will issue 20,000 ordinary shares at Par. The proceeds will be received on 31 January 2025.
 (VI) An equipment costing Ksh. 250,000 will be purchased and paid for on 1 January 2025. Depreciation on equipment is charged at 20% per annum pro-rata to time.
 (VII) Inventory as at 31 March 2025 is expected to be Ksh. 280,000.
 (VIII) The net profit for the three months ending 31 March 2025 is expected to be Ksh. 1,240,000.

Prepare a;

- (i) Cash budget for each of the month of January, February and March 2025.
- (ii) Budgeted statement of financial position as at 31 March 2025.

(14 marks)

2. (a) Narroki Limited manufactures a single product which is sold at Ksh. 20 per unit. The following information relates to the product of the year 2024.

	Units
Production	80,000
Sales	75,000

	Ksh
Production cost per unit	
Direct materials	1.50
Direct labour	1.00
Variable overheads	0.50

	Ksh
Overheads	
Fixed production	320,000
Fixed administration	350,000
Selling and distribution(40% variable)	225,000

- (i) Prepare an income statement using the:

- (i) Absorption costing technique.
- (ii) Marginal costing technique.

- (ii) Reconcile the profits in (i) above.

(15 marks)

- (b) Sautia Limited intends to raise capital as follows:

- Issue 240,000 ordinary shares of Ksh. 24 each at Ksh. 25 per share.
- Issue 300,000, 8% preference shares of Ksh. 12 each at Ksh. 15 per share.
- Issue 18,750, 18% Debentures of Ksh. 100 each at Ksh. 80 each.
- Obtain 12% bank loan of Ksh. 3,000,000.

Additional information:

- Ordinary shareholders are paid a dividend of 15% per share.
- Corporation tax rate is 30%.

Determine the

- (i) Total amount to be raised.
- (ii) Component cost of capital.
- (iii) Total cost of capital in shillings.
- (iv) Weighted average cost of capital (WACC)

(15 marks)

3. (a) Blaaze Limited uses material B27 in its production. The following information relates to the material:

Minimum consumption	1300 Kg. Per day
Maximum consumption	3,500 Kg. Per day
Re-order quantity	27,000 Kg
Annual demand	360,000 Kg
Re-order period	2 - 4 days

- (i) Calculate the
- (I) Re-order level.
 - (II) Minimum stock level.
 - (III) Maximum stock level.
 - (IV) Average stock level.
 - (V) Inventory turnover in days.
(Take 1 year = 360 days)
- (ii) The purchasing manager has proposed that the firm's re-order quantity should minimize the total inventory cost. The purchase price is Ksh. 200 Per Kg. The cost of placing an order is Ksh. 4,000 and the annual carrying cost is 10% of the purchase price.
- (I) Determine the Economic Order Quantity (EOQ);
 - (II) Comment on the current re-order quantity.

(15 marks)

- (b) Bantoy Limited is considering investing Ksh. 1,300,000 in either Project A or Project B.

The following are the expected net cash inflows from the projects.

	Project A	Project B
Year	Ksh	Ksh
1	580,000	120,000
2	720,000	270,000
3	490,000	330,000
4	360,000	840,000
5	250,000	540,000
5(scrap value)		300,000

The cost of capital is 10%.

- (i) For each of the projects, determine the:
- (I) Payback period in years.
 - (II) Net present value (NPV).
- (ii) Advise the management on the project to invest in.

(15 marks)

SECTION B (40 marks)

Answer any TWO questions in this section.

4. (a) Explain four advantages of installing an efficient internal control system in a business organisation. (8 marks)
- (b) The following is the statement of financial position of Ruddy Limited as at 31 December 2024.

	Ksh.	Ksh.
Non-current assets:		
Land		27,000,000
Motor vehicles		11,200,000
Investments		8,400,000
Profit and loss		5,900,000
		52,500,000
Current assets:		
Inventory	3,300,000	
Accounts receivable	<u>9,500,000</u>	<u>12,800,000</u>
		<u>65,300,000</u>
Capital and liabilities:		
1,200,000 ordinary shares of Ksh.25 each		30,000,000
750,000, 6% preference shares of Ksh.20 each		15,000,000
Non-current liabilities:		
12% debentures		10,000,000
Current liabilities:		
Accounts payable	6,100,000	
Bank overdraft	<u>4,200,000</u>	<u>10,300,000</u>
		<u>65,300,000</u>

On 1 January 2025, the court approved a scheme of re-organization as follows:

- (I) The ordinary shares to be written down by Ksh. 5 per share.
- (II) The preference shares to be written down by Ksh. 3 per share.
- (III) The land to be revalued to Ksh. 30,000,000.
- (IV) The debenture holders to be settled in full by taking over part of the land at the revalued amount.
- (V) Accounts receivable amounting to Ksh. 2,850,000 to be written off as bad.
- (VI) All investments to be sold at Ksh. 9,050,000.
- (VII) Inventory to be written down by Ksh. 1,100,000.
- (VIII) Motor vehicles to be revalued downwards to Ksh. 9,150,000.
- (IX) The loss to be written off.
- (X) The ordinary and preference shares to be restated at their Par values.

Prepare the:

- (i) Capital reduction account.
- (ii) Bank account.
- (iii) Statement of financial position after the re-organisation.

(12 marks)

5. (a) The following are the statements of financial position of Hed Limited and its subsidiary, Sed Limited as at 31 December 2024.

	Hed Limited Ksh.	Sed Limited Ksh.
Non current assets:	5,720,000	1,150,000
Investment in Sed Limited	1,300,000	-
Current assets:		
Inventory	150,000	76,000
Accounts receivable	470,000	165,000
Bills receivable	114,000	57,000
Bank	73,000	31,000
	<u>807,000</u>	<u>329,000</u>
	<u>7,827,000</u>	<u>1,479,000</u>
Ordinary share capital	4,300,000	900,000
Reserves	2,910,000	480,000
	7,210,000	1,380,000
Current liabilities		
Accounts payable	387,000	60,000
Bills payable	<u>230,000</u>	<u>39,000</u>
	<u>7,827,000</u>	<u>1,479,000</u>

Additional information:

- (I) On 1 January 2024, Hed Limited acquired 80% of the shares of Sed Limited, when the reserves of Sed Limited were Ksh. 320,000.
- (II) Bills amounting to Ksh. 26,000 accepted by Sed Limited were in favour of Hed Limited.

Prepare a consolidated statement of financial position as at 31 December 2024.

(10 marks)

- (b) Joshua sold goods on credit as follows:

2024		Ksh
June 1	Jamila	50,000
July 1	Kiyuna	137,000
August 1	Robin	294,000

Joshua drew the 3-month bills of exchange on each of the dates of sale.

All the customers accepted the bills.

On 2 August 2024, the bill to Jamilla was discounted at 12% per annum by the bank.

On 2 September 2024, the bill to Kiyuna was endorsed to settle the debt to Zara a creditor.

On 4 November 2024, the bill to Robin was dishonoured and noting charges amounted to Ksh. 1,500.

On 5 November 2024, Robin settled the amount due from him including the noting charges by cheque.

Prepare the following accounts in the books of Joshua.

- (i) Sales
- (ii) Jamila
- (iii) Kiyuna
- (iv) Robin
- (v) Bills receivable.

(10 marks)

6. (a) Explain four characteristics of current cost accounting system. (8 marks)

(b) Jazak contractors was awarded a Contract to construct a Hall for Usaffi College at Ksh. 70,000,000.

The following information relates to the Contract for the year ended 31 December 2024.

	Ksh '000'
Materials purchased	13,700
Materials issued from stores	2,100
Materials transferred to Contract JD44	970
Materials stolen at site (cost)	160
Materials in hand (31 December 2024)	620
Wages paid	5,200
Wages accrued	420
Plant transferred from Contract JD44	8,500
Plant as at 31 December 2024	6,200
Sub contractor's fees	4,100
Site expenses	4,390
Head office charges	1,920
Value of work certified	28,400
Cost of work not certified	2,700
Cash received	22,000

(i) Prepare a:

- (I) Contract account;
- (II) Contractee - Ussaffi College account.

(ii) Determine the value of work in progress.

(12 marks)

Table A Present Value of Sh 1 Received at the End of n Periods:
 $PVIF_{r,n} = 1/(1 + r)^n$

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	12%	14%	15%	16%	18%	20%	24%	28%	32%	36%
1	.9901	.9804	.9709	.9615	.9524	.9434	.9346	.9259	.9174	.9091	.8929	.8772	.8696	.8621	.8475	.8333	.8085	.7813	.7578	.7353
2	.9803	.9612	.9426	.9245	.9070	.8900	.8734	.8573	.8417	.8264	.8097	.7935	.7785	.7637	.7432	.7182	.6944	.6504	.6104	.5739
3	.9706	.9423	.9151	.8890	.8638	.8396	.8163	.7938	.7722	.7513	.7297	.7085	.6875	.6667	.6407	.6086	.5787	.5245	.4768	.4348
4	.9610	.9238	.8885	.8548	.8227	.7921	.7629	.7350	.7084	.6830	.6585	.6352	.6129	.5907	.5674	.5430	.5158	.4725	.4294	.3923
5	.9515	.9057	.8626	.8219	.7835	.7473	.7130	.6806	.6499	.6209	.5934	.5674	.5429	.5194	.4972	.4761	.4537	.4210	.3890	.3575
6	.9420	.8860	.8375	.7903	.7462	.7050	.6663	.6302	.5963	.5645	.5346	.5066	.4803	.4556	.4323	.4104	.3704	.3349	.2974	.2650
7	.9327	.8706	.8131	.7599	.7107	.6651	.6227	.5835	.5470	.5132	.4823	.4539	.4279	.4038	.3814	.3600	.3255	.2891	.2532	.2219
8	.9235	.8535	.7894	.7307	.6768	.6274	.5820	.5403	.5019	.4665	.4339	.4046	.3785	.3552	.3336	.3129	.2789	.2439	.2094	.1794
9	.9143	.8368	.7664	.7026	.6446	.5919	.5439	.5002	.4604	.4241	.3906	.3597	.3322	.3086	.2869	.2659	.2349	.2014	.1684	.1404
10	.9053	.8203	.7441	.6756	.6139	.5584	.5083	.4632	.4224	.3855	.3520	.3211	.2934	.2697	.2472	.2257	.1954	.1644	.1334	.1074
11	.8963	.8043	.7224	.6496	.5847	.5268	.4751	.4289	.3875	.3505	.3175	.2876	.2597	.2357	.2141	.1934	.1654	.1364	.1084	.0864
12	.8874	.7895	.7014	.6245	.5568	.4970	.4440	.3971	.3555	.3185	.2852	.2551	.2270	.2028	.1811	.1604	.1344	.1084	.0844	.0644
13	.8787	.7730	.6810	.6006	.5303	.4688	.4150	.3677	.3262	.2892	.2557	.2254	.2000	.1775	.1567	.1369	.1129	.0889	.0669	.0469
14	.8700	.7579	.6611	.5775	.5051	.4423	.3878	.3405	.2992	.2633	.2306	.2000	.1775	.1567	.1369	.1129	.0889	.0669	.0469	.0269
15	.8613	.7430	.6419	.5553	.4810	.4173	.3624	.3152	.2745	.2394	.2065	.1775	.1567	.1369	.1129	.0889	.0669	.0469	.0269	.0069
16	.8528	.7284	.6232	.5339	.4581	.3936	.3387	.2919	.2519	.2176	.1861	.1588	.1375	.1181	.1000	.0833	.0681	.0533	.0385	.0185
17	.8444	.7142	.6050	.5134	.4363	.3714	.3166	.2703	.2311	.1978	.1658	.1391	.1181	.1000	.0833	.0681	.0533	.0385	.0185	.0000
18	.8360	.7002	.5874	.4936	.4155	.3503	.2959	.2502	.2120	.1799	.1486	.1229	.1029	.0858	.0700	.0558	.0421	.0289	.0155	.0000
19	.8277	.6864	.5703	.4746	.3957	.3305	.2765	.2317	.1945	.1635	.1361	.1111	.0911	.0739	.0581	.0439	.0301	.0169	.0039	.0000
20	.8195	.6730	.5537	.4564	.3769	.3118	.2584	.2145	.1784	.1486	.1237	.1000	.0800	.0629	.0471	.0329	.0191	.0061	.0000	.0000
25	.7799	.6095	.4776	.3751	.2953	.2330	.1842	.1460	.1160	.0923	.0758	.0611	.0481	.0364	.0259	.0166	.0081	.0021	.0000	.0000
30	.7419	.5521	.4120	.3083	.2314	.1741	.1314	.0984	.0754	.0573	.0434	.0329	.0239	.0166	.0100	.0046	.0000	.0000	.0000	.0000
40	.6717	.4529	.3066	.2083	.1420	.0972	.0668	.0460	.0318	.0221	.0147	.0093	.0053	.0037	.0025	.0013	.0007	.0002	.0001	.0000
50	.6080	.3715	.2281	.1407	.0872	.0543	.0339	.0213	.0134	.0085	.0055	.0035	.0021	.0014	.0009	.0006	.0003	.0001	.0000	.0000
60	.5504	.3048	.1697	.0951	.0535	.0303	.0173	.0099	.0057	.0033	.0011	.0004	.0002	.0001	.0000	.0000	.0000	.0000	.0000	.0000

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