

1903/106

1906/106

FINANCIAL ACCOUNTING

November 2016

Time: 3 hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL

CRAFT CERTIFICATE IN SUPPLY CHAIN MANAGEMENT

CRAFT CERTIFICATE IN BUSINESS MANAGEMENT

FINANCIAL ACCOUNTING

3 hours

### INSTRUCTIONS TO CANDIDATES

*This paper consists of TWO sections; A and B.*

*Answer ALL the questions in section A and any FOUR questions from section B in the answer booklet provided.*

*Candidates should answer the questions in English.*

**This paper consists of 10 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 (40 marks)

Answer ALL the questions in this section.

1. State the meaning of each of the following terms as used in accounting:

- (i) Asset;
- (ii) Liability.

(2 marks)

2. List **two** classifications of ledgers.

(2 marks)

3. Match each of the following source documents with the appropriate journal.

Source document		Journal
(i)	Invoice	Returns inwards journal
(ii)	Cash sale receipt	Purchase journal
(iii)	Credit note	Cash book

(3 marks)

4. State the book of original entry used for recording goods returned to a supplier.

(1 mark)

5. On 1 June 2016, a firm's debtor called Paul had an outstanding balance of Ksh 17,000. On 4 June 2016, the firm sold goods amounting to Ksh 48,000 on credit to Paul. On 30 June 2016 Paul paid the firm Ksh 53,000 by cheque.

Prepare Paul's ledger account in the books of the firm.

(2 marks)

6. On 1 August 2016, a petty cashier had a cash float of Ksh 9,000. The petty cashier made payments amounting to Ksh 7,650 during the first week of August 2016. Determine the cash held by the petty cashier at the end of the week.

(1 mark)

7. Highlight the meaning of each of the following terms as used in bank reconciliation:

- (i) Dishonoured cheque;
- (ii) Standing order payment.

(2 marks)

8. The following information relates to Stalet Traders for the month of March 2016:

	Ksh
Credit purchases	600,400
Returns outwards	13,300
Cheques paid to suppliers	490,100

Prepare a purchases ledger control account.

(2 marks)

9. Pola Enterprises uses straight line method of depreciation on its furniture each year. State the accounting concept applied. (1 mark)
10. Differentiate between capital expenditure and revenue expenditure. (2 marks)
11. Tamu Traders had the following information relating to electricity expenses:

	Ksh
Electricity owing: 1 May 2016	4,900
31 May 2016	6,800
Electricity paid during the month	25,500

Determine the electricity expense for the month of May 2016. (2 marks)

12. Highlight the meaning of the term 'subscriptions', as used in non-profit making organisations. (1 mark)
13. Manga Traders does not keep a proper set of books of account. On 1 January 2016, the business had shop premises worth Ksh 1,700,000, cash at bank Ksh 320,000 and a bank loan of Ksh 2,000,000.
- (i) Determine the capital as at 1 January 2016
- (ii) Comment on the capital position of the business.

(3 marks)

14. Classify each of the following items as income or expenditure, of a social club:

Item		Income or Expenditure
(i)	Entrance fees	
(ii)	Secretary's honorarium	
(iii)	Donations	

(3 marks)

15. Malipo Limited, bought furniture for Ksh 260,000 on credit from Hightech Dealers on 1 February 2016. Record the transaction above in the general journal. (3 marks)
16. Molo Enterprises had a gross profit of Ksh 150,000 and expenses of Ksh 101,200 for the year ended 31 October 2016:
- (i) Determine the net profit for the year;
- (ii) The proprietor has set a target net profit equal to one-third of the gross profit, for the new year.

Advise the proprietor on the action to take, based on the performance in (i) above.

(3 marks)

17. State the meaning of the term, 'error of original entry'. (1 mark)
18. Highlight the meaning of the term, 'cash discount'. (1 mark)
19. On 1 January 2014, Safi Limited bought a motor vehicle for Ksh 2,000,000. The firm depreciates its motor vehicles at 20% per annum on cost. Determine the book value of the motor vehicle as at 31 December 2015. (3 marks)
20. Natali Traders had a net profit of Ksh. <sup>Profit</sup> 295,000 for the year ended 31 December 2015. During the year, the proprietor withdrew Ksh 315,000. Advise the proprietor on the effect of the withdrawal on the capital of the business. (2 marks)

### SECTION B (60 marks)

*Answer any FOUR of the questions in this section.*

21. (a) Baridi Traders had the following expenditure for the year ended 31 December 2015:

	Ksh
Purchase of computers	150,000
Salaries	850,000
Installation of CCTV camera	100,000
Repainting of the office building	105,000
Purchases of goods	470,000
Extension of warehouse	340,000
Painting firm's logo on a motor vehicle	120,000
Fuel for motor vehicles	298,000

Determine the:

- (i) total capital expenditure;
- (ii) total revenue expenditure.

(6 marks)

- (b) The following is the statement of financial position of Zeta Enterprises as at 1 February 2016.

	Dr Ksh	Cr Ksh
<b>Non current assets</b>		
Motor vehicles		6,000,000
Furniture		<u>1,300,000</u>
		7,300,000
<b>Current assets</b>		
Inventory	169,000	
Accounts receivable	298,000	
Bank	<u>72,800</u>	<u>539,800</u>
		<u>7,839,800</u>
Capital		5,100,000
Loan - Chata Bank		2,500,000
Accounts payable		<u>239,800</u>
		<u>7,839,800</u>

During the week ended 6 February 2016, the following transactions took place:

- The proprietor brought in additional amount of Ksh 1,000,000 and deposited it in the business bank account.
- Bought a motor van of Ksh 750,000 by cheque.
- Bought goods for Ksh 180,000 on credit.
- Repaid Ksh 200,000 of the bank loan.
- Received a cheque of Ksh 65,000 from a debtor.
- Sold excess furniture for Ksh 40,000 and the buyer paid by cheque.

Prepare a statement of financial position as at 6 February 2016.

6<sup>th</sup> Feb 2016

Non current Assets

Motor vehicle

(9 marks)

22. (a) Explain **three** causes of depreciation of non-current assets. (6 marks)

(b) The following balances were extracted from the books of Akili Traders as at 30 June 2016:

	Ksh
Capital	2,300,000
Buildings	1,600,000
Sales	1,780,000
Carriage inwards	36,000
Salaries	720,000
Purchases	890,000
Bank	310,000
Accounts receivable	470,000
Accounts payable	406,000
Inventory (1 July 2015)	210,000
Drawings	177,000
Electricity	57,000
Discounts allowed	110,000
Discounts received	94,000

Prepare a Trial balance as at 30 June 2016. (9 marks)

23. (a) On 1 May 2016, Belinda Enterprises had the following balances:

	Ksh
Cash in hand	19,500
Cash at bank	173,400

The following transactions took place during the month of May:

2016

- May 2 Purchased goods for Ksh 11,600 in cash.
- 3 Sold goods for Ksh 64,000 and received cash.
- 4 Bought stationery for Ksh 3,100 and paid in cash.
- 10 Received a cheque of Ksh 22,500 from Fatuma.
- 16 Paid Juma Ksh 46,000 by cheque.
- 17 Received rent of Ksh 24,000 in form of a cheque.
- 18 Paid electricity of Ksh 2,000 by cheque.
- 28 Withdrew Ksh 50,000 from the bank for office use.
- 30 Paid wages amounting to Ksh 85,400 in cash.
- 31 The proprietor took Ksh 20,000 from the cash till for personal use.

Prepare a two-column cash book for the month of May 2016. (8 marks)

- (b) Kesha Wholesalers does not keep proper books of account. The following are the assets and liabilities of the firm as at 1 January and 31 December 2015:

	1 January 2015	31 December 2015
	Ksh	Ksh
Buildings	2,700,000	2,500,000
Bank	580,000	360,000
Loan - KS Bank	1,000,000	900,000
Inventory	-	237,000
Accounts receivable	-	513,000
Accounts payable	-	491,000

Additional information:

- The net profit for the year ended 31 December 2015 was Ksh 311,000.
- The proprietor withdrew Ksh 31,000 each month for personal use.

(i) Prepare:

(I) statement of affairs as at 1 January 2015.

(II) statement of affairs as at 31 December 2015.

(ii) Advise the proprietor on the capital position of the firm based on the results in (i) above.

(7 marks)

24. (a) The following transactions relate to Peto Enterprises for the month of June 2016:

2016

- June 1 Purchased goods on credit from Dolly Traders worth Ksh 47,000.  
 7 Purchased goods on credit from Elite Manufacturers worth Ksh 106,000.  
 13 Purchased goods on credit from Frank Wholesalers worth Ksh 68,000.  
 14 Returned goods to Dolly Traders valued at Ksh 3,000.  
 18 Purchased goods from Gedi Limited on credit worth Ksh 37,000.  
 19 Returned goods to Frank Wholesalers valued at Ksh 6,000.  
 29 Purchased goods on credit from Hassan Traders worth Ksh 59,000.  
 30 Purchased goods on credit from Ida Retailers worth Ksh 10,000.

- (i) Prepare:
- (I) purchases journal;
  - (II) returns outwards journal.
- (ii) Post the totals from the journals in (i) above to purchases account and returns outwards account.

(6 marks)

- (b) The following balances were extracted from the books of account of Tawala Wholesalers as at 31 December 2015:

	Ksh
Sales	970,000
Salaries and wages	430,000
Discounts received	21,600
Inventory (1 January 2015)	142,000
Office expenses	132,000
Returns inwards	15,000
Returns outwards	22,000
Purchases	560,000
Carriage outwards	96,400
Discounts allowed	32,500
Furniture at cost	340,000

Additional information:

- On 31 December 2015
    - Inventory was valued at Ksh 292,000.
    - Salaries outstanding amounted to Ksh 20,800.
  - Furniture is to be depreciated at 10% per annum on cost.
- (i) Prepare an income statement for the year ended 31 December 2015.
- (ii) Advise the proprietor on the action to take based on the performance in (i) above.

(9 marks)



25. (a) Explain the treatment of each of the following items in the final accounts:

- (i) Accrued expenses
- (ii) Prepaid expenses
- (iii) Outstanding income.

(6 marks)

(b) On 30 June 2016, the cash book (bank column) of Daraja Traders showed a debit balance of Ksh 106,000 while the bank statement balance on the same date had a balance of Ksh 114,100.

On investigation, the following discrepancies were revealed:

- Bank charges amounting to Ksh 1,900 were reflected on the statement only.
- Cheques totalling Ksh 59,800 were issued to the suppliers but not yet been presented to the bank for payment.
- A customer made a direct deposit of Ksh 37,400 into the business bank account.
- A cheque received from Tamu Restaurant of Ksh 41,200, had not yet been credited into the bank statement.
- The firm had placed a standing order for rent of Ksh 46,000 which was reflected on the bank statement only.

Prepare:

- (i) an updated cash book;
- (ii) a bank reconciliation statement.

(9 marks)

26. (a) The following are the balances of Timo Retailers as at 1 April 2016:

	Ksh
Sales ledger: Debit balance	120,000
Credit balance	36,000

Transactions during the month of April 2016 were as follows:

	Ksh
Credit sales	397,800
Receipts from debtors	310,000
Discounts allowed	28,500
Dishonoured cheques	7,900
Refund to customers	2,600
Returns inwards	6,100
Interest on overdue debts	11,200
Bad debts	12,900

Balances as at 30 April 2016:

	Ksh
Sales ledger: Debit balance	186,600
Credit balance	2,600

- (i) Prepare a sales ledger control account.
- (ii) Advise the proprietor on the action to take based on the results obtained in (i) above.

(8 marks)

- (b) The trial balance of Kilimo Traders failed to agree. The difference of Ksh 11,600 was placed on the debit side of the suspense account. Later, the following errors were revealed.

- The purchases journal was undercast by Ksh 6,000.
- A cash sale of Ksh 1,700 was completely omitted from the books.
- A credit sale of Ksh 23,000 to James was recorded in John's account.
- The sales account was overcast by Ksh 3,200.
- Electricity of Ksh 2,400 paid by cheque was recorded in the bank account only.

Prepare:

- (i) Journal entries to correct the errors above.
- (ii) The suspense account duly balanced.

(7 marks)

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