

1903/106

1906/106

FINANCIAL ACCOUNTING

July 2017

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.*

*All questions carry equal marks.*

*Candidates should answer the questions in English.*

**This paper consists of 9 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 **two** uses of accounting information. (2 marks)
2. Classify each of the following expenditures as either capital or revenue:
  - (i) Repairs of motor vehicles used in the business.
  - (ii) Purchase of goods for sale.
  - (iii) Drilling a borehole. (3 marks)
3. List **two** methods of depreciating non-current assets. (2 marks)
4. State the source document used in each of the following transactions:
  - (i) Goods purchased on credit
  - (ii) Goods returned by a customer. (2 marks)
5. Fill in the missing amounts in the spaces provided.

	Assets	Capital	Liabilities
	Ksh	Ksh	Ksh
(i)	160,000	85,000	_____
(ii)	_____	290,000	170,000
(iii)	840,000	_____	320,000

(3 marks)

6. State the type of cash discount in each of the following transactions:
  - (i) Received a cheque from a debtor after deducting a cash discount.
  - (ii) Paid a creditor by cheque after deducting a cash discount. (2 marks)
7. Balance off the following account as at 30 September 2016:

Jumba Account			
2016	Ksh	2016	Ksh
Sept. 1 Sales	420,000	Sept. 28 Bank	310,000
		28 Returns inwards	17,000

(2 marks)

8. State the type of error in each of the following:
  - (i) A cash sale was debited to sales account and credited to cash account.
  - (ii) A payment by cheque of Ksh 2,100 for electricity was recorded in the books as Ksh 1,200. (2 marks)

9. The total debits of a trial balance exceeded the total credits. State the side in which the difference will be placed in a suspense account. (1 mark)
10. The total payments made by a petty cashier during the month of April 2016 was Ksh. 48,900. The balance at the end of the month was Ksh 3,100. Determine the cash float at the beginning of the month. (1 mark)
11. State the control account(s) in which each of the following items are recorded:
- Bad debts
  - Inter ledger transfer -- (2 marks)
12. Unused stationery worth Ksh 5,000 issued to clerks of a firm was not recorded in the books as stock of stationery at the end of the financial year. State the accounting concept applicable. (1 mark)
13. The following information relates to rent payable by a firm:
- |                                 | Ksh     |
|---------------------------------|---------|
| Rent paid during the year 2016  | 272,000 |
| Rent prepaid - 1 January 2016   | 16,000  |
| Rent prepaid - 31 December 2016 | 28,000  |
- Determine the rent expense for the year 2016. (3 marks)
14. State the appropriate ledger for each of the following accounts:
- Equipment;
  - A creditor. (2 marks)
15. Pota does not keep a proper set of books of account. On 1 January 2016, the business had inventory of Ksh 208,000, accounts receivable Ksh 372,800, accounts payable Ksh 297,800 and cash at bank Ksh 37,000.
- Determine the capital as at 1 January 2016.
  - Advise Pota on the capital position of the business if the initial capital was Ksh 400,000. (2 marks)
16. State **two** types of books of original entry. (2 marks)
17. The following information relates to Bida Traders for the year 2016:
- |               | Ksh     |
|---------------|---------|
| Sales         | 638,000 |
| Cost of sales | 297,000 |
| Expenses      | 365,000 |
- Determine the net profit or loss for the year 2016.
  - Advise the proprietor on the action to take based on the results in (i) above. (3 marks)

18. List **two** items found in the bank statement but not in the cash book for the same period. (2 marks)
19. State the term used to describe the excess of income over expenditure in a non-profit making organisation. (1 mark)
20. On 31 March 2016, the updated cash book balance of a firm was Ksh 136,200. The unpresented cheques amounted to Ksh 79,800. Determine the balance as per the bank statement. (2 marks)

**SECTION B (60 marks)**

*Answer any FOUR questions from this section.*

21. (a) Raha Traders had the following balances as at 11 June 2016:

	Ksh.
Purchase ledger: Credit	239,800
Debit	14,600

**Transactions during the month of June were as follows:**

Credit purchases	487,200
Cheque payments to creditors	309,700
Discounts	61,000
Returns outwards	47,100
Cash payments to creditors	152,500
Refund to the firm by creditors	18,000

Balance as at 30 June 2016:

Purchases ledger: Credit	Ksh 182,300
Debit	Ksh 22,500

Prepare a purchases ledger control account for the month of June 2016. (6 marks)

- (b) On 1 May 2016, Wawili Enterprises had the following balances:

	Ksh
Cash in hand	32,500
Cash at bank	106,900

During the month, the following transactions took place:

2016

- May 1      1      Sold goods for Ksh 28,000 in cash.
- 3      Bought stationery for Ksh 6,400 in cash.
- 17     Benta Limited settled their account of Ksh 84,000 by cheque, after deducting a cash discount of 5%.

- 19 Settled Fit Wholesaler's account of Ksh 70,000 by cheque, after deducting a cash discount of 5%.
- 22 Received a cheque of Ksh 45,000 from KT Traders, after deducting a cash discount of Ksh 5000.
- 27 Paid Jami Enterprises Ksh 9000 by cheque after deducting a cash discount of Ksh 1,000.
- 31 Deposited Ksh 40,000 of the cash in hand into the bank account.

Prepare a three column cash book for the month of May 2016. (9 marks)

22. (a) Explain **three** types of errors that do not affect the agreement of a trial balance. (6 marks)
- (b) Sela Retailers operates a petty cash book on an imprest system. On 1 May 2016, the petty cashier was given Ksh 9,000 by the main cashier.

The petty cashier made the following payments during the week:

2016		Ksh
May	1 Bus fare	200
	1 Mobile phone airtime	1,200
	2 Tea leaves	600
	3 Taxi charges	330
	3 Sugar	250
	4 Telephone	2,300
	4 Painting papers	600
	5 Cakes	500
	6 Pens	280
	7 Writing pads	800

- (i) Prepare a petty cash book with the following analysis columns:

- Travelling -
- Stationery
- Refreshments
- Communication

- (ii) At the end of the week, the petty cashier had Ksh 1,800 cash in hand. State the possible cause of the difference between the cash in hand and the balance in the petty cash book. (9 marks)

23. (a) Explain the use of each of the following documents:

- (i) Invoice;
- (ii) Credit note;
- (iii) Statement of account.

(6 marks)

(b) Sarah started a business with Ksh. 400,000 which was deposited in a business bank account on 1 July 2016.

The following transactions took place during the month:

2016

- |      |    |   |
|------|----|---|
| July | 1  | Paid for shop repairs of Ksh 20,000 by cheque.                    |
|      | 3  | Purchased goods for Ksh 50,000 and paid by cheque.                |
|      | 4  | Sold goods for Ksh 37,500 in cash.                                |
|      | 9  | Purchased goods of Ksh 170,000 on credit from Kote manufacturers. |
|      | 13 | Withdrew Ksh 100,000 from the bank for office use.                |
|      | 25 | Paid wages amounting to Ksh 60,000 by cheque.                     |
|      | 29 | Paid general expenses amounting to Ksh 11,700 in cash.            |
|      | 31 | Took Ksh 7,000 from the cash till for personal use.               |

Prepare ledger accounts to record the transactions above.

(9 marks)

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

2016

- |      |    |   |
|------|----|---|
| June | 1  | Sold goods for Ksh 27,500 on credit to Jomba Manufacturers.                                 |
|      | 17 | Sold goods for Ksh 19,200 on credit to Karen Restaurant.                                    |
|      | 20 | Sold excess machinery for Ksh 45,000 on credit to Zawadi Traders.                           |
|      | 24 | Karen Restaurant returned goods worth Ksh 2,200.  |
|      | 30 | Sold goods to Mina Enterprises for Ksh 60,000 on credit and allowed a trade discount of 5%. |

Prepare:

- (i) sales journal
- (ii) returned inwards journal
- (iii) general journal

(6 marks)

- (b) The following are receipts and payments of Prestige Social Club for the year ended 31 December 2016.

<b>Receipts:</b>	Ksh.
Subscriptions	108,000
Refreshments	80,000
Sale of competition tickets	9,000
<b>Payments:</b>	
Refreshment purchases	65,000
Printing and stationery	13,000
Secretary's honorarium	36,000
Repairs and maintenance	27,000
Electricity	8,300
Telephone	4,900
Competition prizes	38,000

Additional information:

- Balances as at 31 December 2016:
 

	Ksh
- Subscriptions owing	15,000
- Subscriptions prepaid	7,200
- Printing owing	2,000
- Equipment	118,000
- On 1 January 2016, the equipment was valued at Ksh 130,000.
  - (i) Prepare an income and expenditure account for the year ended 31 December 2016.
  - (ii) Advise the Club's management on the action to take based on the performance assessed in (i) above. (9 marks)

25. (a) The following statement of financial position of a firm was prepared by an inexperienced employee as at 31 December 2016.

<b>Non current assets:</b>		Ksh.
Loan KI. finance		600,000
Capital		2,500,000
Cash		<u>48,000</u>
		<u>3,148,000</u>
<b>Current assets:</b>		
Bank overdraft	70,000	
Furniture	870,000	<u>940,000</u>
		<u>4,088,000</u>

**Capital and liabilities:**

Net profit	450,000
Less drawings	<u>(100,000)</u>
	350,000

**Non current liabilities:**

Equipment	2,400,000
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**Current liabilities**

Inventory	117,000
Accounts receivable	365,000
Accounts payable	<u>280,000</u>
	762,000
	<u>576,000</u>
Suspense	<u>4,088,000</u>

Prepare a corrected statement of financial position as at 31 December 2016.

(7 marks)

- (b) The following information relates to the motor vehicles bought by Race Limited:

	Ksh
1 January 2014 Bought motor vehicle - Acet	900,000
1 January 2015 Bought motor vehicle - Benze	600,000
1 January 2016 Bought motor vehicle - Cetri	1,200,000

The firm depreciates its motor vehicles at the rate of 20% per annum on cost.

For each of the years: 2014, 2015 and 2016, prepare:

- (i) motor vehicles account.  
 (ii) provision for depreciation on motor vehicles account. (8 marks)

26. (a) Explain each of the following accounting concepts:

- (i) Going concern;  
 (ii) Business entity;  
 (iii) Dual aspect. (6 marks)



- (b) Toni Traders does not keep proper books of accounts. The following is a summarised cash book of the business for the year ended 31 December 2016.

<b>Cash book</b>			
	Ksh		Ksh
Sales	448,000	Purchases	16,000
Rent received	55,000	Salaries	250,000
		Office expenses	28,500
		Balance c/d	208,500
	<u>503,000</u>		<u>503,000</u>

Additional information:

	1 January 2016	31 December 2016
	Ksh	Ksh
Debtors	85,000	102,000
Creditors	--	122,000
Rent receivable prepaid	--	7,000
Office expenses owing	--	7,200
Furniture	90,000	81,000
Inventory	98,000	102,000

Prepare an income statement for the year ended 31 December 2016.

(9 marks)

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