

1903/106
1906/106
FINANCIAL ACCOUNTING
July 2018
Time: 3 hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL

**CERTIFICATE IN SUPPLY CHAIN MANAGEMENT
CERTIFICATE IN BUSINESS MANAGEMENT**

FINANCIAL ACCOUNTING

3 hours

INSTRUCTIONS TO CANDIDATES

The 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.

Show all your workings clearly.

Maximum marks for each part of a question are as shown.

Candidates should answer the questions in English.

This paper consists of 8 printed pages.

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

Answer ALL the questions in this section.

1. At the end of a certain trading period, the liabilities and capital of KK Traders were Ksh 42,000 and Ksh 1,200,000, respectively. Determine the value of the assets. (1 mark)
2. State **two** uses of a trial balance. (2 marks)
3. State **two** types of errors that do not affect the agreement of a trial balance. (2 marks)
4. State **two** uses of a cash voucher. (2 marks)
5. Kweli Enterprises made the following credit purchases during the first week of January 2018:

			Ksh
January 2 nd	Jane		28,000
3 rd	Victor		16,000
4 th	Mugwe		11,000

- Prepare a purchases day book. (2 marks)
6. The marked price of a book is Ksh 2,000. A cash discount of 2% is allowed. Ali bought two books. Determine the amount of money he paid. (2 marks)

$$\frac{2}{100} \times 2000 = 40$$

$$2000 - 40 = 1960$$
 7. Highlight **two** benefits of using a petty cash book. (2 marks)
 8. State the meaning of each of the following terms:
 - (i) Unpresented cheques;
 - (ii) Uncredited cheques. (2 marks)
 9. On 1 November 2017, the sales ledger control account of Masani Enterprises had a debit balance of Ksh 60,000. The cash received from debtors during the month was Ksh 83,000 while the closing balance of debtors was Ksh 85,000. Determine the credit sales for the month. (2 marks)
 10. State the meaning of each of the following accounting concepts:
 - (i) Money measurement concept;
 - (ii) Historical cost concept. (2 marks)

- 11. On 1 January 2016, a motor vehicle was bought by a firm for Ksh 1,200,000. Depreciation on motor vehicles is provided for at the rate of 25% per annum on the reducing balance method. Calculate the depreciation charged for each of the years 2016 and 2017. (2 marks)
- 12. State the difference between a prepaid expense and an accrued expense. (2 marks)
- 13. List **two** basis of classifying an expense as either capital expenditure or revenue expenditure. (2 marks)
- 14. During the month of July 2017, subscriptions of Ksh 27,000 were received by Daima Social Club. Expenses for the month totalled Ksh 19,500. The club donated Ksh 12,000 to a children's home. Determine the club's surplus or deficit for the month. (3 marks)
- 15. The following extracts were obtained from the income statement of Mambo Traders for the year ended 30 June 2018:

	Ksh
Discounts received	14,500
Expenses paid	55,600
Gross profit	281,100

Handwritten notes:
 27,000
 27,000 - 19,500 = 7,500
 27,000 - 12,000 = 15,000

Determine the net profit. (2 marks)

- 16. Leo Traders made sales that had cost Ksh 550,000. The gross profit was Ksh 28,000. Determine the amount of sales. (2 marks)

- 17. On 1 January 2017, the capital of Mwenda Traders was Ksh 280,000. During the year, drawings amounted to Ksh 14,000 while the net profit was Ksh 360,000. Determine the capital as at 31 December 2017. (2 marks)

- 18. Classify each of the following items as either current assets or non-current assets:
 - (i) Plant and equipment;
 - (ii) Inventories;
 - (iii) Premises;
 - (iv) Prepaid insurance.
 (2 marks)

- 19. The following information relates to the rates expense of Moshi Traders:

	Ksh
Prepaid rates on 1 January 2018	6,000
Rates paid during the month	24,000
Rates owing on 31 January 2018	10,000

Prepare the rates expense account. (2 marks)

Handwritten note:
 90
 27,000
 27,000

Handwritten note:
 90
 27,000

Handwritten note:
 27,000
 27,000

20. The following ledger account balances relate to Jambo Traders as at 31 January 2018. easyvet.com

	Ksh
Furniture	52,000
Sales	718,700
Purchases	732,900
Capital	66,200

Prepare a trial balance as at 31 January 2018. (2 marks)

SECTION B (60 marks)

Answer any FOUR questions from this section.

21. (a) Explain **three** qualifications of good accounting information. (6 marks)

(b) The following relates to Pakewa Traders for the month of October 2017:

	Ksh
Balances as at 1 October 2017:	
Cash in hand	46,600
Cash at bank	92,400
Accounts payable:	
Allan	54,000
Flora	35,536
Accounts receivable:	
Mary	12,000

Transactions during the month:

- October 4 Mary settled her account in cash, less a 3% cash discount. *3/100 X 12000*
- 8 Paid Allan his account by cheque, less a 2.5% cash discount.
- 10 Cash sales amounted to Ksh 15,000.
- 17 Paid Ksh 10,000 in cash for office expenses.
- 18 Paid Flora her account in full by cheque.
- 20 Sold goods for Ksh 28,300 and received a cheque.
- 31 Deposited Ksh 30,000 from the cash till into the bank account.

Prepare a three-column cash book. (9 marks)

22. (a) Explain the use of each of the following books of original entry:

- (i) Cash book;
- (ii) Sales day book;
- (iii) Returns outwards day book.

(6 marks)

(b) Randa Enterprises operates a petty cash on the imprest system. The monthly cash float is Ksh 15,000. Re-imburement is done on the first day of each month. On 1 September 2017 the petty cashier had Ksh 3,200 in hand. The following transactions took place during the month:

September 3	Paid Steve Ksh 600 for the supply of milk.
6	Paid Smark Bookshop Ksh 800 for the supply of photocopying papers.
10	Bought tea leaves for Ksh 150.
13	Bought sugar for Ksh 450.
16	Paid Ksh 1,200 for taxi services.
22	Bought envelopes for Ksh 200.
26	Paid Joash, a creditor, Ksh 2,000.
30	Bought new tea cups for Ksh 4,000.

Prepare a petty cash book using the following analysis columns:

- Staff welfare
- Stationery
- Transport
- Miscellaneous

(9 marks)

23. (a) The following information relates to Zaidi Traders for the month of April 2018:

	Ksh
Accounts receivable balances: 1 April 2018	415,000
Credit sales	910,000
Cheques received from debtors	717,000
Returns inwards	40,000
Cash received from debtors	540,000

Prepare sales ledger control account.

(7 marks)

(b) The trial balance of Express Traders prepared on 31 December 2016 did not balance. The debit side exceeded the credit side by Ksh 8,200. The difference was posted to a suspense account. On investigations, the following errors were revealed:

- (I) A cheque of Ksh 85,000 received from Bahati had not been entered in the cash book.
- (II) Furniture valued at Ksh 33,200 brought to the business from private use, had not been recorded in the books of account.
- (III) Returns outwards of Ksh 40,000 had been credited in the returns inwards account.
- (IV) A computer bought for Ksh 90,000 had not been entered in the cash book.
- (V) Rent account had been overstated by Ksh 3,200.

Prepare:

- (i) journal entries to correct the errors above;
- (ii) a suspense account.

(8 marks)

24. (a) The following balances were extracted from the books of account of Mwanzo Enterprises for the year 2017:

	Ksh
Equipment	177,000
Capital	261,300
Net profit	83,000
Inventory	31,200
Drawings	27,500
Accounts payable	33,200
Cash in hand	45,000
Cash at bank	68,400
Accounts receivable	24,900
Prepaid rent	3,500

Prepare a statement of financial position as at 31 December 2017.

(6 marks)

- (b) The following is the cash book and the bank statement of Delta Enterprises for the month of July 2017:

Receipts	Cash book (Bank column)		Payments
2017	Ksh	2017	Ksh
July 1 Balance b/f	205,100	July 7 Patrick	23,200
12 Nixon	16,500	18 Esther	29,000
17 Ben	26,000	25 Ann	17,800
22 Charles	<u>24,400</u>	31 Balance c/f	<u>202,000</u>
	<u>272,000</u>		<u>272,000</u>

Bank statement as at 31 July 2017:

	Dr. Ksh	Cr. Ksh	Balance Ksh
July 1			205,100
10 Patrick	23,200		181,900
15 Nixon		16,500	198,400
20 Esther	29,000		169,400
27 Dividends		28,000	197,400
30 Standing order	44,000		153,400
30 Bank charges	28,000		125,400

Prepare a bank reconciliation statement as at 31 July 2017. (9 marks)

25. (a) Explain **three** factors that may cause depreciation on non-current assets. (6 marks)
- (b) Kalaka started a business on 1 January 2017 with a capital of Ksh 200,000 in cash. The following transactions took place during the month:

January:

- 2 Bought a computer for Ksh 50,000 in cash.
- 8 Opened a business bank account and deposited Ksh 80,000 of the cash.
- 16 Purchased goods for Ksh 35,000, paying by cheque.
- 24 Took goods costing Ksh 2,100 from the business for personal use.
- 31 Made cash sales amounting to Ksh 8,500.

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

(9 marks)

26. (a) The following are the expenditures incurred by Quest Traders for the month of March 2017:

	Ksh
Salaries	220,000
Purchase of land	810,000
Painting of a new building	20,000
Purchases of goods for resale	168,000
Purchase of plant	310,000
Electricity	10,000

Determine the:

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

(8 marks)

(b) The following information relates to Tanga Golf Club for the month of March 2018:

- (I) Subscriptions received from the members amounted to Ksh 200,000.
- (II) Salaries of Ksh 70,000 were paid
- (III) Refreshments costing Ksh 60,000 were purchased.
- (IV) Ksh 500,000 was realized from a fundraiser.
- (V) The fund raising expenses were Ksh 240,000.
- (VI) The canteen purchases and sales were Ksh 940,000 and Ksh 1,500,000, respectively.
- (VII) The canteen general operating expenses totalled Ksh 20,000.

Prepare:

- (i) canteen trading profit and loss account.
- (iii) Tanga Golf Club income and expenditure account.

(7 marks)

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