

1903/106  
1906/106  
FINANCIAL ACCOUNTING  
July 2019  
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 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. The following trial balance of Marafiki Traders prepared on 30 June 2019 failed to balance.

**Marafiki Traders**  
Trial Balance  
As at 30 June 2019

	Dr	Cr
	Ksh	Ksh
Fixed assets		250,000
Purchases	8,000	
Sales		120,000
Creditors		45,000
Debtors		82,000
Capital	<u>247,000</u>	<u>          </u>
	<u>327,000</u>	<u>497,000</u>

Prepare a corrected trial balance as at 30 June 2019. (3 marks)

3. Outline **two** advantages of using a petty cash book in a business organization. (2 marks)
4. The following information relates to Kaka Traders:

	Ksh
Capital	455,111
Liabilities	342,912

Determine the value of assets. (1 mark)

5. State the book of original entry prepared from each of the following source documents:

Source document	Book of original entry
(i) Incoming invoice	
(ii) Outgoing debit note	

(2 marks)

6. State **two** errors that do not affect the agreement of a trial balance. (2 marks)

7. On 1 January 2019, Nera Traders had cash in hand of Ksh 8,000 and cash at bank of Ksh 60,000. During the month, the following transactions took place.

2019

- January 18 Settled the account of Shuma Traders of Ksh 17,000 by cheque, less Ksh 2,000 cash discount.  
31 Received Ksh 22,800 in cash from Jane, after allowing a 5% cash discount.

Prepare a three column cash book for the month of January 2019. (3 marks)

8. The following information was obtained from the books of account of Mbara Traders as at 30 June 2019.

	Ksh
Cash book balance (Dr)	734,000
Unpresented cheques	256,000
Cheques received by the bank but not yet credited in the account of Mbara Traders.	115,000
Balance as per bank statement (Dr)	875,000

Prepare a bank reconciliation statement as at 30 June 2019. (2 marks)

9. Highlight **three** items that appear on the credit side of sales ledger control account. (3 marks)

10. Classify each of the following expenses as either, revenue expenditure or capital expenditure:

- (i) Purchase of machinery
- (ii) Petrol cost for motor vehicle.
- (iii) Painting of a new building;
- (iv) Repairs to motor vehicle.

(2 marks)

11. State **two** accounting concepts. (2 marks)

12. State the difference between straight line method and reducing balance method of depreciation. (2 marks)

13. The opening capital of a business was Ksh 16,588 while the drawings during the year were Ksh 3,400. Determine the amount of capital as at the end of the year. (2 marks)

14. State the meaning of the term, 'accrued expense' as used in accounting. (1 mark)

15. The following balances were extracted from the books of account of Sila Traders as at 31 December 2018.

	<b>Ksh</b>
Gross profit	400,000
Salaries	160,000
Discounts received	16,000
Discounts allowed	30,000

Determine the net profit for the year ended 31 December 2018. (2 marks)

16. From the following transactions, state the account to be debited and the account to be credited.

(i) Started a business with cash in the bank, Ksh 1 million.

(ii) Took cash, Ksh 20,000 from the business to pay hospital bill for his family.

(2 marks)

17. Differentiate between the terms 'surplus' and 'deficit', as used in income and expenditure account.

(2 marks)

18. State **two** uses of control accounts in a business organization.

(2 marks)

19. Classify each of the following accounts as either, real account or nominal account.

(i) Delivery van account.

(ii) Purchases account.

(2 marks)

20. State the use of a debit note.

(1 mark)

## SECTION B (60 marks)

Answer any **FOUR** questions from this section.

21. The following balances were extracted from the books of account of Mbili Traders on 31 December 2018:

	<b>Ksh</b>
Opening stock	60,000
Equipment at cost	125,000
Purchases	161,000
Sales	208,000
Discounts received	7,500
Returns outwards	25,000
Returns inwards	27,000
Salaries	22,000
Telephone expenses	5,000
Water bill	2,100
Creditors	15,000
Electricity	2,000
Insurance	1,000

Additional information:

- As at 31 December 2018:

	<b>Ksh</b>
- Stock	72,000
- Prepaid telephone expenses	1,100
- Outstanding water bill	1,300

- Depreciation on equipment is provided at 10% per annum.
- Prepare income statement for the year ended 31 December 2018.

(15 marks)

22. (a) On 1 January 2019, Chaka Traders had Ksh 100,000 cash in hand and Ksh 150,000 cash at bank. The following transactions took place during the month:

- January 2 Bought goods for Ksh. 15,000 in cash.
- 4 Paid salaries amounting to Ksh 75,000 in cash.
- 5 Received a cheque of Ksh 9,800 from Mark, after allowing a 2% cash discount.
- 8 Settled Jera Traders account of Ksh 30,000, less Ksh 1,500 cash discount.
- 12 Bought machinery for Ksh 50,000, paying by cheque.
- 20 Took Ksh 10,000 from the cash till for personal use.
- 31 Cash sales amounted to Ksh 70,000.

Prepare a three-column cash book for the month of January 2019. (9 marks)

(b) A motor van was bought on 1 January 2017 for Ksh 1,000,000. Depreciation is provided for at the rate of 10% per annum, on reducing balance method. Determine, the amount of depreciation expense for each of the years: 2017 and 2018. (6 marks)

23. (a) Mambo Traders has not been keeping proper business records. However, the following information has been made available for the year ended 31 December 2018.

(i) Balances as at:

	1 January 2018	31 December 2018
	Ksh	Ksh
Debtors	142,780	123,330
Creditors	56,240	76,330

- (ii) Receipts from debtors during the year amounted to Ksh 317,450
- (iii) Payments to creditors during the year amounted to 172,700.
- (iv) Cash sales for the year amounted to Ksh 96,300.

(i) Assess credit:

- (I) sales, by preparing total debtors control account.
- (II) purchases, by preparing total creditors control account.

(ii) Determine the amount of sales to be recorded in the income statement for the year ended 31 December 2018.

(9 marks)

- (b) The following information was obtained from the books of account of Wanda Traders for the month of January 2019.

	<b>Ksh</b>
January 1, sales ledger balance	48,490 (Dr.)
Credit sales for the month	490,000
Returns inwards	12,560
Cheques received from debtors	450,000
Discounts allowed	14,000
January 31, sales ledger balance	61,930 (Dr.)

Prepare sales ledger control account.

(6 marks)

24. The following balances were extracted from the books of account of Karama Enterprises for the year ended 31 December 2018:

	<b>Ksh</b>
Capital	283,200
Drawings	8,000
Cash at bank	20,000
Machinery	360,000
Debtors	42,700
Creditors	20,000
Gross profit	250,000
Carriage outwards	5,000
Rent	18,000
Salaries and wages	50,000
General expenses	14,500

Stock as at 31 December 2018 was valued at Ksh 35,000.

Prepare:

- (a) income statement for the year ended 31 December 2018.  
(b) statement of financial position as at 31 December 2018.

(15 marks)

25. (a) Timu Traders maintains a petty cash book on an imprest system, with a float of Ksh 25,000. Reimbursement is made on the first day of each week.

The following payments were made during the first week of April 2018:

		Ksh
April 1	Envelopes	800
2	Rulers	700
3	Sugar	2,500
4	Tea leaves	1,800
4	Printing papers	2,000
5	Postage stamps	9,000

Prepare a petty cash book, using the following analysis columns:

- Staff tea
- Stationery
- Postage.

(9 marks)

- (b) Explain **three** qualities of a good financial statement.

(6 marks)

26. (a) The following transactions relate to Apex Traders for the month of May 2019:

May 3	Sold goods for Ksh 60,000 to Ayimba on credit.
22	Sold goods for Ksh 150,000 to Malala Retailers on credit.
24	Ayimba returned goods worth Ksh 10,000.
30	Sold goods for Ksh 9,000 to Ramba Stores on credit.

Prepare:

- (i) sales journal;
- (ii) returns inwards journal.

(7 marks)



- (b) The following account was obtained from the books of Haraka Football Club for the year ended 31 December 2018.

HARAKA FOOTBALL CLUB					
Receipts and Payments Account					
Receipts		For the year ended 31 December 2018		Payments	
	Ksh		Ksh		Ksh
Balance b/d	160,000	Purchase of equipment	125,000		
Collections from matches	1,650,000	Rent for football pitch	300,000		
Sales of refreshments	280,000	Purchase of refreshments	230,000		
		Printing of stationery	165,000		
		Secretary's expenses	144,000		
		Repairs to equipment	146,000		
		Players' allowances	300,000		
		Miscellaneous expenses	266,000		
		Balance c/d	<u>414,000</u>		
	<u>2,090,000</u>				<u>2,090,000</u>

Additional information:

- As at 1 January 2018, the equipment was valued at Ksh 1,000,000.
  - Equipment is depreciated at 20% per annum on cost.
- (i) Prepare income and expenditure account for the year ended 31 December 2018.
- (ii) Based on the results in (i) above, advise the management on whether to continue running the club or not.

(8 marks)

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