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FINANCIAL ACCOUNTING

November 2018

Time: 3 hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL

**DIPLOMA IN SUPPLIES CHAIN MANAGEMENT
DIPLOMA IN BUSINESS MANAGEMENT
DIPLOMA IN PROJECT MANAGEMENT
DIPLOMA IN MARITIME TRANSPORT MANAGEMENT
DIPLOMA IN CO-OPERATIVE MANAGEMENT
DIPLOMA IN ENTREPRENEURSHIP
DIPLOMA IN HUMAN RESOURCE MANAGEMENT**

MODULE I

FINANCIAL ACCOUNTING

3 hours

INSTRUCTIONS TO CANDIDATES

This paper consists of SEVEN questions.

Answer any FIVE questions 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.

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Turn over

1. (a) Explain each of the following terms as used in accounting:

- (i) accruals concept;
- (ii) going concern concept;
- (iii) dual aspect concept;
- (iv) monetary unit concept.

(8 marks)

(b) On 31 December 2017, the trial balance of Watimo Traders did not balance. The difference of Ksh. 39,090 was placed on the credit side of the suspense account. On the comparison, the following errors were revealed.

- (I) A cash sale of Ksh. 35,328 was recorded as ksh. 35,238 in the sales account.
- (II) The purchases account had been overcast by Ksh. 24,000.
- (III) A discount received of Ksh. 41,000 had been wrongly debited on the discount received account.
- (IV) A credit sale of Ksh. 121,200 had been recorded as Ksh. 112,200 in the debtors account.
- (V) A bill of Ksh. 17,000 paid for electricity was not recorded in the electricity account.
- (VI) Discounts allowed account had been understated by Ksh. 11,000.
- (VII) The bank account was understated by Ksh. 20,000.
- (VIII) A payment of Ksh. 5,000 to a supplier had been credited to the supplier's account.

Prepare:

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

(12 marks)

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November 2018

2. (a) Explain **four** features of the straight line method of depreciation. (8 marks)
- (b) The following is the receipts and payment account for Hunnah Club for the year ended 31 December 2017.

Receipts		Payments	
	Ksh.		Ksh.
Member's subscriptions	382,000	Stationery	15,000
Donations	1,740,000	Electricity	42,000
Bar sales	210,000	Salaries and wages	610,000
		Rent	240,000
		Furniture	300,000
		Bar purchases	35,200
		Balance c/d	<u>1,089,800</u>
	<u>2,332,000</u>		<u>2,332,000</u>

Balances as at:

	1 January 2017	31 December 2017
	Ksh.	Ksh.
Prepaid subscriptions	-	30,000
Accrued subscription	60,100	10,000
Bar stock	22,500	38,300
Rent	-	20,000

For the year ended 31 December 2017, prepare:

- (i) subscriptions account;
(ii) bar trading account;
(iii) income and expenditure account.

(12 marks)

3. (a) The following balances were extracted from the books of account of Yeven Traders as at 1 April 2018.

	Ksh.
Sales ledger balances:	848,000 Dr. 140,500 Cr.
Purchases ledger balances:	100,000 Dr. 600,500 Cr.

During the month, the following transactions took place.

	Ksh.
Credit sales	1,358,000
Cash received from debtors	720,000
Cheques paid to suppliers	420,000
Returns inwards	15,000
Returns outwards	30,000
Cheques received from customers	108,000
Cash paid to suppliers	105,000
Dishonoured cheques from customers	22,000
Credit purchases	850,000
Interest on overdue debts charged by suppliers	43,000

Balances as at 30 April 2018:

	Ksh.
Sales ledger balances:	150,000 Cr.
Purchases ledger balances:	70,300 Dr.

Prepare:

- (i) Sales ledger control account;
- (ii) Purchases ledger control account.

(9 marks)

- (b) On 5 March 2018, the petty cashiers of Janalo Enterprises was given a cash float of Ksh. 15,000. The cash is reimbursed at the end of each week. The petty cashier made the following payments during the week.

- March 5 Bought stamps for Ksh. 1,400
- 5 Bought mobile phone airtime for Ksh. 2,100
- 6 Bought sugar for Ksh. 250
- 6 Paid a credit for an amount of Ksh. 4,000
- 7 Paid Ksh. 120 for a registered mail
- 7 Bought tea leaves for Ksh. 60
- 8 Bought printing papers for Ksh. 820

Prepare a petty cash book using the following analysis columns:

- Postage
- Telephone
- Beverage
- Stationery
- Ledger account.

(11 marks)

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

- (i) credit note;
- (ii) invoice;
- (iii) quotation;
- (iv) delivery note.

(8 marks)

- (b) On 31 March 2018, the cash book (bank column) of Akisha Ventures had a debit balance of Ksh. 335,100 while the bank statement had a credit balance of Ksh. 122,450 on the same date.

Upon comparison, the following discrepancies were revealed:

- (I) A cheque of Ksh. 140,200 received from a debtor had been dishonoured by the bank.
- (II) A dividend received of Ksh. 2,400 had been reflected in the bank statement only.
- (III) A standing order payment of Ksh. 15,000 had been made by the bank.
- (IV) Cheques issued to suppliers amounting to Ksh. 21,000 had not been presented to the bank for payment.
- (V) A commission of Ksh. 550 had been charged by the bank for services rendered.
- (VI) Cheques received from Timothy and Jane of Ksh. 70,300 and Ksh. 10,000 respectively, had not yet been credited by the bank.

Prepare:

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

(12 marks)

5. (a) Explain the information needs of each of the following users of financial statements:

- (i) shareholders;
- (ii) management;
- (iii) employees;
- (iv) lenders.

(8 marks)

- (b) On 1 April 2018, Viumax Limited had a cash balance of Ksh. 100,000 and a bank overdraft of Ksh. 25,000.

The following transactions took place during the month of April 2018.

- April 2 Sold goods for Ksh. 270,000 in cash.
 4 Paid Ksh. 4,000 for electricity in cash.
 6 Took Ksh. 200,000 from the cash till and deposited into the business bank account.
 8 Settled Amina's account of Ksh. 42,500, less 2% cash discount by cheque.
 12 Received a cheque of Ksh. 5,000 for dividends.
 18 Received Ksh. 54,000 in cash from Mary after allowing a cash discount of 10%.
 28 Received a cheque of Ksh. 70,000 from Babu.
 29 Paid Ksh. 41,000 by cheque to Limah after deducting a cash discount of Ksh. 837.
 30 Paid Ksh. 25,000 for rent in cash.
 30 Received Ksh. 16,000 from Juma in cash.

Prepare a three column cash book for the month of April 2018. (12 marks)

6. (a) The following expenditure relates to Fikasa Limited for the month of February 2018.

	Ksh.
Purchase of furniture	378,100
Repainting of the office	110,200
Purchase of stationery	39,800
Purchase of equipment	105,700
Construction of warehouse	498,100
Purchase of goods	201,600

Determine the:

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

(8 marks)

- (b) The following balances were extracted from the books of accounts of Tella Enterprises as at 31 December 2017.

	Ksh.
Furniture at cost	2,800,000
Provision for depreciation on furniture (1 January 2017)	1,120,000
Sales	5,744,500
Cash	301,100
Accounts receivable	2,400,000
Accounts payable	1,400,200
Purchases	2,201,000
Discounts allowed	53,100
Returns outwards	50,200
Discounts received	30,000
General expenses	1,428,700
Capital	1,139,000
Inventory (1 January 2017)	300,000

Additional information:

- (i) The inventory as at 31 December 2017 was Ksh. 653,400.
- (ii) A provision for doubtful debts of 5% is to be created.
- (iii) Depreciation on furniture is 20% per annum on cost.

Prepare:

- (I) an income statement for the year ended 31 December 2017.
- (II) a statement of financial position as at 31 December 2017.

(12 marks)

7. (a) Rambli owns a grocery shop but has lost the records of the inventory as at 31 December 2017. The following information is available for the year ended 31 December 2017.

	Ksh.
Expenses	15,876
Inventory (1 January 2017)	40,000
Purchases	90,200
Returns outwards	10,000
Sales	90,720

The cost of goods sold is 62.5% of sales.

Prepare an income statement for the year ended 31 December 2017. (8 marks)

- (b) The following transactions relate to Miromax Enterprises for the month of February 2018.

February

- 2 The proprietor started a business with Ksh. 400,000 in the business bank account.
- 8 Bought goods for Ksh. 145,000 from Pato Traders on credit.
- 10 Sold goods for Ksh. 170,000 to Halima on credit.
- 16 Paid Ksh. 18,000 for electricity by cheque.
- 18 Sold goods for Ksh. 37,000 in cash.
- 20 Received a cheque of Ksh. 98,000 from Halima.
- 24 Paid Ksh. 40,000 to Pato Traders by cheque.
- 28 Bought goods for Ksh. 19,000 in cash.

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

(12 marks)

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