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**FINANCIAL ACCOUNTING**

**November 2022**

**Time: 3 hours**



**THE KENYA NATIONAL EXAMINATIONS COUNCIL**

**DIPLOMA IN SUPPLY CHAIN MANAGEMENT  
DIPLOMA IN DISASTER MANAGEMENT  
DIPLOMA IN BUSINESS MANAGEMENT  
DIPLOMA IN PROJECT MANAGEMENT  
DIPLOMA IN MARITIME TRANSPORT MANAGEMENT  
DIPLOMA IN CO-OPERATIVE MANAGEMENT  
DIPLOMA IN ENTREPRENEURSHIP  
DIPLOMA IN INVESTMENT MANAGEMENT  
DIPLOMA IN ROAD TRANSPORT MANAGEMENT  
DIPLOMA IN HUMAN RESOURCE MANAGEMENT  
DIPLOMA IN BROADCAST JOURNALISM**

**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 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.**

1. (a) Explain each of the following source documents:

- (i) credit note; (2 marks)
- (ii) debit note; (2 marks)
- (iii) Local Purchase Order (LPO); (2 marks)
- (iv) invoice. (2 marks)

(b) The following is the cash book (bank column) of Maria Traders for the month of April 2022.

<b>CASH BOOK</b>			
	Ksh		Ksh
Balances b/d (1 April 2022)	561,000	Payments	4,189,000
Receipts	<u>3,748,000</u>	Balance c/d (30 April 2022)	<u>120,000</u>
	<u>4,309,000</u>		<u>4,309,000</u>

Upon comparison of the cash book and the bank statement issued on 30 April 2022, the following discrepancies were revealed.

- (I) Bank charges amounted to Ksh. 8,000.
- (II) Cheques received for Ksh. 521,000 had not been credited by the bank.
- (III) Cheques amounting to Ksh. 96,000 had not been presented to the bank.
- (IV) Direct deposits to the bank amounted to Ksh. 42,000.
- (V) A cheque of Ksh. 17,000 had been dishonoured by the bank.
- (VI) The opening balance in the cash book should have been Ksh. 651,000.

Prepare:

- (i) an updated cash book;
- (ii) a bank reconciliation statement as at 30 April 2022.

(12 marks)

2. (a) The following information relates to expenditure incurred by Doka Limited for the year 2021.

	Ksh
c Installation of CCTV cameras	400,000
c Salaries and wages	2,100,000
c Painting a new building	220,000
p Advertisement	180,000
r Repair and maintenance	60,000
c Development of a website	240,000
c Extension of a warehouse	750,000
p Fuel and electricity	600,000
r Insurance	380,000
r Office expenses	460,000
f Selling and distribution costs	320,000
Auditor's fees	280,000

Calculate the total:

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

(8 marks)

- (b) On 1 January 2022, Amani Traders commenced business with Ksh. 700,000 at the bank and Ksh. 340,000 cash in hand.

During the month of January, 2022, the following transactions took place.

2022

- January 2 Bought goods worth Ksh. 400,000 paying by cheque.  
4 Sold goods worth Ksh. 150,000 in cash.  
10 Took Ksh. 30,000 from the cash till for personal use.  
15 Sold goods worth Ksh. 200,000 and received a cheque.  
24 Withdrew Ksh. 150,000 from the bank for business use.  
30 Transferred Ksh. 16,000 from personal savings account into the business cash account.  
31 Deposited all the cash into the bank except Ksh. 300,000.

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1106 000

5750 000

- (i) Prepare ledger accounts to record the transactions above;
- (ii) Balance of the ledger accounts in (i) above.

(12 marks)

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

- (i) consistency concept; (2 marks)
- (ii) materiality concept; (2 marks)
- (iii) accrual concept; (2 marks)
- (iv) going-concern concept. (2 marks)

(b) The following is the statement of financial position of Kendo Enterprises as at 1 January 2022.

	<b>Ksh.</b>
Non current assets	1,048,000
Current assets	
Inventory	174,000
Accounts receivable	200,000 <sup>130 000</sup>
Cash at bank	540,000 <sup>640 000</sup>
Cash in hand	130,000 <sup>200 000</sup>
	<u>1,044,000</u> <sup>219 6000</sup>
	<b><u>2,092,000</u></b>
Liabilities and capital	
Capital	1,835,000
Medium term liability - Loan -	97,000
Current liability - Accounts payable	<u>160,000</u> <sup>65 000</sup>
	<b><u>2,092,000</u></b>

During the month of January 2022, the following transactions took place:

- (i) Sold goods whose cost was Ksh. 60,000 for Ksh. 72,000 and received cash.
- (ii) Furniture valued at Ksh. 90,000 was sold for Ksh. 102,000 and received a cheque.
- (iii) Received a cheque of Ksh. 70,000 from a debtor.
- (iv) Paid a creditor Ksh. 95,000 in cash.

Prepare a statement of financial position after effecting the transactions above.

(12 marks)

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4. (a) Talim Traders operates a petty cash book on an imprest system. On 5 March 2021, the petty cashier had Ksh. 1,200 cash in hand. On the same date, the main cashier reimbursed the petty cashier to restore the weekly cash float of Ksh. 5,000. During the week, the petty cashier made the following payments.

March 6	Photocopy papers	Ksh. 1,200
7	Motor vehicle mechanic	Ksh. 1,000
8	Milk	Ksh. 120
8	Printing papers	Ksh. 800
10	Engine oil	Ksh. 1,200
12	Sugar	Ksh. 200

*note: Details regarding stationery motor vehicle gear tea*

Prepare a petty cash book using the following analysis columns:

- stationery;
- motor vehicle repairs;
- staff tea.

(8 marks)

- (b) The trial balance of Kimeu Traders as at 30 April, 2022 failed to agree. The debit side exceeding the credit side by Ksh. 84,260. Upon investigations, the following errors were revealed.

- (i) Furniture bought for Ksh. 32,000 had been debited to repairs to furniture account.
- (ii) Discounts allowed account had been undercast by Ksh. 3,680.
- (iii) Discounts received Ksh. 7,940 had not been posted from the cash book.
- (iv) Bank charges of Ksh. 760 had not been recorded in the books.
- (v) An amount of Ksh. 1,600 received from John, a customer, had been credited to Jane's account.
- (vi) A purchase of an office machine for Ksh. 57,200 from Wangu Limited had been debited in her account and credited in office machine account.
- (vii) A loan of Ksh. 40,000 from KCM bank had been debited to the loan account.

Prepare a:

- (I) general journal to correct the errors above;
- (II) suspense account, duly balanced.

(12 marks)

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5. (a) The following transactions relate to Keli Traders for the month of February 2022.

2022

- February 1 Purchased goods for Ksh. 120,000 on credit from Bano Enterprises.  
✓12 Sold goods amounting to Ksh. 240,000 on credit to Tawani Traders.  
13 Purchased goods for Ksh. 80,000 on credit from Mali Traders.  
✓14 Sold goods for Ksh. 120,000 on credit to Fatuma.  
25 Purchased goods for Ksh. 60,000 on credit from Bano Enterprises.  
26 Returned goods for Ksh. 30,000 to Bano Enterprises.  
27 Returned goods for Ksh. 20,000 to Mali Traders.  
28 Fatuma returned goods costing Ksh. 30,000.

Prepare:

- (i) purchases journal;  
(ii) sales journal;  
(iii) returns outwards journal;  
(iv) returns inwards journal.

(8 marks)

- (b) On 1 June 2022, Lexy Enterprises had Ksh. 80,000 cash in hand and Ksh. 320,000 at bank. During the month, the following transactions took place.

- June 2 Purchased goods for Ksh. 150,000 paying by cheque.  
4 Sold goods for Ksh. 130,000 in cash.  
10 Withdrew Ksh. 60,000 from the bank for office use.  
14 Received dividends of Ksh. 5,000 by cheque.  
18 Took Ksh. 10,000 from the cash till for personal use.  
30 Deposited Ksh. 50,000 from the cash till into the bank.

Prepare a two-column cash book for the month of June 2022

(12 marks)

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6. (a) Highlight four differences between a receipts and payments account and an income and expenditure account. (8 marks)

(b) The following information relates to the motor vehicles owned by Maxy Limited for the years ended 31 December 2019, 2020 and 2021.

(i) Motor vehicle	Date of Acquisition	Cost
KZA	1 January 2019	500,000
KZB	1 July 2019	820,000
KZC	1 January 2020	640,000
KZD	1 July 2020	750,000
KZE	1 July 2021	580,000
(ii) Motor vehicle	Date of disposal	Disposal Price
KZA	31 December 2020	350,000
KZC	30 June 2021	420,000

The firm depreciates motor vehicles at the rate of 20 percent per annum using the reducing balance method on pro rata basis.

For the years ended 2019, 2020 and 2021, prepare:

- (i) Motor vehicles account;
- (ii) Accumulated provision for depreciation on motor vehicles account;
- (iii) Motor vehicles disposal account.

(12 marks)

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7. (a) Explain **four** uses of control accounts. (8 marks)
- (b) The following balances were extracted from the books of account of Pinky Traders as at 31 December 2021.

	Ksh.
Sales	2,200,000
Returns inwards	40,000
Returns outwards	25,000
Purchases	1,000,000
Salaries	320,000
Insurance	140,000
Electricity	12,000
Rent expense	80,000
Discounts allowed	10,000
Discounts received	12,000
Depreciation	24,000
Bad debts written off	3,000
General expenses	50,000
Inventory (1 January 2021)	420,000
Provision for doubtful debts (1 January 2021)	20,000

Additional information:

- (i) As at 31 December 2021:
- (I) Inventory was valued at Ksh. 295,000.
  - (II) Unexpired insurance amounted to Ksh. 30,000.
  - (III) Unpaid rent was Ksh. 20,000.
  - (IV) Actual salaries amounted to Ksh. 140,000.
- (ii) Increase the provision for doubtful debts by 5%.

Prepare an income statement for the year ended 31 December 2021.

(12 marks)

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