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**FINANCIAL ACCOUNTING**

**July 2023**

**Time: 3 hours**



**THE KENYA NATIONAL EXAMINATIONS COUNCIL**

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

**MODULE I**

**FINANCIAL ACCOUNTING**

**3 hours**

**INSTRUCTIONS TO CANDIDATES**

*This paper consists of SEVEN questions.*

*Answer any FIVE questions in the answer booklet provided.*

*Show all your workings.*

*Candidates should answer the questions in English.*

**This paper consists of 7 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 accounting concepts:

- (i) consistency concept;
- (ii) materiality concept;
- (iii) going concern concept;
- (iv) business entity concept.

(8 marks)

(b) The following transactions relate to Wachungwa Enterprises for the month of February 2023.

February

- 8 Bought goods for Ksh. 130,000 from Jason on credit
- 14 Sold goods for Ksh. 48,000 to Crepas on credit.
- 18 Bought goods for Ksh. 201,500 from ABC limited on credit.
- 20 Returned goods worth Ksh. 25,000 to Jason. .
- 24 Sold goods for Ksh. 140,000 to Wanjala on credit.
- 25 Returned goods worth ksh. 17,000 to ABC Ltd.
- 26 Sold goods for Ksh. 20,000 to Almas on credit.
- 27 Bought goods for Ksh. 50,000 from Jason on credit.
- 28 Sold goods for Ksh. 100,000 to Rose on credit.

Prepare the relevant journals to record the transactions above.

(12 marks)

2. (a) The following information relates to equipment owned by Wafulah Limited.

Equipment	Date of Purchase	Cost Sh.	Date of Disposal	Sale Proceeds Sh
WJX <sub>1</sub>	1 January 2021	500,000	1 July 2022	380,000
WJX <sub>2</sub>	1 January 2022	290,000	_____	

The company depreciates its equipment at 25% per annum on reducing balance.

A full year's charge is made in the year of disposal.

For each of the years ended 31 December 2021 and 2022.

Prepare:

- (i) equipment account;

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- (ii) accumulated provision for depreciation on equipment;
- (iii) disposal of equipment account.

(9 marks)

- (b) On 1 February 2023, Etifa Limited had Ksh. 200,000 cash in hand a bank overdraft of Ksh 150,000. The following transaction took place during the month.

February

- 7 Sold goods for Ksh. 30,800 and received a cheque.
- 10 Paid an electricity bill of Ksh.2,500 in cash.
- 14 Withdrew Ksh. 40,000 from the cash till for personal use.
- 27 Bought goods for Ksh. 20,000 and paid by cheque.
- 28 Received a cheque for Ksh. 43,000 from Amos.
- 28 Deposited all the cash into the bank except Ksh. 19,000

Prepare a two column cash book to record the transactions above.

(11 marks)

3. (a) The following is the trial balance of Safy Enterprises as at 31 December 2022.

Safy Enterprises		
Trial balance as at 31 <sup>st</sup> December 2022		
	Dr.	Cr.
	Ksh.	Ksh.
Land and buildings	2,720,000	
Accounts payable		93,968
Capital (1 January 2022)		1,500,000
Accounts receivable	220,001	
Furniture at cost	200,000	
Provision for accumulated Depreciation on furniture		99,366
Drawings	50,205	
5 year bank loan		2,000,000
Inventory (31 December 2022)	380,000	
Cash	42,500	
Net Loss	80,628	
	<u>3,693,334</u>	<u>3,693,334</u>

Prepare a statement of financial position as at 31 December 2022.

(12 marks)

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- (b) The following information relates to Swit Traders for the month of February 2023.

February	Ksh.
1 Purchases ledger balance	320,700 Cr. 1,824 Dr.
Totals for the month:	
Credit purchases	410,340
Credit notes received from suppliers	10,500
Debit notes received from suppliers	9,400
Cheques sent to suppliers	260,715
Cash discounts received	30,100
28 Purchases ledger balance	3,418 Dr.

Prepare a purchase ledger control account for the month of February 2023.

(12 marks)

4. (a) Explain **four** reasons for maintaining a petty cash book in a business organisation. (8 marks)

- (b) The following transactions relate to Jatix Limited for the month of February 2023.

February

- 1 Started business with Ksh. 150,000 in cash and Ksh. 40,000 in the bank account.
- 4 Bought goods for Ksh. 30,000 in cash.
- 7 Bought goods for Ksh. 48,000 from Zedy Supplies on credit.
- 13 Sold goods for Ksh. 25,000 and received a cheque.
- 15 Brought in personal computers valued at Ksh. 60,000 for business use.
- 19 Paid Zedy's suppliers in full settlement of their account by cheque of Ksh. 4,500.
- 26 Sold goods for Ksh. 50,000 in cash.

- (i) Prepare ledger accounts for the month of February 2023.

- (ii) Balance off the ledger accounts.

(12 marks)

5. (a) Explain each of the following business documents:

- (i) invoice;
- (ii) bill of exchange;
- (iii) debit note;
- (iv) time sheet.

(8 marks)

(b) On 31 December 2022, the trial balance of Kingah Enterprises failed to balance, the credit side exceeding the debit side by Ksh. 1,675. The difference was posted to the suspense account. Upon investigations, the following discrepancies were revealed:

- (I) A sale of goods for Ksh. 53,130 had been correctly recorded in the cash book but recorded as Ksh. 62,410 in the sales account.
- (II) The purchases account had been overcast by Ksh.13,305.
- (III) Cash received from a debtor of Ksh. 29,700 had been recorded in the cash book only.
- (IV) The opening balance in the bank account had been undercast by Ksh. 1000.
- (V) Discounts received of Ksh.5,120 had only been posted to the suppliers account.
- (VI) Rent paid Ksh. 20,000 had been credited to the rent income account.

Prepare:

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

(12 marks)

6. (a) Outline **four** reasons for making adjustments to final accounts. (8 marks)

(b) The following is the receipts and payments accounts for Saidi Social Club for the year ended 31 December 2022.

Receipts		Payments	
	Ksh		Ksh
Balance b/d	20,100	Equipment	50,000
Subscriptions	330,500	Bar purchases	23,200
Donations	200,000	Rent	110,000
		Salaries	320,000
		Electricity	4,500
		Balance c/d	<u>42,900</u>
	<u>550,600</u>		<u>550,600</u>

**Additional information**

Balance as at	1 January 2022	31 December 2022
	Ksh	Ksh
Bar stocks	40,000	28,000
Accounts payable	180,300	90,000
Accounts receivable	29,900	34,000
Accrued electricity	1,000	—
Equipment	210,000	220,015
Accrued subscriptions	105,240	70,050
Income and expenditure account	—	81,025

Prepare:

- (i) A statement of affairs as at 1 January 2022;
- (ii) A statement of financial position as at 31 December 2022.

(12 marks)

7. (a) Outline four features of capital expenditure. (8 marks)
- (b) On 31 January 2023 the cash book (bank column) of Mini Traders showed a debit balance of Ksh. 50,180 while the bank statement showed a debit balance of Ksh. 12,227 on the same date.

Upon investigations, the following discrepancies were revealed:

- (I) cheques amounting to Ksh 50,108 had not been presented for payment;
- (II) the bank had received dividends of Ksh 30,100 on behalf of the business;
- (III) the opening balance in the cash book had been overstated by Ksh. 10,000;
- (IV) A cheque for Ksh.60,050 received from a debtor had been dishonoured;
- (V) Bank charges amounted to Ksh. 14,220;
- (VI) The bank had effected a standing order payment for Ksh. 15,000;
- (VII) Uncredited cheques amounted to Ksh.43,345.

Prepare:

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

(12 marks)

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