

1903/106

1906/106

FINANCIAL ACCOUNTING

July 2016

Time: 3 hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL

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

FINANCIAL ACCOUNTING

3 hours

INSTRUCTIONS TO CANDIDATES*This 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.**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

SECTION A: (40 marks)*Answer ALL the questions in this section.*

1. State **three** errors that may be disclosed by the trial balance. (3 marks)
2. State **two** types of information that are included in an invoice. (2 marks)
3. Highlight **three** objectives of Financial Accounting. (3 marks)
4. The following balances relate to Peupe Enterprises as at 31 December 2014:

	Ksh
Electricity expenses	25,000
Land and buildings	4,000,000
Sales	1,500,000
Motor vehicle	2,000,000
Purchases	500,000
Capital	5,025,000

- Prepare a trial balance as at 31 December 2014. (3 marks)
5. Outline the meaning of a 'Statement of Affairs', as used in single entry book keeping and incomplete records. (1 mark)
 6. Highlight the use of a sales journal. (1 mark)
 7. Sarah has a debt of Ksh. 255,000 and she is entitled to a 5% cash discount for prompt payment. Sarah intends to take the discount if it is above Ksh. 13,000. Advise Sarah on whether to take the discount or not. (3 marks)
 8. Outline the term 'Imprest System' as used in petty cash payments. (1 mark)
 9. Given the following transactions undertaken by a firm:
 - (i) Tom returned goods to the business.
 - (ii) The business returned goods to Joshua.
 Identify the source document used for each of the transactions. (1 mark)
 10. Mobalo Enterprises instructed its bank to make regular payments on 5th of every month to Jesica, the firm's landlady. State the type of document to be used by Mobalo Enterprises in this case. (1 mark)

11. The following information relates to Pembe Traders for the year ended 31 December 2014:

	Ksh.
Gross profit	987,500
Rent expenses	212,500
Other expenses	645,000
Commission received	120,000

- Determine the net profit for the year 2014. (3 marks)
12. Outline the meaning of the term 'Accumulated Fund'. (1 mark)
13. State **three** qualities of a good accounting information. (3 marks)
14. Karamu Traders paid Ksh. 387,000 for insurance during the year 2014. On 31 December 2014 Karamu Traders owed the insurance company Ksh. 33,000.
Calculate the total insurance expenses incurred during the year ended 31 December 2014. (2 marks)
15. Highlight the treatment of a contra entry in control accounts. (2 marks)
16. State **two** accounting concepts. (2 marks)
17. On 30 April 2015, the balance as per the updated cashbook of Mingi Retailers was Ksh. 501,000. The firm had unpresented cheques totalling to Ksh. 400,000.
Prepare a bank reconciliation statement. (2 marks)
18. Bitek Enterprises paid rent amounting to Ksh. 200,000 during the year ended 31 December 2014. On 31 December 2014 the business had overpaid rent by Ksh. 40,000.
Determine the rent expenses for the year. (2 marks)
19. Classify each of the following expenditures into either capital expenditure or revenue expenditure:
- (i) Cost of repair to a factory building.
 - (ii) Purchase of a motor vehicle.
 - (ii) Legal fees in connection to purchases of new equipment.
 - (iv) Cost of installing new equipment to the factory building.
- (2 marks)

20. Boda Traders bought a motor vehicle on 1 January 2012 for Ksh. 2,200,000. The depreciation for the motor vehicle was as follows:

	Ksh.
31 December 2012	550,000
31 December 2013	412,500
31 December 2014	309,375

On 1 January 2015, the motor vehicle was sold for Ksh. 1,500,000.

Determine the profit or loss on disposal.

(2 marks)

SECTION B: (60 marks)

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

21. (a) Explain the elements of the accounting equation. (6 marks)

- (b) The following balances relate to Sitaki Traders as at 1 March 2015:

	Ksh.
Bank	470,000
Cash	420,000

Transactions for the month of March:

2015

March

- 2 Mwamba paid his account of Ksh. 700,000 by writing a cheque, after deducting a 6% cash discount.
- 7 Paid Ksh. 500,000 by cheque to Makau and deducted a cash discount of 5%.
- 14 Received Ksh. 870,000 from Bado Traders in full settlement of their account of Ksh. 1,000,000
- 21 Paid wages of Ksh. 20,000 in cash.
- 24 Withdrew Ksh. 50,000 cash and deposited in the bank
- 25 The proprietor of Sitaki Traders withdrew Ksh. 40,000 from the bank for personal use.
- 25 Paid Ksh. 480,000 to Poa Traders by cheque after deducting a cash discount of 4%.
- 26 Received payment by cheque from Mwamba of Ksh. 564,000 after deducting 6% cash discount.

Prepare a three column cashbook as at 31 March 2015.

(9 marks)

22. (a) Explain **three** errors that are not disclosed by the trial balance. (6 marks)
- (b) The following balances were extracted from the ledgers of Juzi Traders for the year ended 31 October 2014:

	Ksh
Sales ledger debit balance brought forward (1.11.2013)	596,000
Sales ledger credit balance brought forward (1.11.2013)	415,000
Credit sales	6,430,000
Receipts from debtors in form of cheques	4,130,000
Cash receipts from debtors	1,673,000
Discounts allowed	196,000
Bad debts	86,000
Refund to debtors in form of cheques	26,000
Set-offs to the purchases ledger	342,000
Returns inward	132,000
Sales ledger credit balance carried down (31.10.2014)	187,000
Sales ledger debit balance carried down (31.10.2014)	265,000

Prepare a sales ledger control account as at 31 October 2014. (9 marks)

23. (a) The following transactions relate to the Makosi Enterprises for the month of June 2014:

2014

- June 2 Purchased goods of Ksh. 264,500 on credit from Stokas Trader
- 2 Sold goods of Ksh. 125,000 to Sospita on credit.
- 3 Purchased goods worth Ksh. 354,000 on credit from Benza Traders.
- 4 Returned goods worth Ksh. 35,400 to Stokers Traders.
- 4 Sospita returned goods worth Ksh. 22,000.
- 5 Sold goods to Pentak Enterprises worth Ksh. 222,500 on credit.

Enter the transactions above in the relevant books of original entry. (6 marks)

- (b) The following transactions relate to Shika Traders for the month of November 2014:

2014

- November 1 Balance of petty cash brought forward Ksh. 8,750.
- 1 The cashier re-imbursed the petty cashier an amount to restore the float to Ksh. 60,000.
- 3 Bought petrol Ksh. 8,500 and postages of Ksh. 2,500.
- 4 Paid Ksh. 4,000 for cleaning.
- 6 Bought printing paper worth Ksh. 8,000.

- 7 Paid Ksh. 12,000 for petrol.
- 10 Bought detergent for Ksh. 9,000.
- 12 Bought foolscaps for Kshs. 3,600.
- 14 Paid telephone expenses of Ksh. 6,400.
- 30 Paid Ksh. 3,800 for motor vehicle repair.

Enter the transactions above in a petty cashbook with the following analysis columns:

- Stationery
- Cleaning
- Postage and telephone
- Motor vehicle expenses

(9 marks)

24. (a) On 31 August 2015, Conta Enterprises had a cash book balance (bank column) of Ksh. 182,500. The bank statement received on the same day showed a balance of Ksh. 195,600.

On comparing the two documents, the following discrepancies were revealed:

- Bank charges of Ksh. 6,400 were recorded in the bank statement only.
- The following debtors had paid directly into the bank account:

	Ksh.
Makau	46,500
Gabot	63,000
Susan	84,000

- Standing order payments reflected on the bank statement only were as follows:

	Ksh.
Sotik	28,500
Bartok	47,300

- Cheques issued and recorded in the cashbook but not in the bank statement amounted to Ksh. 96,200.
- Cheques received and recorded in the cashbook only amounted to Ksh. 194,400.

Prepare:

- (i) an updated cashbook.
- (ii) a bank reconciliation statement.

(6 marks)

- (b) The following balances relate to Kimeto Wholesalers as at 31 December 2014:

	Ksh.
Purchases	2,450,000
Returns inward	75,000
Inventory (1.1.2014)	860,000
Discounts received	610,000
Carriage inward	65,000
Discounts allowed	240,000
Salaries and wages	1,250,000
Stationery	750,000
Sales	6,575,000
Returns outward	50,000
Rent received	435,000
Electricity	810,000
Rent	1,480,000

On December 2014:

- inventory was valued at Ksh. 315,000
- rent expense accrued was Ksh. 120,000.
- salaries and wages owing was Ksh. 150,000.
- electricity prepaid was Ksh. 35,000.

- (i) Prepare an income statement for the year ended 31 December 2014.
- (ii) Advise the management on the action to take based on the performance in (i) above.

(9 marks)

25. (a) The following are the receipts and payments of Zanzuka Sports Club for the year ended 31 July 2014:

	Ksh.
Subscriptions received	1,147,500
Groundsman's wages	146,600
Stadium upkeep	60,800
Rent received	24,400
Committee expenses	13,600
Stationery and postage	29,500
Donations received	487,500
Prizes and awards	52,700
Rent expenses	124,500

The balance of the receipts and payments account as at 1 July 2014 was Ksh. 195,400.

Prepare a receipts and payments account for the year ended 31 July 2014.

(6 marks)

- (b) Bunget Traders had the following balances as at 1 January 2014:

	Ksh.
Tapula - Debtor	178,000
Kakata - Creditor	38,600
Cash	435,000
Land and buildings	10,500,000

During the month of January 2014, the following transactions took place:

2014

January	1	Bought goods worth Ksh. 75,400 on credit from Kakata.
	7	Sold goods worth Ksh. 185,000 on credit from Tapula.
	11	Cash sales amounted to Ksh. 30,000.
	18	Bought furniture worth Ksh. 12,000 and paid in cash.
	20	Paid Kakata Ksh. 15,400 in cash.
	31	Received cash amounting to Ksh. 300,000 from Tapula.

- (i) Prepare ledger accounts to record the transactions above.
- (ii) Balance off the cash account.
- (iii) Comment on the cash account balance obtained in (ii) above.
- (iv) Advise the proprietor on the action to take regarding the cash balance.

(9 marks)

26. (a) Explain **three** differences between capital expenditure and revenue expenditure.

(6 marks)

- (b) Rulax Limited bought the following motor vehicles on 1 January 2013:

	Ksh.
Motor vehicle A	3,500,000
Motor vehicle B	4,000,000

On December 2014, motor vehicle A was sold for Ksh. 1,850,750.

The firm depreciates its motor vehicles at the rate of 25% per annum, using the reducing balance method.

- (i) For the years ended 31 December 2013 and 2014, prepare:
- (I) motor vehicles account
 - (II) accumulated depreciation on motor vehicles account.
- (ii) Prepare the motor vehicles disposal account for the year ended 31 December 2014.
- (9 marks)

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