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FINANCIAL ACCOUNTING

July 2018

Time: 3 hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL

DIPLOMA IN SUPPLY CHAIN MANAGEMENT

DIPLOMA IN BUSINESS MANAGEMENT

DIPLOMA IN CO-OPERATIVE MANAGEMENT

DIPLOMA IN ENTREPRENEURSHIP

DIPLOMA IN PROJECT MANAGEMENT

DIPLOMA IN INVESTMENT MANAGEMENT

DIPLOMA IN MARITIME TRANSPORT LOGISTICS

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 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) Kwelix Traders had the following balances as at 1 March 2018:

	Ksh
Sales ledger balances:	364,000 (Dr)
	27,000 (Cr)

Transactions during the month of March were as follows:

	Ksh	
Credit sales	791,000 Dr	
Cash received from debtors	103,700 Dr	Accel
Cheques received from debtors	397,200 Dr	
Refund to debtors	36,800 Cr	
Returns inwards	21,600 Cr	
Dishonoured cheques from debtors	8,000 Cr	
Discounts allowed ~	15,900 Cr	
Interest on overdue debts	5,400 Dr	
Bad debts written off	14,500 Cr	
Credit sales offset against credit purchases	77,000 Cr	

On 31 March 2018, sales ledger credit balances were Ksh. 19,000. Cr

Prepare a sales ledger control account for the month of March 2018. (8 marks)

- (b) The following documents relate to transactions of Rizon Retailers for the month of February 2018:

Invoices received:

February	Invoice Number		Ksh
1	0487	Doris Enterprises	208,000
18	1930	Fadhili Wholesalers	119,000

Invoices sent:

February	Invoice Number		Ksh
7	1060	Cheti Traders	560,000
22	1061	Maken Distributors	120,000
28	1062	Jibu College	98,400

On 10 February 2018, a credit note No. 008 of Ksh. 32,000 was sent to Cheti Traders.

On 22 February 2018, a credit note No. 116 of Ksh. 1,500 was received from Fadhili Wholesalers.

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- (i) Prepare:
- Sales journal;
 - Purchases journal;
 - Returns inwards journal;
 - Returns outwards journal.
- (ii) Post the totals of the journals prepared in (i) above to the respective ledger accounts. (12 marks)

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

- non-current assets;
- current liabilities;
- capital;
- drawings. (8 marks)

- (b) On 1 January 2018, the petty cashier of Tresha Enterprises had a cash balance of Ksh. 4,000. On the same date, the petty cashier was given Ksh. 31,000 by the cashier in order to reimburse the amount spent.

The petty cashier made the following payments during the first week of January:

2018		Ksh
January 1	Milk	500
1	Stamps	380
1	Sisal ropes	700
2	Electrical cables	5,200
2	Cakes	2,200
3	Mobile phone airtime	1,500
3	Cement	2,800
4	Tea leaves	400
4	Cartons	350
5	Water taps	3,700
5	Sugar	2,700
6	Cellotape	1,300
6	Paint	8,000
6	Registered mail	1,800

- (i) Prepare a petty cash book with the following analysis columns:
- Packing;
 - Staff tea;
 - Communication;
 - Building repairs.

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- (ii) On 6 January 2018, the petty cashier had Ksh. 3,300 cash in hand. Advise the petty cashier on the possible cause of the difference between the petty cash book balance and the cash in hand. (12 marks)

3. (a) Explain **four** types of errors that do not affect the agreement of a trial balance. (8 marks)
- Error of Omission
- Error of Commission
- Error of Original Entry
- Error of Transposition*

- (b) The following is the trial balance of Supaab Traders as at 31 December 2017.

	Dr Ksh	Cr Ksh
Net profit		672,800
Land and buildings	2,300,000	
Equipment	960,000	
Furniture	312,000	
Inventory	189,000	
Accounts receivable	426,000	
Accounts payable		354,100
Outstanding salaries		72,400
Accumulated depreciation:		
Equipment		270,000
Furniture		61,000
Prepaid insurance	14,000	
Drawings	131,000	
Capital		2,853,000
Rent owing		36,000
Commission earned due	22,000	
Bank overdraft		97,500
Cash	62,800	
	<u>4,416,800</u>	<u>4,416,800</u>

Prepare a statement of financial position as at 31 December 2017. (12 marks)

4. (a) Explain **four** causes of depreciation of non-current assets. (8 marks)

*- wear & tear
- time
- Obsolescence*

- (b) On 1 January 2018, Farida started a business with Ksh. 600,000 in cash. The following transactions took place during the month of January:

2018

- January 1 Opened a business bank account and deposited Ksh. 400,000 of the cash in hand.
 3 Brought in personal furniture valued at Ksh. 45,000 to be used in the business.
 10 Paid rent for Ksh. 30,000 in cash.
 17 Purchased goods for Ksh. 87,000 from Sita Limited on credit.
 25 Sold goods for Ksh. 32,400 and received a cheque.
 29 Sold goods for Ksh. 72,100 to Batrrix Enterprises on credit.
 31 Paid the amount due to Sita Limited by cheque.

(i) Prepare ledger accounts to record the transactions above.

(ii) Balance off the accounts prepared in (i) above.

(12 marks)

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

- (i) going concern;
 (ii) materiality;
 (iii) consistency;
 (iv) prudence.

(8 marks)

- (b) The following is the receipts and payments account of Salamu Social Club for the year ended 31 December 2017:

	Ksh		Ksh
Balance b/d	175,400	Purchase of refreshments	268,000
Refreshment sales	526,000	Concert expenses	78,000
Subscriptions	250,000	Printing and stationery	54,000
Donations	35,500	Secretary's honorarium	220,000
Entrance fees	24,000	Electricity	44,600
Sale of concert tickets	122,000	Property maintenance	280,800
Sale of raffle tickets	85,000	Sports equipment	120,000
		Prizes for raffle	101,000
		Balances c/d	51,500
	<u>1,217,900</u>		<u>1,217,900</u>

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Additional information:

- Inventory of refreshments was as follows:

Ksh

1 January 2017 95,000

31 December 2017 101,700

- On 31 December 2017, subscriptions outstanding were Ksh. 42,000 and prepaid subscriptions amounted to Ksh. 65,000.
- Sports equipment are to be depreciated at 25% per annum.

- (i) For the year 31 December 2017, prepare:

- Refreshments trading account;
- Income and Expenditure account.

- (ii) Advise the Club Manager on the action to take based on (i) above. (12 marks)

6. (a) On 1 January 2018, Daudi bought a commercial building at a cost of Ksh. 1,200,000. He made the following transactions during the month of January 2018:

Ksh

Bought furniture	63,500	capital
Purchased goods	237,800	Revenue
Renovated the building	149,000	capital
Painted business name and logo on the building	5,100	capital
Purchased a computer	75,000	capital
Purchased a printer	35,000	capital
Bought printing papers	3,400	Revenue
Bought a cash safe	13,000	capital
Installed alarm system	150,000	capital
Paid electricity	4,600	Revenue
Paid cleaner's wages	26,000	Revenue

Determine the total:

- capital expenditure;
- revenue expenditure.

(8 marks)

- (b) On 1 March 2018, Braita Retailers had Ksh. 20,500 cash in hand and a bank overdraft of Ksh. 16,000.

The following transactions took place during the month of March:

2018

March 3 Sold goods for Ksh. 117,000 and received cash.

5 Paid Ksh. 3,400 for electricity in cash after deducting a 10% cash discount: *Discount reserved*

7 Received the following cheques from debtors after deducting a 10% cash discount: *Discount allowed*

Ksh

Lewis 18,000 *1,800 Dr*

Baraka 50,000 *5,000*

12 Settled the following creditors' accounts by cheque after deducting a 5% cash discount:

Ksh

Karani 140,000 *7,000 Cr*

Masika 15,000 *750*

20 Paid Ksh. 37,000 to Joby Limited by cheque.

21 Paid Ksh. 40,000 for insurance by cheque.

22 The proprietor took Ksh. 38,000 cash for personal use.

25 The proprietor took Ksh. 50,000 from the cash till and deposited into the business bank account.

29 Repaid a loan of Ksh. 200,000 by cheque.

30 Purchased goods for Ksh. 13,000 in cash.

31 Received a commission of Ksh. 2,600 by cheque.

Prepare a three-column cash book for the month of March 2018.

(12 marks)

7. (a) On 4 February 2018, Machi Enterprises sold the following items to Danix College on credit.

20 bags of Mazo meal at Ksh. 700 per bag.

50 packets of Tasti biscuits at Ksh. 450 per packet.

40 litres of Sary cooking oil at Ksh. 120 per litre.

Danix College was allowed a 10% trade discount.

Prepare an invoice for the sale.

(8 marks)

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- (b) On 31 January 2018 the cash book (bank column) of Raptor Traders had a balance of Ksh. 53,400 while the bank statement had an overdraft of Ksh. 77,400 on the same date. On investigation, the following discrepancies were revealed:

- I. A cheque of Ksh. 45,000 from a customer was returned as unpaid due to insufficient funds.
- II. The firm had issued cheques to suppliers amounting to Ksh. 280,000 but only cheques totalling Ksh. 154,000 had been presented.
- III. Bank charges amounting to Ksh. 3,100 were reflected in the bank statement only.
- IV. Cheques deposited and not yet credited amounted to Ksh. 237,800.
- V. A standing order payment of Ksh. 100,000 for rent was reflected in the bank statement only.
- VI. Direct deposits by customers amounting to Ksh. 147,100 appeared on the bank statement only.
- V. A cheque of Ksh. 68,000 received from the debtor was recorded in the cash book as Ksh. 86,000.

Prepare:

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

(12 marks)

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