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CAMS LEVEL II

FOUNDATIONS OF ACCOUNTING AND AUDITING

MONDAY: 30 August 2021.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

- (a) Highlight four errors that might not be revealed by preparing a trial balance. (4 marks)
- (b) Explain the following accounting concepts:
- (i) Accrual concept. (2 marks)
- (ii) Going concern concept. (2 marks)
- (c) Richard Tambo sells school books. A trial balance was extracted from his books of account as at 30 June 2021. The trial balance failed to agree and a suspense account was opened with a credit balance of Sh.26,200.

The following errors were identified:

1. Sales journal was overcast by Sh.7,200.
2. Payment of Sh.25,000 for repairs to motor vehicle was posted to the motor vehicle account.
3. Commission received of Sh.61,000 was debited to the commission income account.
4. The total of discounts allowed column in the cash book amounting to Sh.48,000 was posted to discounts received account.
5. Goods whose selling price was Sh.18,000 and cost price was Sh.15,000, were returned by a customer on 28 June 2021. These goods were neither recorded in the books, nor included in the closing inventory.
6. A credit purchase of Sh.7,400 was omitted from creditors account.

Required:

- (i) Journal entries to correct the above errors (Narrations not required). (7 marks)
- (ii) Suspense account duly balanced as at 30 June 2021. (5 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Classify the following expenses incurred by Safi Traders as either capital expenditures or revenue expenditures:
- (i) Carriage on returns outward.
- (ii) Fitting partitions in their shop.
- (iii) Purchase of weighing machine.
- (iv) Repairs of office computers. (4 marks)
- (b) Distinguish between "trade discount" and "cash discount". (4 marks)
- (c) Joy Alina is a sole trader trading under the name Joylina Traders. She maintains her petty cash using an imprest system. The monthly imprest amount is Sh.20,000. The following expenses were incurred in the month of July 2021:

July 2021	Sh.
1. Petty cash at hand	2,575
2. Petty cash restored to imprest amount	-
5. Paid wages	2,989

July 2021	Sh.
6. Cost of postage	1,358
13 Paid wages	2,920
15. Bought stationery	1,545
19. Paid wages	2,970
21. Bought postage stamps	1,210
24. Paid wages	2,998
26. Bought stationery	1,176
30. Bought envelopes for postage	970
1 August 2021 petty cash re-imbursed.	

Required:

Petty cash book with analytical columns for wages, postage and stationery.

(12 marks)

(Total: 20 marks)

QUESTION THREE

The following is the trial balance of Ujenzi Traders as at 30 June 2021:

	Sh. "000"	Sh. "000"
Land and building	8,000	
Furniture and fittings	5,000	
Purchases and sales	12,000	24,680
Cash at bank	410	
Cash in hand	150	
Accounts receivable and accounts payable	1,210	770
Bad debts written off	180	
Discounts allowed	70	
Rent received		1,480
Travelling expenses	280	
Salaries and wages	620	
Insurance expenses	60	
Capital		3,600
Drawings	170	
Inventory (1 July 2020)	1,800	
Advertising expenses	210	
Administrative expenses	130	
Internet and postage	<u>240</u>	
	<u>30,530</u>	<u>30,530</u>

Inventory as at 30 June 2021 was valued at Sh.950,000.

Required:

(a) Statement of profits or loss for the year ended 30 June 2021. (12 marks)

(b) Statement of financial position as at 30 June 2021. (8 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Outline two similarities between accounting and auditing. (4 marks)

(b) (i) Explain the term "Public Accounts Committee". (2 marks)

(ii) Highlight the role of the Public Accounts Committee. (2 marks)

(c) Describe six functions that might be performed by an audit software. (6 marks)

(d) Outline six users of audited financial statements. (6 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Discuss five purposes that internal audit function serves in an organisation. (10 marks)

(b) Enumerate five internal control measures that an organisation could put in place to control sales returns and accounts receivable. (10 marks)

(Total: 20 marks)

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