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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 parts: Part A and Part B.
Answer ALL the questions in Section A and 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 Pen pc Enterprise* as at 31 December 2014:

	Ksh
Electricity expenses	25,000
Land and buildings	4,000,000
Sales	15,000,000
Motor vehicle	2,000,000
Purchases	500,000
Capital	10,250,000

5. Prepare a trial balance as at 31 December 2014. (3 marks)
6. Define the meaning of 'Single Entry System', as used in single entry book keeping and incomplete records. (1 mark)
7. Highlight the use of a sales journal. (1 mark)
8. Sarah has a debt of K.sh. 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. 15,000. Advise Sarah on whether to take the discount or not. (3 marks)
9. Outline the term Imprest System as used in petty cash payments. (1 mark)
10. Given the following transactions undertaken by a firm:
 - (i) The firm returned goods to the business
 - (ii) The business received goods from Joshua.

Identify the source document used for each of the transactions. (11 marks)

11. Mobalo Enterprises instructed its bank to make regular payments on 5th of every month to Lesiuu, Ltd firm's landlady. State the type of document to be used by Mobalo Enterprises in this case. (1 mark)

i L The following information relates to Pern be Traders for die year ended 31 December 2014:

	Ksh.
Gross profit	987,500
Operating expenses	212,000
Other expenses	645,000
Dividend received	120,000

- Determine the net profit for the year 2014. (3 marks)
12. Outline the meaning of the term 'Accumulated Profit', (1 mark)
13. State three qualities of a good accounting information. (3 marks)
14. Karumu Traders paid KSh 50,000 for insurance during the year 2014. On 1 December 2014 Karumu Traders owed the insurance company Ksh. 33,000. Calculate the total insurance expenses incurred during the year ended 31 December 2014. (2 marks)
15. Explain 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 Mingo Retailers was Ksh 511,000. The firm had unpresented cheques totalling to Ksh. 400,000. Prepare a bank reconciliation statement. (2 marks)
18. Bftek 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 in a factory building.
 - (ii) Purchase of a motor vehicle.
 - (iii) Freight fees in connection to purchases of new equipment.
 - (iv) Interest on loan used to purchase new equipment for the factory building.
- (2 marks)

30. Soda Traders bought a motor vehicle on 1 January 2012 for Ksh. 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. 100,000.
Determine the profit or loss on disposal.

(2 marks)

SECTION B; 160 marks)

Answer FOUR questions from this section.

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

(5 marks)

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

	Bank	Cash
	470,000	420,000
Transactions for the month of March 2015		
March 2	Mweniba paid his account of Ksh. 100,000 (K.N) by writing a cheque, after deducting a 5% cash discount.	
7	Paid Ksh. 50,000 by cheque to Makau. Deducted a cash discount of 15%.	
14	Received Ksh. 170,000 from Rado Traders in full settlement of their account of Ksh. 200,000.	
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. 40,000 to Roa Trailers by cheque after deducting a cash discount of 4%.	
26	Received payment by cheque from Mwambi for Ksh. 564,000 after deducting 6% cash discount.	

Prepare a three column cashbook as at 31 March 2015.

(10 marks)

22. (a) Explain I line errors ihai are not disclosed by the trial balance. (6 marts)

fb> The following haknees were extracted frtwri the. ledgers of Juzi lenders for the year ended 31 October 2014:

	Ksh
Saks ledger debit balance brought forward (1.11.2013)	596 JOOO
Saks ledger credit balance brought forward (1.11.2013)	415000
Credit sales	6,430 JOOO
Receipts from debtors in fomi of cheques	4,130,000
Cash receipts I rom debtors	1,673)000
Discounts allowed	196JXH.I
Had debts	S6J3U0
Refund to debtors in form of cheques	26jMX)
Set-offs to lthe purchases ledger	342,01k]
Returns inward	132,000
Sales ledger credit balance carried down (31.102014)	187,000
Sales ledger debit balance carried down (31,102014)	265JXX)

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

23. (a) The following transactions rclalc to the Mirkosi Enterprises lor the month of June 2014:

2014

- June 2 Purchased goods of K\$.h. 264 500 on credit tmm Stokas Trader
- 2 Sold goods of Ksh 125 JOOO to Sospita on cred it.
- 3 Purchased goods worth Ksh. 354,000 on credit from Benza Traders.
- 4 Returned goods worth K.sh.35,400 to Stokers Traders.
- 4 Sospiw returned gu<ids worth Ksh 224)00.
- 5 Sold goods io l'cnntk Enterprises worth Ksh. 222 500 on credit.

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

- (b.l The fallowing transactions relate to Shika Traders fur the month of November 2014;

2014

- November 1 Balance of petty cash brought forward Ksh. W.750.
- 1 The cashier re-imbuRed the petty cashier an amount to restore the float to Ksh. 60,000.
- 3 Bought pcrrml Ksh. 8500 and puslage.s of Ksh. 2500
- 4 Paid Ksh. 4j000 for cleaning.
- ft Hough! printing paper worth Ksh, HjtKMJ,

- 7 Paid Ksh 12,000 for petrol.
- 10 Bought detergent for Kah. 9 JD00
- 12 Bought hi folsaps for Kshs. 3,600.
- 14 Paid telephone expenses of Ksh. 6,400.
- 30 Paid Ksh. 3 J«X) for molar 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, Corns Enterprises had a cash book balance (bank column) of Ksh. 182,300. 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 cheques had been paid into the bank account:

	Ksh.
Makau	46,500
Gabot	63,000
Susan	frVJ00

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

	Ksh.
Soti	28,500
Bartok	47,300

- Cheques issued but not recorded in the cashbook but not in the bank statement amounted to Ksh. 96,200.
- * Cheques received but not 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 hahnecs relate iu Kimeto Wholesaler* as at 3i December 2014 :

	Kih.
Purchases	2.450,000
Returns inward	75000
Invenlury (1J .2(114]	Kbdj000
Discounts received	610,000
Carnage inward	65,000
Discounts allowed	240j000
Salaries and wages	1.250J000
Stationery	750JD00
Sates	657 5 WO
Returns outward	50000
Rent received	4.15 JO00
Electricity	810X100
Rent	1,4U0j000

On December 2014. *

* invcniory was valued ai Ksh. J15,000

* rent expense accrued was Ksh. 120JD00.

* salaries and wages owing was Ksh. 150,000.

■ electricity prepaid wtw Ksh. 35j000

(it Prepare sn income statetilelil for the ycur ended M December 2014.

■ ii.1 Advise [he management on the action to lake based on the performance in (t;- above.

(9 marks)

25, (a) The following are the receipts and payments orZanzuka Sports Club for the year ended 31 duly 2014:

	Ksh.
SubstripliffliK received	1,147500
Groundsmaifs wages	146.600
Stadium upkeep	60.8(81
Reni received	24.4181
Committee expenses	13.600
Stationery and postage	29500
Donauons received	487500
Prizes and awards	52,700
Rent expenses	124500

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

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

(6 marks)

(b) Business started had the following balances as at 1 January 2014:

	Ksh.
Capital	175,000
Kakafu - Creditor	38,600
Cash	43,500
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 Kitu.
7	Sold goods worth Ksh. 185,000 on credit to Tapula.
11	Cash sales amounted to Ksh. 50,000.
18	Bought furniture worth Ksh. 12,000 and paid in cash.
20	Paid Kakafu 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 1 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:

- (1) motor vehicles account
- HJ) 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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