

- I. (a) The following balances were extracted from the accounting records of Memory Suppliers as at 30th September, 2011.

	Kshs '000'
Motor vehicles	15,000
Accounts receivable	850
Motor expenses	230
Rent and rates	250
Discount received	46
Wages and salaries	2,420
Accounts payable	1,850
Provision for Depreciation: Motor vehicles (1st October, 2010)	1,500
Carriage outwards	410
Cash at bank	1,060
Drawings	1,230
Gross profit	8,570
Inventories	5,500
Capital	14,984

Additional information:

- Motor vehicles are to be depreciated at the rate of 20% per annum on reducing balance basis.
- As at 30th September, 2011;
  - Salaries and wages outstanding was Ksh.280,000
  - Rent and rates was prepaid by Ksh.150,000.

Prepare:

- (i) A statement of financial performance (profit and loss statement) for the year ended 30th September, 2011.
- (ii) A statement of financial position (balance sheet) as at 30th September, 2011. (12 marks)

- (b) Explain each of the following business documents:

- (i) Statement of account;
- (ii) Purchase order;
- (iii) Delivery note;
- (iv) Invoice.

(8 marks)

2. (a) Classify the following business costs as either capital expenditure or revenue expenditure:

- (i) Costs of partitioning a building;
- (ii) Cost of replacing a motor vehicle engine;
- (iii) Costs of painting a new building;
- (iv) Wages paid to workers engaged in installing a new machine;
- (v) Legal costs of collecting debts;
- (vi) Wages of computer operators;
- (vii) Carriage cost on purchases;
- (viii) Cost of buying a "second-hand" motor vehicle.

(8 marks)

(b) Umoja Distributors provides for depreciation on its motor vehicles at 20% per annum on reducing balance basis.

The firm provides for a full year's depreciation charge in the year of purchase and no depreciation charge in the year of disposal.

The financial year for the firm ends on 31st December.

In the years 2009, 2010 and 2011, the following transactions took place:

2009

June 1, Bought motor vehicle 'X' for Ksh.9,000,000

2010

July 20, Bought motor vehicle 'Y' for Ksh.7,000,000

2011

May 20, Bought motor vehicle 'Z' for Ksh.9,200,000

Nov. 23, Sold motor vehicle 'X' for KSh.6,300,000.

For the years ended 31 December, 2009, 2010, and 2011 prepare:

- (i) motor vehicles account;
- (ii) provision for depreciation on motor vehicles account;
- (iii) motor vehicles disposal account (only for the year, 2011);
- (iv) an extract for motor vehicles account from the balance sheet to show the balance in the account at the end of each of the three years.

(12 marks)

3. (a) Magic Traders operates a petty cash on an imprest system. The monthly cash float is Ksh.30,000. Reimbursement is done at the beginning of each month. The cash balance on 30th April, 2011 was Ksh.4,700 and reimbursement was done on the due date. The following transactions took place during the month of May, 2011:

2011		Ksh.
May 2	Postage stamps	1,500
5	Staff bus fare	2,000
7	Motor vehicle repairs	1,200
10	Bonde, a supplier	7,600
12	Cleaning detergents	800
16	Photocopying papers	550
18	Postage stamps	700
20	Fuel for motor vehicles	1,600
24	Office chair	1,400
26	Messenger's bus fare	500
28	Cleaning services	4,500
30	Photocopying papers	600

Prepare a petty cash book with analysis columns for:

- Travelling
- Motor expenses
- Cleaning
- Stationery
- Postage
- General ledger

(11 marks)

- (b) The following is a summary of bank transactions for Mpatanishi Social club for the year ended 30 June, 2011:

	Kshs '000'
<b>Receipts:</b>	
Sale of raffle tickets	300
Investment income	450
Subscription received	1,340
Registration fees	250
Donations	750
<b>Payments:</b>	
Staff wages	150
Insurance	75
Postage and stationery	28
Purchase of fixed assets	180
Rent and rates	56
Cost of raffle	84

## Additional information:

- Balances as at :

	1st July 2010 Ksh '000'	30th June 2011 Ksh '000'
Subscription owing	250	300
Subscription in advance	160	200
Value of fixed assets	1,600	?
Cash at bank	850	3,567

- Fixed assets are to be depreciated at 20%.

Prepare:

- statement of affairs as at 1st July 2010;
- income and expenditure account for the year ended 30 June, 2011.

(9 marks)

4. (a) Explain the following accounting concepts:

- (i) Business entity concept
- (ii) Consistency concept
- (iii) Accruals concept
- (iv) Money measurement concept

(8 marks)

(b) On 31st August, 2011, a trial balance extracted from the books of account of Magneta Logistics did not balance. The totals on the credit side exceeded the totals on the debit side by Ksh24,500. This amount was recorded in a suspense account. The draft final accounts showed a net profit of Ksh650,000.

Subsequent investigations revealed the following errors:

- (i) Purchases account was under-cast by Ksh14,000.
- (ii) Motor expenses of Ksh10,400 was entered in the motor vehicles account.
- (iii) Sales account was over cast by Ksh12,500.
- (iv) A cash receipt of Ksh28,000 was entered in the cash book as Ksh18,000.
- (v) Rent received of Ksh12,000 was entered in the cash book only.
- (vi) Discount received of Ksh5,000 was credited to the discount allowed account.

Prepare:

- (I) Journal entries necessary to correct the errors above;
- (II) Statement of corrected net profit for the year ended 31st August, 2011.

(12 marks)

5. (a) The cash book of Ojwang Depots showed a credit balance of Ksh.420,000 as at 31st July, 2011. The bank statement for July, 2011 showed a different balance. On subsequent review, the following information was found:

- Mwema, a debtor, had made a direct deposit of Ksh.200,000 into the bank account.
- A cheque for Ksh.350,000 received from Mwamba during the month had been dishonoured.
- Bank charges amounted to Ksh.45,000.
- The bank had effected a standing order for Ksh.160,000.
- A cheque for Ksh.400,000 received from Wamalwa had been credited in the cash book.
- Cheques amounting to Ksh.475,000 deposited in the bank on 31st July, 2011 were not entered in the bank statement.
- Cheques for amounts totalling Ksh.360,000 issued to creditors, had not been presented to the bank for payment.
- A cheque for Ksh.145,000 issued to Otieno but later stopped for payment by Ojwang Depots, was paid by the bank

Prepare:

- (i) An adjusted cashbook;
- (ii) A bank reconciliation statement for July, 2011.

(10 marks)

- (b) Smart Manufacturers had the following transactions in the month of October, 2011:

- October 1 Bought goods on credit from:  
 - Omollo for Ksh.46,000  
 - Mwangi for Ksh.24,000
- “ 3 Returned goods to Omollo for Ksh.2,000
- “ 10 Sold goods on credit to:  
 - Obasu for Ksh.39,000  
 - Kagwe for Ksh.52,000
- “ 12 Goods were returned to Smart Manufacturers by Kagwe worth Ksh.5,000

- (i) Post the transactions above to the relevant journals;
- (ii) Post the journal entries to the relevant ledger accounts.

(10 marks)

6. (a) The following information is extracted from the accounting records of Fresh Milk Processors for the month ended 30th April, 2011.

Balances at 1st April, 2011:	Ksh.
- Purchases ledger (credit)	465,000
- Sales ledger (Debit)	676,000
Totals for the month:	
Returns inwards	57,000
Bad debts	45,000
Discounts received	36,000
Returns outwards	49,000
Payments to creditors	575,000
Discount allowed	46,000
Dishonoured cheques	48,000
Receipts from debtors	700,000
Debtors accounts settled by contra accounts with creditors	74,000
Balances as at 30th April, 2011:	
- Purchases ledger (credit)	582,000
- Sales ledger (debit)	441,000

- (i) Prepare the control accounts to establish the credit sales and credit purchases for the month of April, 2011.  
(ii) Comment on the level of credit sales and credit purchases.

(10 marks)

- (b) The bank balance and cash balance of Makinon Freighters as at 31st May, 2011 were Ksh.475,000 and Ksh.97,000, respectively.  
The following transactions took place during the month of May, 2011.

- May 2 Received a cheque of Ksh.285,000 from Loise after deducting a 5% cash discount;  
5 Sold goods for Ksh.27,000 in cash;  
10 Musoma settled his account of Ksh.85,000 by cheque after deducting 5% cash discount;  
20 Withdrew Ksh.75,000 from the bank for business use;  
22 Paid Ksh.60,000 for rent in cash;  
25 Withdrew Ksh.55,000 from the bank for personal use;  
30 All the cash in hand except Ksh.50,000 was deposited into the bank account;  
31 Paid Ksh.184,000 for wages by cheque;  
31 The proprietor introduced extra capital of Ksh.50,000 into the business by cheque.

- (i) Prepare three column cashbook for the month of May, 2011.  
(ii) Post the discount totals to the ledger accounts.

(10 marks)

7. (a) Pixel Enterprises whose financial year ends on 31st December, had the following balances as at 1st January, 2010:

	Kshs
Rates prepaid	25,000
Rent outstanding	30,000
Commission receivable due	28,000
Stock of packaging materials	40,000

During the year ended 31 December, 2010 the following transactions took place.

- Paid Ksh.140,000 for rent by cheque;
- Paid Ksh.70,000 for rates by cheque;
- Received commission of Ksh.150,000 by cheque;
- Paid Ksh.78,000 for packaging materials by cheque.

Balances as at 31st December, 2010:

	Kshs
Rates owing	45,000
Rent prepaid	10,000
Commission receivable due	24,000
Packaging materials owing	12,000

- (i) Prepare:

- (I) rent and rates account;
- (II) commission receivable account;
- (III) packaging materials account.

- (ii) The three accounts above were not taken into account when preparing the profit and loss statement for the year 2010. The profit was Ksh.1,250,000. State the effect that the information in the accounts above will have on the reported profit for the year.

(12 marks)

- (b) The following transactions relate to Fiar Traders for the month of March, 2011:

2011

- March 1 Started business with Ksh.450,000 at bank;  
 5 Bought goods for Ksh.84,000 from Wafula on credit;  
 10 Sold goods for Ksh.120,000 to Wanyonyi on credit;  
 15 Paid Ksh.250,000 for motor vehicle expenses by cheque;  
 20 Withdrew Ksh.100,000 from the bank for personal use;  
 22 Bought a motor van for Ksh.320,000 on credit from Mix Motors;  
 28 Received Ksh.100,000 from Wanyonyi on account;  
 31 Received Ksh.40,000 for rent by cheque.

Record the transactions in the relevant ledger accounts.

(8 marks)