

2903/102    2922/102    2907/102  
2906/102    2925/102  
**FINANCIAL ACCOUNTING**  
July 2017  
Time: 3 hours



**THE KENYA NATIONAL EXAMINATIONS COUNCIL**  
**DIPLOMA IN SUPPLIES CHAIN MANAGEMENT**  
**DIPLOMA IN BUSINESS MANAGEMENT**  
**DIPLOMA IN PROJECT MANAGEMENT**  
**DIPLOMA IN MARITIME TRANSPORT MANAGEMENT**  
**DIPLOMA IN CO-OPERATIVE MANAGEMENT**

**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) Badili Traders incurred the following expenditure during the year ended 30 June 2016.

	Ksh
Buildings	2,000,000
Purchase of machinery	950,000
Installation of machinery	170,000
Purchase of motor vehicle	2,500,000
Insurance of motor vehicles	67,000
Petrol for motor vehicles	342,000
Installation of CCTV cameras	100,000
Purchase of goods	1,750,000
Partitioning of office	249,000
Wages	690,000
Motor vehicle maintenance	73,000

Additional information:

- 20% of the buildings expenditure was for repairs and the balance was for extensions.

Determine:

- (i) total capital expenditure;  
 (ii) total revenue expenditure. (8 marks)

- (b) On 1 May 2016, Jona started a business with Ksh. 190,000 in cash. The following transactions took place during the month:

2016

- May 1 Opened a business bank account and deposited Ksh. 120,000 of the cash.  
 7 Brought his personal motor vehicle valued at Ksh. 350,000 to be used in the business.  
 9 Purchased goods for Ksh. 85,000 on credit from Tele Wholesalers.  
 10 Sold goods for Ksh. 22,300 and received cash.  
 15 Paid general expenses amounting to Ksh. 9,700 in cash.  
 19 Sold goods for Ksh. 35,100 on credit to Pake Restaurant.  
 22 The proprietor took Ksh. 5,000 from the cash till and paid for his personal insurance.  
 27 Paid Tele Wholesalers Ksh. 65,000 by cheque.  
 29 Bought furniture on credit for Ksh. 55,000 from Chanzo Furnitures.  
 30 Received rent for Ksh. 20,000 from subletting premises.  
 31 Returned broken furniture worth Ksh. 2,000 to Chanzo Furnitures.

Prepare ledger accounts to record the transactions above. (12 marks)

2. (a) The following information relates to three business; X, Y and Z.

Business X		Business Y		Business Z	
	Ksh		Ksh		Ksh
Buildings	5,000,000	Capital	1,070,000	Capital	4,500,000
Accounts payable	1,300,000	Cash	400,000	Bank loan	1,000,000
Inventory	900,000	Inventory	1,100,000	Accounts payable	800,000
Bank Overdraft	600,000	Motor vehicles	3,300,000	Bank overdraft	300,000
Accounts receivable	1,500,000	Accounts receivable	2,200,000		

Calculate:

- (i) capital for business X;
- (ii) total liabilities for business Y;
- (iii) total assets for business Z. (8 marks)

- (b) On 1 February, 2016, the petty cashier of Ednat Enterprises was given Ksh. 7,000 in cash by the chief cashier. During the week ended 6 February 2016, the petty cashier made the following payments:

	Ksh
February 1 Bus fare	600
2 Cell phone airtime	950
2 Taxi fare	500
3 Printing papers	450
3 Tea leaves	250
3 Counter books	200
4 Milk	600
4 Telephone	1,900
4 Bread	300
5 Internet charges	2,100
5 Fruit juice	400
5 Felt pens	280
6 Train fare	700
6 Manilla papers	150

On 4 February 2016, the chief cashier gave the petty cashier an additional cash of Ksh. 4,000.

- (i) Prepare a petty cash book with the following analysis columns:
  - Communication;
  - Travelling;
  - Stationery;
  - Refreshments.

- (ii) At the end of the week, the actual cash held by the petty cashier was Ksh. 1,500. Advise the petty cashier on the action to take based on the results in (i) above. (12 marks)

3. (a) Explain each of the following source documents:

- (i) Invoice;
- (ii) Credit note;
- (iii) Payment voucher;
- (iv) Cash receipt. (8 marks)

(b) The following balances were extracted from the books of Herrin Retailers as at 31 December 2016:

	Ksh.
Sales	1,340,000
Carriage inwards	14,800
Insurance	37,000
Inventory (1 January 2016)	447,200
Returns inwards	27,000
Returns outwards	11,300
Purchases	960,100
Rent received	744,000
Rates	12,400
Accounts receivable	860,000
Salaries and wages	569,000
Discounts allowed	38,600
Discounts received	67,000
General expenses	22,400
Buildings	2,710,000

Additional information:

- On 31 December, 2016:
  - Inventory was valued at Ksh. 279,500;
  - Rates amounting to Ksh. 4,500 were outstanding;
  - Insurance of Ksh. 7,000 was prepaid.
- A provision for doubtful debts of 5% is to be created on accounts receivable.
- Buildings are to be depreciated at 2% per annum on cost.

- (i) Prepare income statement for the year ended 31 December 2016.
- (i) Advise the proprietor on the action to take based on trading operations results obtained in (i) above. (12 marks)

4. (a) Kilimo Traders had the following transactions during the month of April 2016.

2016	Ksh
April 1 Purchased goods on credit from Safi Wholesalers.	139,400
4 Sold foods on credit to Ziada Enterprises	67,500
7 Sold foods on credit to Wenax College.	25,600
12 Purchased goods on credit from Yato Manufacturers.	86,000
15 Returned goods to Safi Wholesalers	1,300
19 Sold goods on credit to Rono Hotel.	191,700
22 Sold goods on credit to Excel Hotel.	37,200
25 Bought an equipment on credit from Golden Machines limited.	300,000
30 Sold goods on credit to Lait Enterprises.	16,800
30 Purchased goods on credit from Dilla Manufacturers.	75,000

Prepare:

- (i) purchases journal;
- (ii) sales journal;
- (iii) returns inwards journal;
- (iv) general journal. (8 marks)

- (b) On 31 July 2016, the cash book of Wasili Traders showed a bank overdraft of Ksh. 61,000 while the bank statement on the same date showed a credit balance of Ksh. 73,700.

On comparisons, the following discrepancies were revealed:

- I. Dividends received amounting to Ksh. 4,800 were reflected in the bank statement only.
- II. Cheques totalling Ksh. 142,100, received and deposited, were not reflected in the bank statement.
- III. Bank charges amounting to Ksh. 3,400 were shown on the bank statement only.
- IV. The bank had made a standing order payment of Ksh. 39,000 on behalf of the firm which was reflected on the bank statement only.
- V. A customer had made a direct deposit of Ksh. 228,500 into the firm's bank account.
- VI. A cheque from a customer of Ksh. 8,200 was returned as unpaid by the bank.
- VII. A cheque received for commission of Ksh. 950 was credited in the cash book.
- VIII. The bank had erroneously credited the firm's account with Ksh. 3,000.
- IX. Cheques issued to suppliers amounting to Ksh. 89,200 had not been presented for payment.

Prepare:

- (i) an updated cash book;
- (ii) a bank reconciliation statement. (12 marks)

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

- (i) Going concern.
- (ii) Money measurement.
- (iii) Dual aspect.
- (iv) Business entity.

(8 marks)

(b) The following information relates to Fahari Traders for the month of June 2016.

<b>Balances as at:</b>			Ksh.
1 June 2016	Sales ledger	- Debit	394,000
		- Credit	55,100
	Purchases ledger	- Debit	38,000
		- Credit	247,100
<b>Balances as at:</b>			
30 June 2016	Sales ledger	- Credit	38,500
		Purchases ledger - Debit	29,600

**Transactions during the month of June:**

	Ksh
Credit purchases	949,600
Credit sales	1,520,000
Cheques paid to creditor	512,800
Cash received from debtors	293,000
Returns outwards	42,500
Discounts received	87,600
Bad debts	49,800
Cash paid to creditors	107,900
Interest on overdue accounts of debtors	67,500
Refunds form creditors	11,000
Cheques received form debtors	956,400
Return inwards	59,100
Dishonoured cheques	23,400
Discounts allowed	123,000

Prepare:

- (i) sales ledger control account;
- (ii) purchases ledger control account.

(12 marks)

6. (a) The trial balance of Vissa Retailers failed to agree by Ksh. 5,000. The difference was placed on the debit side of the suspense account. Later, the following errors were discovered:
- I. Repairs to equipment of Ksh. 8,000 had been recorded in the equipment account.
  - II. Rent paid of Ksh. 43,000 had been entered in the rent account as Ksh. 34,000.
  - III. Cash drawings amounting to Ksh. 25,000 had been completely omitted from the books.
  - IV. Discounts received of Ksh. 2,000 had been entered in the discounts allowed account.

Prepare:

- (i) journal entries to correct the errors above;
- (ii) suspense account duly balanced. (8 marks)

- (b) On 1 May 2016, Teta Enterprises had Ksh. 36,000 in cash and a bank overdraft of Ksh. 14,200. The following transactions took place during the month of May:

2016

- May 1 Obtained a bank loan of Ksh. 200,000 which was deposited into the business bank account.
- 3 Settled Jami Wholesalers' account of Ksh. 15,000 by cheque, after deducting a cash discount of 10%.
- 5 Paid rent for Ksh. 30,000 by cheque.
- 12 Received a cheque of Ksh. 19,000 from Peter Traders, after deducting a cash discount of 5%.
- 15 Paid electricity for Ksh. 12,400 in cash.
- 22 Bought equipment for Ksh. 41,500 and paid by cheque.
- 25 Withdrew Ksh. 50,000 from the bank for office use.
- 28 The proprietor took Ksh. 29,000 of the cash for personal use.
- 29 Paid Benda Manufacturers their account of Ksh. 18,000 by cheque, after deducting a cash discount of 5%.
- 30 Sera Enterprises settled their account of Ksh. 25,000 by cheque, after deducting a cash discount of 10%.
- 31 Paid wages of Ksh. 33,000 in cash.

Prepare a three-column cash book for the month of May 2016. (12 marks)

7. (a) Explain **four** causes of depreciation of non-current assets. (8 marks)
- (b) The following is a receipts and payments account of Pamoja Social Club for the year ended 31 December 2016:

	Ksh		Ksh
Balance b/d	189,500	Printing and stationery	43,100
Subscriptions	364,000	Secretary's honorarium	58,000
Proceeds from competition	120,000	Electricity and water	11,700
Canteen sales	790,000	Property maintenance	75,200
		Miscellaneous expenses	21,400
		Competition expenses	87,000
		Canteen purchases	484,000
		Balance c/d	<u>683,100</u>
	<u>1,463,500</u>		<u>1,463,500</u>

Additional information:

	1 January 2016	31 December 2016
	Ksh	Ksh
Premises	2,500,000	?
Furniture	400,000	?
Canteen inventory	-	96,000
Subscriptions due $\lambda$	-	27,000
Subscriptions paid in advance $c$	-	11,000
Canteen creditors	-	162,000

- Premises and furniture are to be depreciated at 2% and 10% per annum, respectively.

Prepare:

- (i) income and expenditure account for the year ended 31 December 2016.
- (ii) statement of financial position as at 31 December 2016. (12 marks)

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