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FINANCIAL ACCOUNTING

November 2021

Time: 3 hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL

**DIPLOMA IN SUPPLY CHAIN MANAGEMENT
DIPLOMA IN BUSINESS MANAGEMENT
DIPLOMA IN PROJECT MANAGEMENT
DIPLOMA IN MARITIME TRANSPORT MANAGEMENT
DIPLOMA IN CO-OPERATIVE MANAGEMENT
DIPLOMA IN ENTREPRENEURSHIP
DIPLOMA IN INVESTMENT MANAGEMENT
DIPLOMA IN ROAD TRANSPORT MANAGEMENT
DIPLOMA IN HUMAN RESOURCE 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) Explain each of the following accounting concepts:

- (i) Dual aspect concept;
- (ii) Going concern concept;
- (iii) Materiality concept;
- (iv) Money measurement concept.

(8 marks)

(b) The following balances were obtained from the books of account of Petmic Enterprises for the month of February, 2021:

February	Ksh
1 Balances - Purchases ledger	40,500 Debit
	162,000 Credit
- Sales ledger	380,000 Debit
	105,000 Credit

Totals for the month:

Credit purchases <i>pa</i>	646,000
Purchases returns	80,000
Credit sales <i>sales</i>	805,000
Sales returns <i>return</i>	60,000
Cash paid to creditors <i>sales</i>	210,000
Cash received from debtors <i>sales</i>	400,000
Sales ledger balances off-set against purchases ledger balances <i>pa</i>	108,000
Bad debts written off <i>sales</i>	20,000
Dishonoured cheques <i>sales</i>	63,000
Discounts received <i>sale</i>	50,000
Discounts allowed <i>sale</i>	16,000

655,000

February 28 Balances: Purchases ledger	16,000	Debit
Sales ledger	42,000	Credit

Prepare:

- (i) Purchases ledger control account.
- (ii) Sales ledger control account. *debit*

(12 marks)

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2.

(a) The following balances were obtained from the books of account of Jasho Enterprises as at 31 December 2020.

Answer

	Ksh
Sales	1,200,000
Returns inwards	30,000
Returns outwards	40,000
Purchases	850,000
Bank loan	500,000
Cash at bank	420,000
Rent received	10,000
Salaries and wages	310,000
Capital	700,000
Sundry expenses	80,000
Discounts received	15,000
Accounts receivable	810,000
Furniture	635,000
Accounts payable	670,000

Prepare a trial balance as at 31 December 2020.

(9 marks)

(b) Hoda Enterprises does not keep proper books of account. The following information is available.

(i) Cash Book Summary

Receipts	Ksh	Payment	Ksh
Cash sales	800,000	Electricity	35,000
Debtors	600,000	Rent	265,000
		Creditors	400,000
		General expenses	44,000

(ii)	Balances as at	1 January 2020	31 December 2020
		Ksh	Ksh
	Inventory	?	149,400
	Accounts receivables	190,000	248,600
	Accounts payable	110,000	70,000

(iii) All purchases were made on credit.

(iv) The gross profit margin is 30%.

Prepare an income statement for the year ended 31 December 2020. ✓

(11 marks)

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Turn over

Dr
2995,000

Dr
2325,000

Dr
2469,000

Dr
2995,000

3. (a) Explain **four** causes of depreciation on non-current assets. (8 marks)
- (b) The following information relates to Afanta Enterprises for the year ended 31 December 2020.

	Ksh
Inventory (1 January 2020)	108,000
Purchases	400,000
Motor vehicles	2,000,000
Sales	1,900,000
Returns outwards	60,000
Carriage inwards	40,000
Carriage outwards	35,000
Salaries and wages	220,000
Discounts allowed	22,000
Discounts received	52,000
Bad debts	33,000
Accounts receivable	600,000
Provision for doubtful debts (1 January 2020)	35,000
Inventory (31 December 2020)	72,000

Additional information:

- (i) Provision for depreciation on motor vehicle is provided at 15% per annum on cost.
- (ii) The provision for doubtful debts is to be adjusted to 5% of the accounts receivable.

Prepare an income statement for the year ended 31 December 2020.

(12 marks)

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4. (a) Explain **four** qualities of good accounting information.

(8 marks)

- (b) The following is the receipts and payments account of Haitas Club for the year ended 31 December, 2020:

Receipts and payments account

	Ksh		Ksh
Balance b/f	420,000	Bar purchases	60,000
Subscriptions	2,200,000	Equipment	110,000
Bar sales	130,000	Electricity	15,000
Raffle tickets	86,000	Wages	190,000
		Competition prizes	40,000
		Rent	150,000
		Balance c/f	<u>2,271,000</u>
	<u>2,836,000</u>		<u>2,836,000</u>

Additional information:

Balances as at	31 December 2019	31 December 2020
	Ksh	Ksh
Bar stock	20,000	25,000
Equipment (book value)	720,000	747,000
Subscriptions in arrears	320,000	180,000
Subscriptions in advance	110,000	65,000
Rent prepaid	20,000	25,000
Accrued electricity	6,000	4,000

Prepare:

- (i) An income and expenditure account for the year ended 31 December 2020.
 (ii) A statement of financial position as at 31 December 2020.

(12 marks)

5. (a) Explain four reasons that make a cash book to be considered as a journal and a ledger. (8 marks)

(b) On 28 February 2021, the cash book (bank column) of Hakiki Ventures had a debit balance of Ksh 105,200 while the bank statement showed a debit balance of Ksh 3790 for the same period.

Upon comparison the following discrepancies were revealed:

- (I) Uncredited cheques amounted to Ksh.201,220. *deduct*
- (II) Cheques totalling Ksh.32,100 had been dishonoured by the bank. *deduct*
- (III) The bank had received dividends of Ksh.24,000 on behalf of Hakiki Ventures. *ADD*
- (IV) Direct deposits amounted to Ksh.120,000.
- (V) Standing orders amounted to Ksh.23,050. *deduct*
- (VI) Bank orders amounted to Ksh.4,310. *deduct*
- (VII) The opening balance in the cash book had been overstated by Ksh.10,100. *deduct*
- (VIII) The bank has erroneously debited Hakiki's account with Ksh.65,210. *deduct*
- (IX) Unpresented cheques amounted to Ksh.83,000. *ADD*

Prepare:

- (i) An updated cash book;
- (ii) A bank reconciliation statement as on 28 February 2021.

(12 marks)

6. (a) The trial balance of Bamas Enterprises as at 31 December 2020 failed to agree, the debits exceeding the credits by Ksh 110,000. *Cr*
Upon investigations, the following errors were revealed

- (I) The wages account has been overcast by Ksh.80,000. *80,000*
- (II) Rent payment of Ksh.25,000 had been credited in the rent receivable account. *25,000*
- (III) A purchase of an office printer for Ksh.10,000 had been debited in the office expenses account. *✓*
- (IV) A sale of goods for Ksh.18,000 on credit to Timothy had not been entered in the books. *✓*
- (V) The purchases account had been undercast by Ksh.29,000. *29,000*
- (VI) Discount allowed account had been overcast by Ksh.9,000. *9,000*

Prepare ;

- (i) Journal entries to correct the errors above.
- (ii) Suspense account.

(10 marks)

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- (b) The following expenditure was incurred by Sammy Traders in the month of January 2021:

	Ksh
Discounted allowed <i>REVENUE</i>	50,000
↳ Extension of office block <i>CAP</i>	200,000
Transport <i>REVENUE</i>	180,000
↳ Purchase of office furniture <i>CAP</i>	240,000
Purchase of office pens <i>REVENUE</i>	1,400
Salaries <i>REVENUE</i>	350,000
Repairs to office furniture <i>REVENUE</i>	150,000
Installation of electric gate <i>CAP</i>	80,000

Determine the total:

- (i) Capital expenditure;
- (ii) Revenue expenditure.

(10 marks)

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134,770

7 (a) Highlight **four** uses of a general journal.

(8 marks)

(b) On 1 February 2021, Jakah Limited had Ksh.191,000 in cash and Ksh.137,000 at bank. The following transactions took place during the month of February 2021.

- February 3 Received a cheque for Ksh.120,000 from Timothy
4 Paid wages of Ksh.45,000 in cash and Ksh.80,000 by cheque
8 Received cash Ksh.15,360 from James after deducting 4% cash discount
9 Paid fuel cost of Ksh.4,000 in cash
12 Cash sales amounted to Ksh.30,000
13 Settled Dorka's account of Ksh.40,000 by cheque less 4% cash discount
15 Took Ksh.97,000 from the cash till for personal use
16 Maureen settled her account of Ksh.8,000 in cash
19 Cash sales directly deposited into the bank account Ksh.11,000
24 Withdrew Ksh.15,000 from bank for office use
25 Settled Akinyi's account of Ksh.60,000 by cheque less Ksh.1,800 cash discount
28 Deposited all the cash into the bank except Ksh.9,000

Prepare a three column cash book to record the transactions above.

(12 marks)

Bank Dr
268,100
cash

Dr
267,745.6

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