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FINANCIAL ACCOUNTING

July 2022

Time: 3 hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL

**DIPLOMA IN SUPPLIES CHAIN MANAGEMENT
DIPLOMA IN BUSINESS MANAGEMENT
DIPLOMA IN PROJECT MANAGEMENT
DIPLOMA IN HUMAN RESOURCE MANAGEMENT
DIPLOMA IN DISASTER MANAGEMENT
DIPLOMA IN INVESTMENT MANAGEMENT
DIPLOMA IN ROAD TRANSPORT MANAGEMENT
DIPLOMA IN MARITIME TRANSPORT MANAGEMENT
DIPLOMA IN CO-OPERATIVE MANAGEMENT
DIPLOMA IN ENTREPRENEURSHIP**

MODULE I

FINANCIAL ACCOUNTING

3 hours

INSTRUCTIONS TO CANDIDATES

This paper consists of SEVEN questions.

Answer any FIVE questions in the answer booklet provided.

Show all your workings.

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 **four** uses of control accounts in a business organization. (8 marks)

(b) On December 2021, the trial balance of Hamcet Enterprises failed to agree. The credit side had exceeded the debit by Ksh 224,100. Upon investigations the following discrepancies were revealed:

- (I) the sales day book had been overcast by Ksh 383,200;
- (II) purchases of Ksh 71,250 had been recorded in the books as Ksh 21,750;
- (III) wages had been overstated by Ksh 175,100.
- (IV) A refund of Ksh 113,500 for insurance premium had only been debited in the cash book.
- (V) A rent payment of Ksh 40,000 had been credited to rent receivable account.

Prepare a:

(i) general journal to correct the errors above;

(ii) suspense account duly balanced.

(12 marks)

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

- (i) Dual aspect concept;
- (ii) materiality concept;
- (iii) prudence concept;
- (iv) consistency concept.

(8 marks)

(b) The following is the statement of financial position of Khatity Traders as at

	Ksh	Ksh
Non current assets		
Lend and buildings		1,720,000
Motor vehicles		<u>830,000</u>
		2,550,000
Current assets		
Inventory	330,000	
Accounts receivable	140,000	
Cash at bank	105,000	
Cash in hand	<u>65,000</u>	<u>640,000</u>
		<u>3,190,000</u>
Capital and liabilities		
Capital		657,000
12% bank loan		<u>2,000,000</u>
		<u>2,657,000</u>
Current liabilities		
Accounts payable	293,000	
Loan interest	240,000	533,000
		<u>3,190,000</u>

Additional information:

Transactions during the month of January 2021.

- Proprietor withdrew Ksh 30,000 from bank to pay for his children's fees.
- Received a cheque for Ksh 17,000 from a debtor.
- Paid loan interest Ksh 2,000 in cash.
- Paid a creditor Ksh 21,600 by cheque.
- Bought goods on credit for Ksh 111,400 from Apim Limited.
- Bought goods in cash for ksh1000
- Sold goods costing Ksh 20,000 for Ksh 35,000 in cash.
- Bought furniture for Ksh 30,000 and paid by cheque.

Prepare a statement of financial position as at 31 January 2022.

(12 marks)

3. (a) Explain **four** benefits of maintaining a petty cash book in a business organisation.

- To keep record of
- To avoid over spending

(8 marks)

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Turn over

- (b) The following information relates to motor vehicles owned by Jashonix Limited for the year ended 31 December 2020.

Motor vehicle	Date of Acquisition	Cost	Disposal Date	Price
KCZ 002	1 January 2019	1,500,000	-	
KDA 003	1 July 2019	1,800,000	-	
KCM 001	1 January 2018	800,000	30 June 2020	550,000 - 640,000

All vehicles are depreciated at the rate of 20% per annum using reducing balance method on pro-rata basis.

For each of the years ended 31 December 2018, 2019 and 2020, prepare:

- motor vehicles account;
- provision for accumulated depreciation account;
- disposal of motor vehicles account.

Handwritten calculations:
 20% x 800,000 = 160,000
 (800,000) x 0.8 = 640,000
 (1,500,000) x 0.8 = 1,200,000
 (1,800,000) x 0.8 = 1,440,000
 1,500,000 - 1,200,000 = 300,000
 1,800,000 - 1,440,000 = 360,000
 1,200,000 + 360,000 = 1,560,000
 1,560,000 - 300,000 = 1,260,000
 1,260,000 + 360,000 = 1,620,000
 1,620,000 - 640,000 = 980,000

(12 marks)

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

- debit note;
- credit note;
- invoice;
- receipt. - Document produced by firm indicating sales on credit/cash

(8 marks)

- (b) On 30 September 2021, Matunda Traders' cash book (bank column) showed a debit balance of Ksh 111,000 while the bank statement showed a debit balance of Ksh 12,130 on the same date.

Upon investigation, the following discrepancies were revealed:

- Bank charges amount to Ksh 4,428.
- Uncredited cheques were Ksh 180,102
- The bank had paid another customer in error Ksh 20,000
- The opening balance of the cash book had been recorded as Ksh 110,000 instead of Ksh 175,000.
- The bank had received dividends of Ksh 14,200 directly.
- Dishonoured cheques amounted to Ksh 119,500.
- Unpresented cheques amounted to Ksh 122,700.

Prepare:

- an updated cash book as at 30 September 2021.
- a bank reconciliation statement.

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5. (a) The following balances were obtained from the books of account of Itemix Traders is at 31 December 2021. (12 marks)

	Kshs		
Motor vehicles	2,300,000		
Land and buildings	1,900,000		
Sales	3,200,000	3 200	
Accounts payable	1,350,000	2 300	
Discounts received	100,000	00	2 300
Accounts received	210,000		1 900
Discounts allowed	44,000		4 200
Capital (1 January, 2021)	1,361,000		3 40
Carriage outwards	54,000	1 350	
Carriage inwards	70,100	44	
Electricity	33,000	1 394	4 209
Purchases	1,400,000	1 361	33
		2 755	4 242
		54	
		2 809	
		1 400	
		4 209	

Prepare a Trial Balance as at 31 December 2021. (8 marks)

(b) Linda Social Club has prepared its receipts and payment account for the year ended 31 December 2021 as follows:

Receipts and Payment Account			
	Ksh		Ksh
Balance b/d	235,000	Equipment	630,000
Subscriptions	1,120,000	Rent	400,000
	325,000	Electricity	32,000
		Refreshments for bar	108,000
		B/d c/d	510,000
	<u>1,680,000</u>		<u>1,680,000</u>

Balances as at 31 December.

	2020	2021
	Ksh	Ksh
Electricity in arrears	15,000	12,000
Subscriptions in advance	33,000	22,500
Subscription in arrears	-	24,000
Equipment	210,000	770,000
Refreshments stock	50,000	30,000

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1 680 000
3 200 000
2 800 000

Provision for doubtful debts	23,000	12,000
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For the year ended 31 December 2021, prepare:

- (i) bar trading account;
- (ii) income and expenditure account.

(12 marks)

6. (a) The following expenditure relates to Watatu Enterprises for the month of September 2021.

	Ksh
Purchase of motor vehicle	1,100,000
Purchase of stationery	30,000
Extension of office building	114,000
Motor vehicle repairs	140,500
Rent	360,000
Salaries	500,300

Determine the:

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

(8 marks)

- (b) On 31 December, 2021, the following balances were extracted from the books of account of Denmex Enterprises.

	Ksh
Accounts payable	231,950
Accounts receivable	158,600
Motor vehicle at cost	2,350,000
Provision for accumulated depreciation on motor vehicles (1 January 2021)	940,000
Furniture and fittings at cost	300,000
Provision for accumulated depreciation on furniture and fittings	501,200
Capital (1 January 2020)	111,500
Drawings	160,000

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14 500
 1200
 15700

Inventory	44,150
Bank	47,300

Additional information:

- (i) depreciation on furniture and fittings is provided for at the rate of 12.5% per annum on cost.
- (ii) depreciation on motor vehicles is provided for at the rate of 20% per annum on cost.
- (iii) bad debts of Ksh 32,600 are to be written off.
- (iv) the net profit for the year was Ksh 735,300.

Prepare a statement of financial position as at 31 December 2021.

(12 marks)

- A.* (a) **Hallogan Traders purchases and sells goods on credit. The following transactions relate to the month of October 2021.**

2021

October

- 3 Purchased goods for Ksh 322,000 from Hanson Limited.
- 8 Sold goods for Ksh 43,000 to Jane.
- 10 Purchased goods for Ksh 100,000 from Wanza Wholesalers
- 24 Returned goods worth Ksh 14,500 to Hanson Limited.
- 30 Sold goods for Ksh 90,000 to Wajenzi Contractors.
- 31 Returned goods worth Ksh 1200 to Wanza wholesalers.
- 31 Jane returned goods worth Ksh 13,000.

Prepare the following journals to record the transactions above.

- (i) sales journal;
- (ii) purchases journal;
- (iii) returns outwards journal;
- (iv) returns inwards journal.

(10 marks)

- (b) On 1 October 2021, Themix Traders had Ksh 51,000 in cash and a bank overdraft of Ksh 10,000. The following transactions took place during the month.

2021

October

- 2 Sold goods for Ksh 38,600 in cash.
- 9 Sold goods for Ksh 25,000 and received a cheque.

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- 12 Paid electricity Ksh 1,500 in cash.
- 14 Received a cheque for Ksh 145,000 from Amos.
- 15 Purchased goods for Ksh 12,000 in cash.
- 27 Settled ABX Limited's account of Ksh 270,000 by cheque.
- 31 Deposited all the cash into the bank account except Ksh 900.

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

(12 marks)

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51000
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 52100

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 13500
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51000
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 89000

145000
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 147500

160000
 21000
 210000

210000
 69900
 140100

250000
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