

1223
FOUNDATIONS OF ACCOUNTING
STAGE I
November 2022
Time: 2 $\frac{1}{2}$ hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL
BUSINESS EDUCATION SINGLE AND GROUP CERTIFICATE
EXAMINATIONS

FOUNDATIONS OF ACCOUNTING
STAGE I

2 $\frac{1}{2}$ hours

240

INSTRUCTIONS TO CANDIDATES

*This paper consists of TWO sections; A and B.
Answer ALL questions from both sections in the answer booklet provided.
Candidates should answer the questions in English.*

This paper consists of 6 printed pages.



Candidates should check the question paper to ascertain that all the pages are printed as indicated and that no questions are missing.

SECTION A (32 marks)

Answer *ALL* the questions in this section.

1. State four users of accounting informations. (4 marks)
2. Outline two benefits of issuing a receipt to a customer. (4 marks)
3. Prepare a trial balance from the following information.

	Ksh
Purchases	14,000
Capital	155,500
Cash at bank	143,000
Sales	1,500

(4 marks)

4. Highlight the use of a purchases day book. (2 marks)
5. Outline two causes of depreciation of non-current assets. (2 marks)
6. Determine the cost of goods sold from the following information.

	Ksh
Opening inventory	32,000
Closing inventory	31,600
Purchases	149,400

(4 marks)

7. State two benefits of using a petty cash book in an organization. (2 marks)
8. The following information relates to a partnership for the year ended 31 December 2021:

	Ksh
Net profit	290,000
Interest on capital	17,000
Interest on drawings	25,000

Determine the amount to be shared by the partners. (4 marks)



9. State the accounting concept applicable in each of the following situations.
- (i) Assets purchased are recorded at cost in financial statements.
 - (ii) A business will continue in operation for at least 12 month after the preparation of the financial statements.
- (4 marks)
10. State two sources of income to a non profit making organization. (2 marks)

SECTION B (68 marks)

Answer ALL questions in this section.

11. (a) Classify each of the following expenditures as either capital or revenue.
- (i) Salary
 - (ii) Stationery
 - (iii) Generator
 - (iv) Painting of an old building
 - (v) Construction of a new building
 - (vi) Painting of the new building
 - (vii) Electricity bill
 - (viii) Purchase of goods for sale
- (8 marks)
- (b) Ken started a business on 1 March 2022 with Ks 145,000 in cash. The following transactions took place during the month.

2022

March	2	Opened business bank account and deposited Ksh 80,000
	18	Purchased goods for Ksh 8,000 paying in cash
	31	Cash sales amounted to Ksh 10,000

- (i) Prepare ledger accounts to record the transactions above.
 - (ii) Balance off the accounts.
 - (iii) Extract a trial balance as at 31 March 2022.
- (9 marks)



12. (a) Explain four uses of control accounts. (8 marks)
- (b) The following information relates to Kany Traders for the month of January 2022.

January	1	Balance b/f: Cash Ksh 130,000
		Bank Ksh 148,000
		Transactions during the month
	3	Paid rent Ksh 30,000 by cheque
	8	Bought goods on credit from Hassan for Ksh 40,000
	16	Cash sales amounted to Ksh 15,000
	21	Deposited Ksh 12,000 of the cash into the bank account
	26	Sold goods on credit to Edith for Ksh 10,000
	28	Settled Hassan's account by cheque less 5% cash discount
	30	Paid wages Ksh 16,000 in cash
	31	Edith settled her account in cash less 10% cash discount
	31	Sold goods for Ksh 2,000 and received a cheque

Prepare a three column cash books. (9 marks)



13. The following information relates to Samaki Traders for the year ended 31 December 2021.

	Ksh
Sales	480,000
Returns inwards	12,000
Inventory (1 January 2021)	38,000
Furniture	42,000
Salaries	240,000
Deliveries van	300,000
Purchases	285,000
Rent paid	60,000
Returns inwards	15,000
Insurance	16,000

Additional information:

- (I) As at 31 December 2021:
- Inventory was valued at Ksh 34,000
 - Outstanding salaries was Ksh 10,000
- (II) Depreciation is to be provided for as follows using straight line method;
- Furniture 12.5% per annum
 - Delivery 20% per annum
- (i) Prepare an income statement for the year ended 31 December 2021.
- (ii) Comment on the performance of the firm.

(17 marks)



14. (a) Terani Manufacturers uses material TT4 in its production. The following information relates to the material for the month of March 2022.

Balance 1 March 2022: 200 units at Ksh 30 per unit

Receipts:

March	5	1400 units at Ksh 32 per unit
	18	300 units at Ksh 35 per unit
	27	150 units at Ksh 30 per unit

Issues:

March	10	1000 units
	31	800 units

Prepare a stores ledger account using First In First Out (FIFO) method. (8 marks)

- (b) The cash book (bank column) of Mzalendo Enterprise showed a debit balance of Ksh 80,000 as at 31 March 2020. The bank statement on the same date showed a credit balance of Ksh 126,000. Upon investigations, the following discrepancies were revealed:

- (I) Cheques issued to creditors amounting to Ksh 145,000 had not been presented for payment.
 (II) Bank charges were Ksh 3,000.
 (III) A debtor had deposited Ksh 42,000 directly into the bank account.
 (IV) Cheques received and deposited of Ksh 138,000 had not been credited by the bank.

Prepare:

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

(9 marks)

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