

1903/106
1906/106
FINANCIAL ACCOUNTING
July 2023
Time: 3 hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL
CERTIFICATE IN SUPPLY CHAIN MANAGEMENT
CRAFT CERTIFICATE IN BUSINESS MANAGEMENT

FINANCIAL ACCOUNTING

3 hours

INSTRUCTIONS TO CANDIDATES

*This paper consists of TWO sections; A and B.
Answer ALL questions from section A and any FOUR questions from section B
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.**

SECTION A (40 marks)

Answer ALL questions in this section.

1. State the information needs of each of the following users of financial statements of a business organization:
 - (i) The government;
 - (ii) The lenders.

(2 marks)
2. State **two** types of ledgers that may be maintained in a business organization.

(2 marks)
3. State the use of a debit note in a business transaction.

(2 mark)
4. State the function of the folio column in the books of original entry.

(1 mark)
5. State **two** uses of a petty cash book.

(2 marks)
6. Wasili Traders issued a credit note for Ksh 25,000 to Okendo but failed to record it in the books of account. Prepare a general journal to correct the error.

(2 marks)
7. Amur Traders withdrew Ksh 40,000 from the bank for office use. Enter the transaction in the cash book.

(2 marks)
8. State the meaning of the term, revenue expenditure.

(2 marks)
9. Highlight **two** reasons for preparing a bank reconciliation statement.

(2 marks)
10. State **two** sources of information for preparing a sales ledger control account.

(2 marks)
11. The following information relates to wages expense of Magugo Traders for the year ended 31 December 2020.

	Ksh
Wages paid in advance (1 January 2020)	50,000
Wages paid during the year	200,000
Outstanding wages (31 December 2020)	25,000

Prepare a wages expense account.

(2 marks)

12. Raha Traders sold a machine for Ksh 100,000. The machine had been purchased 5 years ago at Ksh 120,000. The accumulated depreciation on the machine was Ksh 40,000. Prepare a machinery disposal account.

(2 marks)

13. The following balances were extracted from the books of account of Linda Traders as at 31 December 2020:

	Ksh
Machinery	200,000
Fixtures and fittings	150,000
Capital	600,000
Stock	250,000

Prepare a balance sheet as at 31 December 2020.

(2 marks)

14. The following information relates to the subscription income of Maendeleo Social Club for the year ended 31 December 2020.

	Ksh
Subscriptions received during the year	1,200,000
Subscriptions received in advance (1 January 2020)	200,000
Subscriptions in arrears (31 December 2020)	250,000

Prepare the subscription account.

(2 marks)

15. State the accounting concept that best describes each of the following statements:

- (i) A machine costing Ksh 1,000 had not been recorded in the financial statements.
- (ii) The method of depreciating motor vehicles has been straight line for several years.

(2 marks)

16. Mbulu Traders do not maintain a complete set of accounting records. As at 1 January 2020, the creditors amounted to Ksh 150,000. During the year, Ksh 650,000 was paid to creditors. Determine the purchases for the year.

(3 marks)

17. State the effect of each of the following transactions on the assets, liabilities and capital of a business:

- (i) The proprietor converted his personal motor vehicle valued at Ksh 1,200,000 into business use.
- (ii) The proprietor borrowed Ksh 1,000,000 from a bank for business use.

(2 marks)

18. State the source document that is used to record transactions in each of the following books of account:

- (i) Cash book;
- (ii) Sales returns daybook.

(2 marks)
Turn over

19. The following transactions relate to Nakuku Traders for the month of August 2021:

2021

- August 1: Started business with Ksh 100,000 in the bank
4: Purchased a motor vehicle for Ksh 500,000 from MV Suppliers on credit

Prepare ledger accounts to record the transactions above. (2 marks)

20. Record the following transactions in the general journal:

- (i) Sold a motor vehicle for Ksh 1,000,000 to ABC Limited on credit.
(ii) Purchased machinery for Ksh 20,000 from Machines Limited on credit.

(2 marks)

SECTION B (60 marks)

Answer any **FOUR** questions from this section.

21. (a) Explain **three** qualitative characteristics of financial statements. (6 marks)

(b) The trial balance prepared by Wakuku as at 31 December 2021 failed to balance. The difference was placed in the suspense account. Later, the following errors were discovered:

- (i) Sales day book had been under cast by Ksh 100,000. *undercast*
(ii) The purchases day book had been overcast by Ksh 200,000. *overcast*
(iii) A sale of goods for Ksh 80,000 to Ododo on credit was recorded in Odada's account. *Odada's*
(iv) A purchase of a machine for Ksh 120,000 was debited in the repairs to machinery account. *Repairs*
(v) Rent income account had been under cast by Ksh 150,000. *undercast*
(vi) Cash received from Mana Traders Ksh 180,000 had been debited to their account and credited in the cash book.

Prepare:

- (I) general journal to correct the errors above;
(II) suspense account, showing the difference in the trial balance.

(9 marks)

22. (a) Explain **three** uses of a trial balance. (6 marks)
- (b) The following transactions relates to Pamba Traders for the month of September 2021.

2021

September:	1	Received a credit note for Ksh 10,000 from Wanjala.
	1	Issued invoice for Ksh 200,000 to Omena Traders.
	4	Issued a debit note for Ksh 20,000 to Omena Traders.
	5	Issued a credit note for Ksh 10,000 to Omena Traders.
	6	Issued a credit note for Ksh 5,000 to Mashuru.
	8	Received an invoice for Ksh 180,000 from Kambu Traders.
	10	Received a credit note for Ksh 6,000 from Kambu Traders.
	12	Issued an invoice for Ksh 80,000 to Tengela Traders.
	14	Received a credit note from Kuru Traders for Ksh 10,000.
	20	Received an invoice for Ksh 10,000 from Sinepei.

Prepare:

- (i) sales day book;
- (ii) sales returns day book;
- (iii) purchases day book;
- (iv) purchases returns day book.

(9 marks)

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

- (i) Money measurement;
- (ii) Going concern concept;
- (iii) Realization concept.

(6 marks)

- (b) Mulungu Traders operates petty cash book on an imprest system, with a cash float of Ksh 20,000. During the month of October 2021, the following transactions took place:

October:	1	The petty cashier received Ksh 5,000 to reinstate the float.
	5	Paid the following expenses:
		Ksh
		- Sugar 1,000
		- Tea leaves 500
		- Milk 500
	7	Paid for airtime Ksh 1,000
	8	Paid bus fare Ksh 2,000
	10	Paid cleaners' wages Ksh 3,000
	12	Bought sugar Ksh 1,000
	15	Paid for air time Ksh 1,200
	18	Paid taxi fare Ksh 2,000

Prepare a petty cash book using the following analysis columns:

- (i) Staff tea;
- (ii) Airtime;
- (iii) Wages;
- (iv) Transport.

(9 marks)

24. (a) Explain the use of each of the following business documents:

- (i) Statement of account;
- (ii) Incoming invoice;
- (iii) Debit note.

(6 marks)

(b) On 1 January 2021, Makupa Traders had Ksh 30,000 cash in hand and Ksh 200,000 at the bank. During the month, the following transactions took place:

2021

- January
- 2: Made cash sales of Ksh 25,000.
 - 4: Received a loan of Ksh 700,000 from Bingura Bank.
 - 8: Purchased a machine for Ksh 200,000 and paid by cheque.
 - 10: Purchased goods for Ksh 80,000 and paid by cheque.
 - 12: Received a cheque for Ksh 80,000 from Wambingu.
 - 18: Withdrew Ksh 40,000 from bank for business use.
 - 20: Deposited Ksh 20,000 from the cash till in to the bank account.
 - 22: Withdrew Ksh 10,000 from the cash till to pay for son's school fees.

Prepare a two column cash book, duly balanced.

(9 marks)

25. (a) Maendeleo Enterprises incurred the following expenditure during the year ended 31 December 2020:

	Ksh
Purchase of machinery	1,200,000
Installation of machinery	200,000
Insurance and freight for the new machinery	100,000
Wages	300,000
Electricity	120,000
Repairs to machinery	85,000
Transport	150,000
Printing	100,000

Determine the:

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

(6 marks)

- (b) The following are the receipts and payments account for Wasili Social Club for the year ended 31 December 2020.

Receipts		Payments	
2020	Ksh	2020	Ksh
Balance b/d	800,000	Secretarial expenses	180,000
Subscription	1,200,000	Purchases of pavilion	400,000
Registration	120,000	Wages	120,000
Donations	80,000	Rent	100,000
	<u>2,200,000</u>	Balance c/d	<u>1,400,000</u>
			<u>2,200,000</u>

Additional information:

- Subscriptions received in advance as at 31 December 2020 were Ksh 150,000.
- The pavilion is depreciated at the rate of 10% per annum on cost.
- Wages accrued as at 1 January 2020 were Ksh 10,000.

Prepare income and expenditure account for the year ended 31 December 2020.

(9 marks)

26. (a) Explain **three** causes of differences between the cash book and the bank statement.

(6 marks)

- (b) Makupa Traders do not maintain a full set of accounting records. The following information relates to the business for the year ended 31 December 2020.

(i)

	Balances as at:	
	31 December 2019	31 December 2020
	Ksh	Ksh
Inventory	50,000	75,000
Debtors	280,000	320,000
Creditors	150,000	170,000
Wages accrued	-	40,000

Dr	Cash book summary		Cr
	Ksh		Ksh
Sales	400,000	Creditors	420,000
Debtors	1,020,000	Wages	100,000
		Electricity	45,000

Prepare income statement for the year ended 31 December 2020.

(9 marks)

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