

NIBs
2903/102
2906/102
2922/102

FINANCIAL ACCOUNTING

July 2016

Time: 3 hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL

**DIPLOMA IN SUPPLY CHAIN MANAGEMENT
DIPLOMA IN BUSINESS MANAGEMENT
DIPLOMA IN PROJECT MANAGEMENT**

FINANCIAL ACCOUNTING

3 hours

INSTRUCTIONS TO CANDIDATES

*This paper consists of **SEVEN** questions.*

*Answer any **FIVE** questions.*

Write your answers in the answer booklet provided.

All questions carry equal marks.

*Show **ALL** your working.*

Candidates should answer the questions in English.

This paper consists of 11 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) The following is the statement of financial position of Rexen Traders as at 1 June 2015:

	Ksh.	Ksh.
Non-current Assets		
Furniture and fittings		530,000
Motor vehicles		<u>750,000</u>
		1,280,000
Current Assets		
Inventory	85,000	
Accounts receivable	214,000	
Cash in hand	<u>39,400</u>	<u>338,400</u>
		<u>1,618,400</u>
Capital		987,000
Non-current liability		
Loan from Sifa Bank		300,000
Current Liabilities		
Accounts payable	260,100	
Bank overdraft	<u>71,300</u>	<u>331,400</u>
		<u>1,618,400</u>

The following transactions took place during the first week of June 2015:

- Received cheques totalling Ksh. 135,000 from debtors. *Account Receivable*
- Bought goods for Ksh. 40,000 and paid by cheque. *Account Payable*
- Sold excess furniture at a cost of Ksh. 207,000 and received the payment in its sets form of a cheque.
- The proprietor brought in additional cash of Ksh. 60,000 to be used in the business.
- Repaid Ksh. 100,000 of the loan from Sifa Bank by cheque.
- Paid a creditor Ksh. 50,000 by cheque.

Prepare a statement of financial position after taking into account the above transactions.

(10 marks)

- (b) The petty cashier of Panda Enterprises was given a cash float of Ksh. 20,000 by the main cashier. During the first week of March 2015, the petty cashier made the following payments:

2015		Ksh.
March 2	Air time for cellphone	1,800
3	Tea leaves	300
4	Telephone	3,400
4	Petrol	4,000
4	Bread and cakes	600
5	Printing papers	1,500
5	Bus fare	500
5	Pens	200
6	Milk	1,700
6	Envelopes	400
7	Taxi	900
7	Tea girl's wages	2,700

Prepare a petty cash book with the following analysis columns:

- transport;
- stationery;
- staff tea;
- telephone.

(10 marks)

2. (a) The following information relates to Jumla Retailers for the month of January 2015:

Balances as at 1 January 2015:

	Ksh.
Sales ledger	67,400 DR
Purchases ledger	81,300 CR

Transactions during the month of January were as follows:

	Ksh.
Credit sales	713,200
Bad debts written off	22,500
Discounts received	51,800
Credit purchases	590,000
Refund to debtors	4,900
Cheques received from debtors	461,800
Returns inwards	38,000
Cheques paid to creditors	392,700
Returns outwards	14,500
Cash paid to creditors	60,000
Dishonoured cheque from a debtor	25,000
Discounts allowed	55,000

Balances as at 31 January 2015:

	Ksh.
Sales ledger	9,500 CR
Purchases ledger	4,800 DR

Prepare:

- (i) Sales ledger control account;
- (ii) Purchases ledger control account.

(9 marks)

- (b) On 1 February 2015, Rudisha Traders had Ksh. 37,300 cash in hand and Ksh. 136,400 cash at bank.

The following transactions took place during the month:

2015

- February 2 Paid salaries amounting to Ksh. 77,400 from the bank account
 4 Sold goods for Ksh. 55,000 and received cash
 10 Received a cheque of Ksh. 114,000 from Mose, a debtor, after deducting a cash discount of Ksh. 6,000
 15 Paid Ksh. 3,500 for electricity by cheque
 17 Withdrew Ksh. 30,000 from the bank for office use
 19 Purchased goods worth Ksh. 68,000 and paid by cheque
 22 Paid Ksh. 95,000 by cheque to Rehema Wholesalers after deducting Ksh. 5,000 as discount
 25 The proprietor took Ksh. 25,000 cash for personal use
 27 Received Ksh. 4,200 as refund for rates
 28 Received a commission of Ksh. 18,000 in form of a cheque
 28 Paid Moraa, a creditor, Ksh. 28,000 by cheque, in full settlement of her account of Ksh. 30,000
 28 Paid wages amounting to Ksh. 78,000 in cash

Prepare a three-column cashbook for the month of February 2015.

(11 marks)

3. (a) Explain **four** types of errors that may not affect the agreement of a trial balance. (8 marks)
- (b) On 1 April 2015, Nyota started a business with Ksh. 340,000 in cash. The following transactions took place during the month:

2015

- April 2 Opened a business bank account and deposited Ksh. 280,000 of the cash
 7 Bought goods for Ksh. 270,000 from Kisa Wholesalers on credit
 12 Sold goods for Ksh. 32,500 and received cash
 15 Obtained a loan of Ksh. 120,000 from Delta Finance in form of a cheque
 20 Paid Ksh. 29,000 for general expenses in cash
 22 The proprietor withdrew Ksh. 12,500 from the bank for personal use
 30 Paid Kisa Wholesalers the amount due to them by cheque

- (i) Prepare ledger accounts to record the transactions above.
 (ii) Balance off the ledger accounts as at 30 April 2015.

(12 marks)

4. (a) The following transactions relate to Faulu Traders for the month of January 2015.

Credit sales:

2015		Ksh.
January 2	Abdalla	190,000
7	Zoe Enterprises	370,000
12	Okoth	82,000
25	Kate	56,500

Credit Purchases:

2015		Ksh.
January 1	Bora Wholesalers	101,600
10	Chema Enterprises	97,000
22	Sify Manufacturers	69,400
31	Keli Traders	43,000

Purchases returns:

2015		Ksh.
January 15	Chema Enterprises	16,200
28	Sify Manufacturers	4,300

Sales returns:

2015		Ksh.
January 19	Abdalla	7,200
12	Kate	3,500

Prepare:

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

(8 marks)

- (b) The following is the summarized cash book (bank column) of Tawala Enterprises for the month of May 2015.

		Cash book		
2015		Ksh.	2015	Ksh.
May 1	Balance b/f	156,500	Payments	698,100
	Receipts	<u>874,200</u>	May 31	Balance c/f
		<u>1,030,700</u>		<u>332,600</u>
				<u>1,030,700</u>

On 31 May 2015, the bank statement had a balance of Ksh. 414,200. On investigation, the following discrepancies were revealed:

- (I) A cheque of Ksh. 69,500 received from a customer had been returned by the bank unpaid.
- (II) Dividends received amounting to Ksh. 12,800 appeared on the bank statement only.
- (III) Bank charges of Ksh. 5,100 appeared on the bank statement only.
- (IV) Cheques amounting to Ksh. 150,000 issued to suppliers had not been presented to the bank for payment.
- (V) Cheques received totalling Ksh. 314,000 had been entered in the cashbook but had not been credited by the bank.
- (VI) A cheque of Ksh. 89,000 received from a customer had been incorrectly entered as Ksh. 98,000 in the cash book.
- (VII) Direct bankings by customers amounted to Ksh. 316,400.

Prepare:

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

(12 marks)

5. (a) Explain the use of each of the following source documents in a business.

- (i) Invoice;
- (ii) Credit note;
- (iii) Statement of account;
- (iv) Cash receipt.

(8 marks)

(b) The following is the trial balance of Tayari Wholesalers as at 31 December 2014.

	Dr. (Ksh.)	Cr. (Ksh.)
Capital ✓		3,638,000
Land and buildings ✓	2,662,000	
Salaries	960,000	
Purchases	350,000	
Motor vehicles ✓	1,000,000	
Office expenses	77,500	
Sales		1,500,000
Drawings ✓	34,000	
Accounts receivable ✓	290,000	
Accounts payable ✓		362,000
Bank ✓	64,000	
Inventory (1 January 2014)	122,500	
Rent receivable ✓		60,000
	<u>5,560,000</u>	<u>5,560,000</u>

Additional information:

- Inventory as at 31 December 2014 was valued at Ksh. 60,000.
- Motor vehicles are depreciated at a rate of 20% per annum.
- On 31 December 2014, accrued office expenses amounted to Ksh. 12,500.

(i) Prepare:

- (I) an income statement for the year ended 31 December 2014.
- (II) a statement of financial position as at 31 December 2014.

(ii) Advise the proprietor on the action to take regarding the performance of the business as obtained in (i) above.

(12 marks)

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

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

(8 marks)

(b) The following is a receipts and payments account of Maisha Social Club for the year ended 30 June 2015.

Receipts and Payments Account				
		Ksh.	Ksh.	
July 1 (2014)	Balance b/f	61,100	Printing and stationery	36,400
Subscriptions		297,000	Repairs to equipment	<u>12,000</u>
Sale of dinner receipts		82,000	Gardener's wages	42,000
			Electricity	17,400
			Dinner expenses	54,000
			Insurance	27,000
			June 30 (2015) Balance c/f	<u>251,300</u>
		<u>440,100</u>		<u>440,100</u>

Additional information:

	1 July 2014	30 June 2015
	Ksh.	Ksh.
Subscriptions due	2,400	1,700
Equipment	330,000	292,000
Electricity accrued	3,000	1,500
Prepaid insurance	16,000	4,000
Bank	61,100	251,300
Accumulated Fund	406,500	?

Prepare:

- (i) income and expenditure account for the year ended 30 June 2015.
- (ii) statement of financial position as at 30 June 2015.

(12 marks)

7. (a) Soma Retailers incurred the following expenses during the year ended 31 December 2014:

	(Ksh.)
Purchases of goods	360,000
Payments of rent	120,000
Payments of wages	60,000
Purchase of office furniture	72,000
Repainting of shop	17,500
Purchase of a motor vehicle	850,000
Payment of insurance for motor vehicle	22,000
Payments of office expenses	247,800
Extension of warehouse	119,000
Purchase of computer	75,000
Installation of alarm system	37,000
Installation of an air conditioner in the office	<u>95,000</u>
	<u>2,075,300</u>

- (i) Classify the expenses above as either capital expenditure or revenue expenditure.
- (ii) Determine the:
- (I) total capital expenditure;
- (II) total revenue expenditure.

(8 marks)

- (b) Rosa Limited had the following transactions relating to its equipment.

2012	
January 1	Bought Equipment A and Equipment B for Ksh. 180,000 each
2013	
January 1	Bought Equipment C for Ksh. 400,000
July 1	Bought Equipment D for Ksh. 200,000
2014	
January 1	Sold Equipment A for Ksh. 95,000

The firm depreciates equipment at the rate of 20% per annum on cost.

- (i) For each of the years ended 31 December 2012, 2013 and 2014, prepare:
 - (I) equipment account;
 - (II) provision for depreciation on equipment account;

- (ii) For the year 2014, prepare equipment disposal account. (12 marks)

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