

2402/304

PRINCIPLES OF ACCOUNTS

Oct./Nov. 2016

Time: 3 hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL

DIPLOMA IN FOOD AND BEVERAGE MANAGEMENT

PRINCIPLES OF ACCOUNTS

3 hours

INSTRUCTIONS TO CANDIDATES

*This paper consists of EIGHT questions.
Answer any FIVE questions 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 7 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 five uses of financial statements in a hotel. (10 marks)
- (b) The following transactions relate to Mpwani Resort and Beach Hotels for the month of June 2016:

- June 1 Purchased equipment on credit from Equip Limited Ksh. 1,200,000.
 3 Purchased a motor vehicle on credit from Motors Limited for Ksh. 2,500,000.
 5 Wrote off bad debts Ksh. 180,000 owed by Krishna.
 10 Sold some old equipment on credit to Baraka Kiosk Ksh. 280,000.
 25 Sold a motor vehicle on credit to Kaka Hotels Ksh. 1,000,000.

Prepare a general journal to record the transactions above. (10 marks)

2. (a) Explain the functions of each of the following business documents:

- (i) statement of account;
 (ii) credit note;
 (iii) cash receipt;
 (iv) invoice;
 (v) proforma invoice.

(10 marks)

- (b) The following balances were extracted from the books of Kenda Hotels as at 31 December 2015:

	Ksh
Motor Vehicles	2,500,000
Equipment	1,575,000
Inventory	800,000
Accounts receivable	600,000
Bank	1,200,000
Cash	450,000
Prepaid rent expense	255,000
Accrued rent expense	160,000
Accounts payable	650,000
Net profit for the year	975,000
Accrued electricity	65,000

Prepare a statement of financial position as at 31 December 2015.

(10 marks)

3. (a) The following transactions relate to Kana Resort during the month of August 2016:

- August 1 Started business with Ksh. 5,000,000 in the bank.
 2 Purchased equipment for Ksh. 1,000,000 and paid by cheque.
 4 Purchased inventory for resale Ksh. 500,000 on credit from Dola Investments.
 6 Sold foods Ksh. 250,000 in cash.
 15 Purchased a motor vehicle for Ksh. 1,200,000 and paid by cheque.

Prepare ledger accounts to record the transactions above. (10 marks)

- (b) The following balances were extracted from the debtors ledger of Nakuru Hotels as at 31 December.

	Debtors balance Ksh.	Bad debts written off Kshs
2012	1,200,000	300,000
2013	800,000	280,000
2014	1,400,000	150,000
2015	1,600,000	400,000

Additional information:

- (i) provision for bad debts is maintained at 4% of the closing debtors balances;
 (ii) during the year ended 2015, bad debts recovered were Ksh. 80,000.

(I) prepare:

- bad debts written off account,
- provision for bad debts account,
- bad debts recovered account.

(II) advise the management of Nakuru Hotels on these ways of reducing the bad debts. (10 marks)

4. (a) The following details relate to material NK 30 used by Gawanya Hotels Limited:

Month 2016

- April 1 Received 100 kgs at Ksh. 200 per kg.
 2 Received 300 kgs at Ksh. 300 per kg.
 7 Issued 100 kgs.
 10 Received 400 kgs at Kshs. 500 per kg.
 18 Issued 400 kgs
 22 Received 600 kgs at Ksh. 600.
 28 Issued 400 kgs.

Additional information:

- (i) on 1 April 2016 there were 200 kgs valued at Ksh. 30,000 in stock;
- (ii) the hotel uses First in First out (FIFO) method of stock valuation.

Prepare a stores ledger account for the month of April 2016. (10 marks)

- (b) Kaka, Dada and Mada are in partnership business sharing profits in the ration of 4:4:2 respectively. The following information was extracted from the books of the firm during the year ended 31 December 2015:

Net profit	Ksh. 1,600,00
Capital account balances as at 1 January 2015	
	Ksh
Kaka	800,000
Dada	1,200,000
Mada	1,500,000
Salary entitlement;	
Kaka	200,000
Mada	800,000
Drawings;	
Dada	150,000
Mada	450,000

Additional information:

- (i) Interest on capital is allowed at 10% per annum.
- (ii) Interest on drawings is charged at 5% per annum.

Prepare a profit and loss appropriation account for the year ended 31 December 2015. (10 marks)

5. (a) Explain five causes of depreciation of non-current assets. (10 marks)

- (b) The following is the receipts and payments account of Tisa Social Club for the year ended 31 December 2015:

Receipts and Payments Account			
	Ksh.		Ksh
Balance b/d	8,000,000	Electricity	100,000
Members subscriptions	18,000,000	Rates	120,000
Loan	10,000,000	Premises (1-1-2015)	10,000,000
Sale of dance tickets	* 6,000,000	Salaries and Wages	4,000,000
Donations	500,000	Rent	750,000
		Purchase of furniture (1-1-2015)	2,500,000
		Dance expenses	2,400,000
		General expenses	1,200,000
		Donation to children's home	200,000
		Balance c/d	21,230,000
	<u>42,500,000</u>		<u>42,500,000</u>

Additional information

- (i) Accrued electricity as at 31 December 2015 was Ksh. 8,000.
(ii) Depreciation is provided at 10% on all non-current assets.

Prepare an income and expenditure account for the year ended 31 December 2015.

(10 marks)

6. (a) Explain **five** errors that are not disclosed by the trial balance. (10 marks)

- (b) The cash book (bank column) of Oceanic Hotels showed a debit balance of Ksh. 7,380,000 while the bank statement showed a credit balance of Ksh. 5,700,000 on the same day. On investigation, the following discrepancies were discovered:

- (i) cheques issued and entered in the cash book but not presented for payment were Ksh. 1,500,000;
(ii) uncredited cheques amounted to Ksh. 2,580,000;
(iii) a standing order of Ksh. 1,200,000 had not been reflected in the cash book;
(iv) the hotel had received dividends of Ksh. 900,000 but it had not been reflected in the cash book;
(v) the bank had charged interest of Ksh. 300,000 but this had not been reflected in the cash book.

Prepare:

- (I) updated cash book,
 (II) bank reconciliation statement as at 31 December 2015. (10 marks)

7. (a) Highlight **five** differences between a public limited company and a private limited company. (10 marks)
- (b) Hakati Hotels maintain a petty cash book on the imprest system. The petty cashier operates on an imprest system of Ksh. 100,000. On 1 June, the petty cashier received the cash float.

The following payments were made during the month of June 2016:

	Ksh.
June 2 Advertising	7,000
Staff tea	5,000
Stationery	10,000
5 Travelling	6,000
Stationery	8,000
12 Advertising	5,000
Stationery	8,000
15 Travelling	10,000
25 Staff tea	5,000
28 Advertising	4,000

Prepare a petty cash book for the month of June 2016, using the following analysis columns:

- (i) advertising;
 (ii) staff tea;
 (iii) stationery;
 (iv) travelling. (10 marks)

8. (a) The following balances were extracted from the books of account of Kakamega Hotels as at 31 December 2015:

	Ksh
Sales	28,950,000
Purchases	15,675,000
Discount allowed	625,000
Discount received	502,000
Returns inwards	475,000
Returns outward	350,000
Carriage inward	280,000
Carriage outward	720,000
Commission received	155,000
Rent	1,200,000
Salaries and wages	3,750,000
Depreciation on equipment	750,000
Provision for bad debts	180,000
Bad debts written off	295,000
Inventory (1 January 2015)	1,300,000
Debtors	4,800,000
Heating and lighting	1,050,000

Additional information:

- (i) closing inventory as at 31 December 2015 was valued at Ksh. 2,500,000;
- (ii) rent prepaid as at 31 December 2014 was Ksh. 258,000;
- (iii) heating and lighting outstanding at 31 December 2015 was Ksh. 270,000;
- (iv) provision for bad debts should be adjusted to 4% of closing debtors.

Prepare an income statement for the year ended 31 December 2015. (20 marks)

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