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Index No. _____ / _____

2402/304

PRINCIPLES OF ACCOUNTS

Oct/Nov 2012

Time: 3 hours

Candidate's Signature _____

Date _____



THE KENYA NATIONAL EXAMINATIONS COUNCIL

DIPLOMA IN FOOD AND BEVERAGE MANAGEMENT

PRINCIPLES OF ACCOUNTS

3 hours

INSTRUCTIONS TO CANDIDATES

Write your name and index number in the spaces provided above.

Sign and write the date of the examination in the spaces provided above.

This paper consists of EIGHT questions.

Answer any FIVE questions in the spaces provided in this question paper.

All questions carry equal marks.

Show all your working.

For Examiner's Use Only

Question	1	2	3	4	5	6	7	8	TOTAL
Marks									

This paper consists of 20 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** ways in which the management of a hotel may use accounting information. (10 marks)
- (b) Mbulutu started business on 1 January 2007. He prepares his accounts for a period of twelve months ending 31 December every year. The following information relates to debtors for the years 2007, 2008 and 2009.

Year	Bad debts written off during the year Ksh	Bad debts recovered Ksh	Debtors balance on 31 December Ksh	Provision for doubtful debts Ksh
2007	12,000	-	-	20,000
2008	16,000	3,500	560,000	5%
2009	23,500	1,500	420,000	5%

For each of the years 2007, 2008 and 2009, prepare:

- (i) Bad debts written off accounts.
- (ii) Bad debts recovered accounts.
- (iii) Provision for bad and doubtful debts accounts. (10 marks)
2. (a) Highlight **five** causes of differences between the cash book balance and the bank statement balance. (10 marks)
- (b) The following information relates to material M2000 used by Karangī Ltd.

October 2009	Units	Price per unit (Ksh)
Oct 1 Opening stock	11,000	20
Oct 7 Received	44,000	23
Oct 15 Issued	35,000	-
Oct 20 Received	20,000	25
Oct 31 Issued	25,000	-

Prepare a stores ledger account using First In First Out (F.I.F.O.) method.

(10 marks)

3. (a) (i) With the aid of appropriate examples, explain each of the following terms.
- (I) capital reserve;
- (II) revenue reserve. (4 marks)
- (ii) Explain **three** ways in which a company may utilize its reserves. (6 marks)

- (b) On 1 January 2008, Nairobi Hotels purchased two motor vehicles costing Ksh 2,000,000 each. The useful life of the vehicles was estimated to be five years. Each vehicle has an estimated scrap value of Ksh 200,000 after its useful life. The company uses straight line method to depreciate its vehicles. For the years ended 2008 and 2009, prepare:

- (i) Motor vehicle account.
(ii) Provision for depreciation account.
(iii) Profit and loss account extract.

(10 marks)

4. (a) The following transactions were extracted from the books of Thamu for the month of August 2010.

- August 1 Started business with Ksh 2,000,000 in a business bank account.
2 Bought premises for Ksh 800,000 and paid by cheque.
4 Bought a motor van and paid Ksh 450,000 by cheque.
6 Withdrew Ksh 270,000 from bank for personal use.
10 Purchased goods for Ksh 100,000 and paid by cheque.
11 Sold goods on cash Ksh 120,000.
15 Purchased goods on credit Ksh 250,000 from Matanda Traders.
20 Received a loan Ksh 500,000 from Natujenge bank.
22 Paid wages Ksh 20,000 by cheque.
25 Paid sundry expenses by cash Ksh 10,000.

Prepare ledger accounts to record the above transactions.

(10 marks)

- (b) The following is the receipt and payments accounts of Mapishi Social Club for the year ended 30 June 2010.

	Ksh		Ksh
Balance b/d	21,340	Bar purchases	58,740
Bar sales	80,600	Repayment of loan	17,000
Dividend	680	Rent	2,500
Subscriptions	35,600	Rates	1,000
Miscellaneous	4,660	Electricity	3,000
		Insurance	4,000
		Telephone	2,800
		Loan interest	1,700
		Repairs	5,000
		Honoraria	10,000
		Balance c/d	37,140
	<u>142,880</u>		<u>142,880</u>

- (i) Depreciation on equipment Ksh 6,250.
- (ii) Loan interest accrued at 30 June 2010 was Ksh 1,300.
- (iii) Subscriptions amounting to Ksh 4,400 had been received for the year ending 30 June 2011.

Prepare an income and expenditure account for the year ended 30 June 2010.

(10 marks)

5. The following trial balance was extracted from the books of Nyaka Traders on 31 December 2009.

	Dr	Cr
	Ksh	Ksh
Capital		26,000,000
Debtors	10,470,000	
Creditors		4,500,000
Stock 1/1/2009	7,922,000	
Purchases	29,000,000	
Sales		44,800,000
Returns	1,078,000	924,000
Wages and salaries	6,330,000	
Carriage inwards	940,000	
Discounts	708,000	660,000
Advertising	626,000	
Bad debts	220,000	
General expenses	1,020,000	
Rates	550,000	
Cash in hand	160,000	
Bank	660,000	
Motor vehicle	2,200,000	
Premises	15,000,000	
	<u>76,884,000</u>	<u>76,884,000</u>

Additional information:

- (i) Wages due on 31 December 2009 was Ksh 108,000 while rates paid in advance was Ksh 130,000.
- (ii) Motor vehicle are to be depreciated by 20% per annum.
- (iii) Stock at 31 December 2009 was valued at Ksh 8,252,000.

Prepare:

- (a) Trading profit and loss account for the year ended 31 December 2009. (12 marks)
- (b) Balance sheet as at 31 December 2009. (8 marks)
6. (a) Highlight **four** types of transactions which may be recorded in a general ledger. (8 marks)
- (b) Ali, Baba and Chacha are trading as partners. The following information was extracted from their books as at 31 December 2009.

- Interest on capital at 6% per annum.
- Interest on drawing 10% per annum.
- Net profit for the year Ksh 1,200,000.
- Current account balances.

	Ali Ksh	Baba Ksh	Chacha Ksh
Balance b/d 1 January 2009	124,000	76,000	38,000
Drawing during the year	48,000	36,000	40,000
Salary per annum	Nil	240,000	300,000
Share of profit	$\frac{5}{10}$	$\frac{3}{10}$	$\frac{2}{10}$
Capital account balances 1 January 2009	1,500,000	900,000	600,000

Prepare:

- (i) Profit and loss appropriation account for the year ended 31 December 2009.
- (ii) Partners current accounts. (12 marks)
7. (a) The following errors were discovered in the books of Koko Traders.
- (i) The proprietor win Ksh 100,000 in a competition and deposited the money into the business bank account. The amount was credited to sales account.
- (ii) General expenses Ksh 7,000 paid by cheque was completely omitted from the books.
- (iii) Insurance premium of Ksh 89,000 paid for the proprietors life insurance had been debited to the business insurance account.
- (iv) A purchase of goods from Kalongo Ksh 85,700 had been entered in the books as Ksh 87,500.
- (v) A sale of a motor van Ksh 100,000 had been credited to the motor expenses account.

Prepare a general journal to correct the errors.

(10 marks)

- (b) The following information was extracted from the records of Mamba Ltd as at 31 December 2009.

	Ksh
Net profit for the year	14,400,000
Retained profit 1 January 2009	14,600,000
Interim dividend paid - ordinary	1,000,000
- preference	2,000,000
Issued share capital: 1,000,000 ordinary share capital @ Ksh 20	20,000,000

Additional information:

The directors have proposed:

- (i) To transfer Ksh 2,500,000 to general reserve.
- (ii) Pay a 5% final ordinary dividend and the final preference dividend.

Prepare profit and loss appropriation account for the year ended 31 December 2009. (10 marks)

8. (a) Explain the purpose of each of the following business documents:

- (i) requisition note.
- (ii) invoice.
- (iii) local purchase order.
- (iv) statement of account.
- (v) catalogue.

(10 marks)

- (b) The following is the balance sheet of Bali Restaurant as at 31 March 2010.

	Ksh		Ksh
Furniture	210,000	Capital	600,000
Stock	187,600	Creditors	198,000
Debtors	435,100	Bank overdraft	47,200
Cash in hand	12,500		
	<u>845,200</u>		<u>845,200</u>

The following transactions took place during the first week of March 2010.

- March 1 Received Ksh 10,000 from a debtor in cash.
- 2 Obtained a loan from Aki Bank of Ksh 300,000 and deposited it in the business bank account.
 - 3 The owner brought his van valued at Ksh 450,000 to be used in the business.
 - 5 Paid a creditor Ksh 58,000 by cheque.
 - 6 Bought food stuffs for Ksh 100,000 and paid by cheque.
 - 6 The owner took Ksh 2,000 in cash for his personal use.

Prepare a balance sheet as at 6 March 2010.

(10 marks)