

2402/304
PRINCIPLES OF ACCOUNTS
Oct/Nov 2009
Time: 3 hours

THE KENYA NATIONAL EXAMINATIONS COUNCIL
DIPLOMA IN FOOD AND BEVERAGE MANAGEMENT
PRINCIPLES OF ACCOUNTS

3 hours

INSTRUCTIONS TO CANDIDATES

*This question paper consists of EIGHT questions.
Answer any FIVE questions.
All questions carry equal marks.
Show all your working.*

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.**

1. (a) Explain **five** reasons why it is necessary for a firm to keep proper books of accounts. (10 marks)
- (b) Rosy and Sally own a coffee shop in the city of Nairobi. The following balances were extracted from the books of the firm as at 31 December 2008.

	Sh.
Capital:	
Rosy	6,000,000
Sally	4,800,000
Salaries to partners:	
Rosy	900,000
Sally	600,000
Drawings:	
Rosy	1,286,000
Sally	1,340,000

Additional information:

- (i) Net profit for the year was sh. 3,284,000.
- (ii) Interest on capital is allowed at 10% per annum.
- (iii) Interest on drawings is 5% per annum.
- (iv) Profits and losses are shared equally.

Prepare a profit and loss appropriation account, for the year ended 31 December 2008. (10 marks)

2. (a) Highlight **five** reasons why a cheque may be dishonoured. (10 marks)
- (b) The following is the trial balance of Makonge Bakeries Ltd as prepared by the bookkeeper.

Makonge Bakeries Ltd
Trial Balance
for the Year ended
31 December 2008

	Dr. Sh.	Cr. Sh.
Sales	64,000	
Purchases	42,600	
Light & Heating		1,900
Rent		2,400
Wages	5,200	
Carriage outwards		1,100
Buildings	20,000	
General expenses	700	
Fittings	7,500	
Debtors	12,000	
Creditors		9,000
Bank	1,200	
Cash	400	
Drawings		9,000
Capital	31,000	
Stock 31 Dec 2008	3,000	
	<u>190,600</u>	<u>23,400</u>

The trial balance was found to be incorrect.

Prepare a corrected trial balance. (10 marks)

3. (a) Highlight four advantages of perpetual inventory system. (8 marks)

(b) The following errors were discovered in the books of Konga Restaurant as at 31 December 2008.

- (i) Extra capital of Sh 100,000 paid into the bank account had been credited to the sales account.
- (ii) A piece of machinery bought for Sh 7,000 was debited in the general expenses account.
- (iii) Private insurance of Sh 89,000 had been debited to the insurance account.
- (iv) Cash banked Sh 39,000 had been credited to the bank column and debited to the cash column in the cash book.
- (v) Cash drawings of Sh 4,000 had been credited to the bank column of the cash book and debited in the cash column.

Prepare a general journal to correct the errors. (12 marks)

4. (a) Outline five causes of depreciation. (10 marks)
(b) Jamuaka Hotels Ltd of Box 186250 Nairobi has received an inquiry for catering services dated 22 April 2009 from Jambo Tours Ltd as follows:
Breakfast for 300 persons
Lunch for 500 persons
Dinner for 250 persons

The hotel charges discounted rates of Sh 600 per person for breakfast, Sh 800 for lunch and Sh. 1,000 for dinner.

Prepare a quotation to deliver to Jambo Tours Ltd of Box 300300 Nairobi, Kenya. (10 marks)

5. (a) The following transactions were extracted from the books of Pambo Hotels Ltd 2009.

- Jan 2009 2 started business with Sh. 350,000 in cash.
3 Deposited Sh. 280,000 into the bank account.
5 Bought goods on credit from Ponda Sh. 36,000 and from Mboto Sh. 49,000
7 Sold goods on credit to:
Majengo Sh. 90,000
Makubuti Sh. 80,000
8 Paid salaries in cash Sh. 50,000
10 Withdrew Sh. 100,000 from the bank for business use.

Prepare ledger accounts to record the above transactions. (8 marks)

- (b) The following transactions relate to Wanda Restaurant for the month of May 2009.

May 2009.

- 1 Purchased grocery on credit from:
Tanga Sh 50,000
Manga Sh 80,000
2 Returned damaged grocery to Manga Sh 10,000
3 Sold food on credit to:
Majaliwa group Sh 80,000
Gonga society Sh 90,000
4 Purchased food supplies from:
Manga Sh 70,000
Tunda Sh 60,000
5 Sold drinks on credit to:
Mbona Limited Sh 10,000

Prepare:

- (i) Purchases day book;
(ii) Purchases returns day book;
(iii) Sales day book. (12 marks)

6. (a) For each of the following transactions state the effect on assets, liabilities and capital in the balance sheet.

- (i) Owner pays capital into the bank
- (ii) Purchase of goods on credit
- (iii) Purchase goods on cash
- (iv) Sale of goods on credit
- (v) Owner takes money out of the business. (10 marks)

(b) The following is a cash book summary of Upishi Social Club as at 31 December 2008.

Receipts	Sh	Payments	Sh
Balance b/d	180,000	Equipment	125,000
Subscriptions	1,650,000	Rent	300,000
Sale of		Wages	65,000
Refreshments	350,000	Repairs	144,000
		Miscellaneous	60,000
		Balance c/d	1,486,000
	<u>2,180,000</u>		<u>2,180,000</u>

Additional information:

- (i) Depreciation on equipment is provided at 20% per annum
- (ii) Rent paid in advance at 31 December 2008 was Sh 40,000.

Prepare an income and expenditure account for the year ended 31 December 2008.

(10 marks)

7. (a) (i) With the aid of appropriate examples, explain each of the following terms:
• Provision;
• Reserves.

- (ii) Highlight the reasons for creating;
• a provision;
• a reserve.

(10 marks)

(b) The following are the debtors balances of Dola Hotels Limited.

Year	Sh
2006	400,000
2007	500,000
2008	300,000

The company maintains a provision for bad debts at 5% of the closing debtors.

Prepare:

- (i) provision for bad debts account;
- (ii) profit and loss account extract.

(10 marks)

8. (a) (i) Explain each of the following terms in relation to a petty cashbook:
- Float
 - Reimbursement
 - Imprest system

- (ii) State **three** reasons why firms may keep a petty cashbook.

(10 marks)

- (b) The following balances were extracted from the books of Kambu Limited as at 31 December 2008.

	Sh.
Issued share capital	1,000,000
10% debentures	400,000
Buildings at cost	1,050,000
Motor vehicles at cost	625,000
Fixtures at cost	115,000
Profit and loss account	51,630
General reserve	140,000
Stocks	162,100
Debtors	141,750
Creditors	91,200
Proposed dividend	50,000
Depreciation to date:	
Motor vehicles	153,500
Premises	220,000
Fixtures	37,500
Bank	?

Prepare a balance sheet as at 31 December 2008.

(10 marks)