



CAMS LEVEL II

FOUNDATIONS OF ACCOUNTING

MONDAY: 4 December 2023. Morning Paper.

Time Allowed: 2 hours.

This paper is made up of fifty (50) Multiple Choice Questions. Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct answer. Each question is allocated two (2) marks. Do NOT write anything on this paper.

1. Which of the following is an element of financial statements.
- A. Receipt
 - B. Invoice
 - C. Liabilities
 - D. Credit note
- (2 marks)
2. The following are revenue expenses, EXCEPT _____.
- A. Salaries and wages
 - B. Electricity expense
 - C. Painting a new building
 - D. Re-painting building after five years of use
- (2 marks)
3. In the statement of financial position, patents are indicated as _____.
- A. Current liabilities
 - B. Current assets
 - C. Tangible assets
 - D. Intangible assets
- (2 marks)
4. Which of the following statements BEST describe a debit note?
- A. Document used as evidence of credit sale
 - B. A receipt issued after payment in a supermarket
 - C. Document used to record an undercharge
 - D. Document used to record an overcharge
- (2 marks)
5. Sasa enterprises provided the following data as at 30 September 2023:
- | | Sh. |
|----------------|-----------|
| • Buildings | 2,000,000 |
| • Inventory | 800,000 |
| • Cash in hand | 40,000 |
| • Capital | 2,400,000 |
- What is the total liabilities?
- A. Sh.840,000
 - B. Sh.2,800,000
 - C. Sh.440,000
 - D. Sh.2,400,000
- (2 marks)
6. What is the effect of accrued expenses to the incomes of a business?
- A. Net income increases
 - B. Net income decreases
 - C. Net income remains unchanged
 - D. Depends on the accrued expense
- (2 marks)

7. Koki operates a retail shop. On 1 October 2023, he purchased goods worth Sh.800,000, on credit from a distributor who offered 10% trade discount and 5% cash discount if payment was done in 2-weeks, time. How much did Koki pay if he paid for the goods on 8 October 2023?
- A. Sh.720,000
 B. Sh.684,000
 C. Sh.680,000
 D. Sh.800,000 (2 marks)
8. Which of the following is a reason for providing accounting information to external users?
- A. Decision-making in the organisation according to the performance
 B. Evaluating employee performance so that they can be motivated
 C. Complying with tax and penalties regulations as per the laws
 D. Assessing the company's financial health for investment decisions (2 marks)
9. Why are books of prime entry important?
- A. They are used to create financial statements
 B. They simplify the recording of numerous transactions
 C. They are only required for tax purposes.
 D. They help with budgeting and forecasting (2 marks)
10. Which of the following statements is **TRUE** about a partnership?
- A. Partners have limited liability in the business
 B. Partnerships are separate legal entities from business
 C. Partners' personal assets are at risk for partnership debts
 D. Partners are not responsible for partnership losses (2 marks)

Use the following information to answer questions 11, 12 and 13.

A firm purchased machinery at a cost of Sh. 6,000,000, the firm provides depreciation at the rate of 20% per annum.

11. Calculate the net book value of the machine at the end of the fourth year using straight line method.
- A. Sh.4,800,000
 B. Sh.3,600,000
 C. Sh.2,400,000
 D. Sh.1,200,000 (2 marks)
12. Calculate the net book value of the machine at the end of the third year using reducing balance method.
- A. Sh.2,160,000
 B. Sh.3,072,000
 C. Sh.2,400,000
 D. Sh.2,928,000 (2 marks)
13. Calculate gain or loss on disposal if the machine was disposed on the 1st day of the third year for Sh. 3,000,000 and depreciation was provided at straight line method full year policy.
- A. Sh.600,000 profit
 B. Sh.600,000 loss
 C. Sh.2,400,000 profit
 D. Sh.1,800,000 loss (2 marks)
14. Electricity expenses account of Susana traders had the following balances:
- | | Sh. |
|---|---------|
| • Accrued balance 1 January 2022 | 15,500 |
| • Accrued balance 31 December 2022 | 32,300 |
| • Electricity paid during the year 2022 | 220,000 |
- Calculate the amount of Electricity expenses to be charged in the income statement for the year ended 31 December 2022.
- A. Sh.277,800
 B. Sh.236,800
 C. Sh.213,200
 D. Sh.252,300 (2 marks)

15. The purpose of day books is to _____.
- Speed up the location of errors
 - Provides a check on ledger postings
 - Summarise entries of a similar type
 - Provides totals for control accounts
- (2 marks)
16. The totals of the purchases journal are posted to the
- Debit of purchases account
 - Debit of the personal accounts concerned
 - Credit of sales account
 - Credit of the personal accounts concerned
- (2 marks)
17. The purpose of a bank reconciliation statement is to _____.
- Ensures cash book (bank columns) and the bank Statement show the same balance
 - Explains the difference between the cash book balance and the bank statement
 - Ascertains the correct balance at the bank and in the cash book
 - Update the bank statement and cash book (bank column) accordingly
- (2 marks)
18. A business operates its petty cash by using the imprest system. At the beginning of the month, the petty cashier was given Sh.100,000 out of which she spent Sh.80,000. How much will she be reimbursed?
- Sh.20,000
 - Sh.80,000
 - Sh.100,000
 - Sh.180,000
- (2 marks)
19. The purchase of a motor vehicle on credit from Toy Automotive Company for use in a firm should be recorded as
- Dr. Motor vehicle expense Cr. Toy Automotive
 - Dr. Purchases account Cr. Toy Automotive Company
 - Dr. Motor vehicle Cr. Toy Automotive Company
 - Dr. Motor vehicle Cr. Cash book
- (2 marks)

Use the information below to answer question 20.

The following account relates to Wabebe Enterprises for the month of May 2023:

Bank account			
	Sh.		Sh.
Debtors	360,000	Drawings	100,000
Sales	150,000	Purchases	40,000
	<u>XXX</u>		<u>XXX</u>

20. Which of the following represents the balance in the above account?
- Debit Sh.510,000
 - Debit Sh.370,000
 - Credit Sh.370,000
 - Credit Sh.510,000
- (2 marks)
21. What will be the effect on trial balance if Sh.2,000 received as rent and correctly entered in the cash book but not posted to rent account?
- Debit side of trail balance will exceed by Sh.4,000
 - Debit side of trail balance will decrease by Sh.2,000
 - Credit side of trail balance will decrease by Sh.2,000
 - Credit side of trail balance will exceed by Sh.4,000
- (2 marks)
22. The total payments made by a petty cashier during the month of November 2023 was Sh.48,900. The balance at the end of the month was Sh.3,100. What is the cash float at the beginning of the month?
- Sh.52,000
 - Sh.45,800
 - Sh.55,100
 - Sh.48,000
- (2 marks)

23. Which of the following errors will be detected by the trial balance?
A. Errors of commission
B. Errors of omission
C. Under casting errors
D. Errors of principle (2 marks)
24. Which of the following statements explains the error of omission?
A. A transaction that has been posted to the wrong ledger
B. A transaction which has not been included in the trial balance
C. A transaction where the credit entry is posted as a debit entry
D. A transaction that has been completely overlooked (2 marks)
25. Which of the following explains the imprest system of operating petty cash?
A. Weekly expenditure cannot exceed a set amount
B. The amount of expenditure is reimbursed to maintain the imprest amount
C. All expenditure out of the petty cash must be properly authorised
D. Regular equal amounts of cash are transferred into petty cash at intervals (2 marks)
26. Which of the following is a function of financial accounting?
A. To Provide financial information
B. To maintain statement of financial position
C. To minimise taxes and penalties
D. To keep track of liabilities of the business (2 marks)
27. What are accrued Expenses?
A. Expenses which are not paid off in the current balance sheet
B. The necessary purchases that keep a business going from day-to-day
C. Type of expense incurred in one accounting period but not paid until a future accounting period
D. An expense that has been incurred by the owner of the business (2 marks)
28. Which of the following is a personal account?
A. Inventory account
B. Loan account
C. Salary account
D. Motor vehicle account (2 marks)
29. Which of the following is a user of internal accounting information?
A. Store manager
B. Customers
C. Competitors
D. Government (2 marks)
30. The double entry accounting system is _____.
A. An accounting system that is useful for small business
B. An accounting system involving all interested parties
C. An accounting system in which transactions are recorded from a single aspect
D. An accounting system in which business transactions have a debit and credit entry (2 marks)

Use the information below to answer questions 31 and 32.

Elimu traders gross profit for the period ending 31 December 2022 amounted to Sh.1,250,000. Sales for the period amounted to Sh.4,500,000 and the closing inventory as at 31 December was Sh.180,000.

31. How much was the purchases for the period?
A. Sh.3,250,000
B. Sh.3,070,000
C. Sh.3,430,000
D. Sh.1,430,000 (2 marks)

32. The purchases were all on credit. The total trade creditors balances as at 1 January 2022 were Sh.650,000. Bad debts of Sh.150,000 were written off and Sh.2,500,000 were paid to the suppliers. How much were the suppliers balances as at 31 December 2022?
- A. Sh.1,430,000
 B. Sh.1,250,000
 C. Sh.1,220,000
 D. Sh.2,680 (2 marks)
33. Faulty goods costing Sh.15,000 were returned to a supplier but this was recorded as Sh.60,000 in the ledger accounts. What is the journal entry necessary to correct the error?
- | | DR | | CR | |
|----|------------------|--------|-------------------|--------|
| | Sh. | | Sh. | |
| A. | Purchases return | 45,000 | Payable | 45,000 |
| B. | Purchases | 45,000 | Payables | 45,000 |
| C. | Payables | 45,000 | Suspense | 45,000 |
| D. | Payables | 45,000 | Purchases returns | 45,000 |
- (2 marks)
34. Define the term purchases as used in accounting.
- A. Items bought
 B. Goods bought on time
 C. Goods bought for resale
 D. Goods paid for (2 marks)
35. Prepaid expenses are shown as an asset due to:
- A. Money measurement concept
 B. Business entity concept
 C. Going concern concept
 D. Matching concept (2 marks)
36. What is the effect of recording purchases of motor vehicle for Sh.6,000,000 as motor vehicle expenses
- A. Net profit only would be understated
 B. Net profit only would be overstated
 C. It would not affect the net profit
 D. Both gross profit and net profit would be understated (2 marks)
37. Define the term revenue as used in accounting.
- A. Increase in value of assets
 B. Money a company earns from the sale of its products and services
 C. The total money received from the customers
 D. Total money expected to be received from the customers in future (2 marks)
38. As at 1 January 2022, Bride Ltd. had a balance in its retained earnings account of Sh.1,000,000. During the year Bride Ltd. had revenues of Sh.800,000 and expenses of Sh.450,000. In addition, the business paid cash dividends of Sh.200,000. What is the balance in retained earnings as at 31 December 2022 for Bride Ltd.?
- A. Sh.1100,000
 B. Sh.1,150,000
 C. Sh.1,135,000
 D. Sh.1,500,000 (2 marks)
39. Shares which are held by the owners of the company are known as _____.
- A. Preference shares
 B. Ordinary shares
 C. Share premium
 D. Issued shares (2 marks)
40. Credit sales are recorded in which book of original entry?
- A. Trading account
 B. Credit sales
 C. Sales account
 D. Sales journal (2 marks)

41. Why would a person encourage a business to embrace technology in keeping accounts?
- There is excess money
 - There is competition
 - There is power supply
 - There is security, efficiency and saves time
- (2 marks)

Use the following information to answer questions 42 and 43.

During the year ended 30 September 2023, credit sales amounted to Sh.3,450,000. Amount received from credit customer amounted to Sh.3,243,000. At the start of the year, the balance in the accounts receivable amounted Sh.570,200 and debts totalling to Sh.125,000 proved irrecoverable and were written off. It is the policy of the business to provide for doubtful debt of 5% of the remaining debtors.

42. Calculate the amount provided for provision for doubtful debts.
- Sh.570,200
 - Sh.652,200
 - Sh.32,610
 - Sh.38,860
- (2 marks)
43. Calculate the amount of accounts receivable at the end of the year to be transferred to the statement of financial position.
- Sh.777,200
 - Sh.613,340
 - Sh.619,590
 - Sh.652,200
- (2 marks)
44. Define the terms accounts payable.
- Money owed by a company to its creditor
 - These are those people who are owed money by the business
 - These are those people who buy goods from the business
 - These are those people who lend money to the business
- (2 marks)

Use the following information to answer questions 45 and 46.

Rorich prepared his cash book and later received the bank statement which showed a different balance. Upon investigation he discovered the following:

	Sh. "000"
Cash at bank as per the bank column of the cash book (debit)	12,510
Money directly deposited in the bank	630
Bank charges on bank statement but not recorded in the cash book	45
Unpresented cheques	420
Standing order on bank statement but not in the cash book	150
Credit transfer received on the bank statement but not in the cash book	660

45. Calculate the adjusted cash book balance.
- Sh.12,975
 - Sh.12,945
 - Sh.13,605
 - Sh.12,465
- (2 marks)
46. Calculate the balance as per the bank statement.
- Sh.14,025
 - Sh.13,185
 - Sh.13,605
 - Sh.12,510
- (2 marks)
47. Wilson Muchora sublets part of his premises. He received rent of Sh.420,000 during the year ended 30 September 2023. Peter Karori the tenant owed Wilson Muchora Sh.53,200 on 30 September 2022 and Sh.58,800 on 30 September 2023. Calculate the rent received to the income statement during the year ended 30 September 2023.
- Sh.467,600
 - Sh.366,800
 - Sh.425,600
 - Sh.361,200
- (2 marks)

48. When goods are taken for own use from the business we should _____.
- A. Debit drawings account Credit purchases account
 - B. Debit purchases account Credit drawing account
 - C. Debit drawing account Credit inventory account
 - D. Debit sales account Credit inventory account
- (2 marks)
49. Which of the following describes the statement of financial position equation?
- A. $\text{Assets} = \text{Capital} + \text{Liabilities}$
 - B. $\text{Assets} = \text{Capital} - \text{Liabilities}$
 - C. $\text{Capital} = \text{Assets} + \text{Liabilities}$
 - D. $\text{Assets} = \text{Liabilities} - \text{Capital}$
- (2 marks)
50. The amount of dividends paid to preference shareholders is determined by _____.
- A. The profit made by the company during the year
 - B. Fixed rate agreed in advance
 - C. A rate agreed during the annual general meeting
 - D. The total retained profit in the year
- (2 marks)
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CAMS LEVEL II

FOUNDATIONS OF ACCOUNTING

MONDAY: 21 August 2023. Morning Paper.

Time Allowed: 2 hours.

This paper is made up of fifty (50) Multiple Choice Questions. Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct answer. Each question is allocated two (2) marks. Do NOT write anything on this paper.

1. Shah operates a retail shop. On 1 May 2023 he purchased goods worth Sh.210,000 on credit from a distributor who offered 10% trade discount and 5% cash discount if payment is done in 2-week time. How much did Shah pay if he paid for the goods on 8 May 2023?
A. Sh.189,000
B. Sh.179,550
C. Sh.178,500
D. Sh.210,000 (2 marks)
2. Which one of the following errors does not affect the balancing of trial balance?
A. Error of principle
B. Overcasting error
C. Single entry error
D. Under casting error (2 marks)
3. Control accounts are used in businesses with large numbers of trade receivables and trade payables. Which of the following is NOT a benefit derived from use of control account?
A. To assist in locating or identifying errors
B. To summarise information in subsidiary ledgers
C. To assist in banking cash sales on time
D. To protect against fraud (2 marks)
4. Patel traders reported the following assets and liabilities as at 30 June 2023: Buildings Sh.1,100,000, trade payables Sh.330,000, inventory Sh.880,000, cash in hand Sh.33,000 and bank loan Sh.550,000. What is his capital?
A. Sh.990,000
B. Sh.2,013,000
C. Sh.1,375,000
D. Sh.1,133,000 (2 marks)
5. The sales day book of Kaka traders was under casted by Sh.18,000. Using a journal, it will be corrected by:
A. Debit sales account; credit accounts receivable
B. Debit to accounts receivable; credit to cash
C. Debit suspense account; Credit sales account
D. Debit accounts payable; Credit sales account (2 marks)
6. Carriage outwards is charged to the statement of profit or loss because _____.
A. It is an expense connected with distribution of goods
B. It should not go in the statement of financial position
C. It is not part of asset expenses
D. Carriage inwards goes in the trading account (2 marks)

Use the information below to answer questions 7 and 8:

A purchase invoice for Sh.102,000 was completely omitted from the books of Menengah traders. The accountant went on to prepare statement of profit or loss and reported a profit of Sh.558,000 for the period.

7. Using a journal, how would you correct the above error?
- A. Debit accounts payable and credit accounts receivable
 - B. Debit Purchases and credit accounts payable
 - C. Debit suspense account and credit accounts payable
 - D. Debit accounts payable and credit sales account (2 marks)
8. After correcting the error, what is the correct profit?
- A. Sh.660,000
 - B. Sh.456,000
 - C. Sh.558,000
 - D. Sh.600,000 (2 marks)
9. Which of the following statement clearly defines a ledger?
- A. A Statement providing number of accounting books used in a business
 - B. An account that records transactions of a business as they occur chronologically
 - C. A statement providing guiding concepts in preparation of financial accounts
 - D. Book of accounts used for recording accounting transactions using double entry (2 marks)
10. Three column cashbook has three columns on the debit side for sequentially recording?
- A. Discount allowed, Cash and Bank columns
 - B. Discount received, Cash and Bank columns
 - C. Cash, Discount received and Bank columns
 - D. Bank, Cash and Discount allowed columns (2 marks)
11. Incoming invoice is recorded in which book of original entry?
- A. Sales journal
 - B. Purchases journal
 - C. Purchases returns journal
 - D. Returns inwards journal (2 marks)
12. Maji Maji traders purchased a motor vehicle on 30 June 2020 at a cost of Sh.5,200,000. The firm provides depreciation at the rate of 25% per annum on a straight line method. After how many years will the motor vehicle have a nil value?
- A. 2 years
 - B. 3 years
 - C. 5 years
 - D. 4 years (2 marks)

Use the information below to answer questions 13, 14 and 15:

The following balances were extracted from the books of Cents Company Limited as at 30 June 2023:

	Sh. "000"
Ordinary share capital (Sh.100 each) fully paid up.	1,000
12% Preference shares (Sh.100 each)	200
Profit before tax	1,040

Proposed and final dividend for ordinary shares is Sh.1 per share.

13. Calculate total ordinary share dividend paid.
- A. Sh.1,000,000
 - B. Sh.10,000
 - C. Sh.20,000
 - D. Sh.34,000 (2 marks)

14. Calculate total preference share dividend paid.
- A. Sh.24,000
 - B. Sh.20,000
 - C. Sh.34,000
 - D. Sh.10,000
- (2 marks)
15. Calculate retained profit for the year.
- A. Sh.1,006,000
 - B. Sh.1,030,000
 - C. Sh.1,010,000
 - D. Sh.1,034,000
- (2 marks)

Use the information below to answer questions 16 and 17:

Toe and Finger are in partnership sharing profit and losses in the ratio of 3:2 respectively after allowing interest on capital at the rate of 10%. The following information was extracted from the books of the partnership for the year ended 31 July 2023:

	Sh.
Capital - Toe	780,000
Finger	390,000
Current account – Toe (Credit)	195,000
Finger (Debit)	104,000
Net profit for the year	637,000

16. Calculate the profit to be shared by the partners.
- A. Sh.598,000
 - B. Sh.559,000
 - C. Sh.520,000
 - D. Sh.754,000
- (2 marks)

ANSWER: C

17. Calculate the profit share for each partner.
- A. Toe Sh.312,000 Finger Sh.208,000
 - B. Toe Sh.208,000 Finger Sh.312,000
 - C. Toe Sh.507,000 Finger Sh.104,000
 - D. Toe Sh.78,000 Finger Sh.39,000
- (2 marks)
18. Shirikisho Enterprise had trade receivable totaling Sh.3,250,000. A debtor who owed Sh.156,000 was declared bankrupt, hence it was to be written off. Allowance for doubtful debt is to be provided at rate of 5% on the outstanding trade receivables. Calculate the value of trade receivables as at the end of financial year..
- A. Sh.3,406,000
 - B. Sh.3,087,500
 - C. Sh.3,094,000
 - D. Sh.2,939,000
- (2 marks)
19. Twiga Cement Company started the year with total assets of Sh.2,100,000 and total liabilities of Sh.1,200,000. During the year the business recorded Sh.3,300,000 in revenues in form of sales. Sh.1,650,000 in expenses and dividends proposed of Sh.600,000 to ordinary shareholders. Determine net income reported by Twiga Cement Company during the year.
- A. Sh.900,000
 - B. Sh.1,050,000
 - C. Sh.750,000
 - D. Sh.1,650,000
- (2 marks)
20. Pumzi Traders received a cash advance of Sh.65,000 from a customer. As a result of this event:
- A. Assets increased while Equity decreased by Sh.65,000
 - B. Equity increased while Assets decreased by Sh.65,000
 - C. Liabilities Increased while Assets decreased by Sh.65,000
 - D. Asset increased while Liabilities increased by Sh.65,000
- (2 marks)

21. The liabilities of shareholders in a company limited by shares are?
 A. Limited to the extent unpaid on the shares held by them
 B. Limited to the amount which the shareholder guarantees
 C. Limited to the of extent of paid up share in the company
 D. Limited to the extent of the total shares in the company (2 marks)
22. What will be the effect of overcasting the Purchases Journal on the net profit?
 A. Net profit will be overstated
 B. Net profit will not be affected
 C. Net profits will be understated
 D. Gross profit will be understated (2 marks)
23. Credit notes issued would be entered in which day book.
 A. Return inwards days book
 B. Sales days book
 C. Return outwards days book
 D. Purchases days book (2 marks)
24. A business operates its petty cash by using the imprest system. At the beginning of the month, the petty cashier had a balance of Sh.2,769 and at the end of the month had a balance of Sh.14,248. At the start of any month the petty cashier is supposed to have Sh.200,000. During the month the petty cashier had paid expenses worth Sh.185,752. Determine the amount that was reimbursed at the start of the following month:
 A. Sh.197,231
 B. Sh.185,752
 C. Sh.185 231
 D. Sh.200,000 (2 marks)

25.

Cash A/C			
	Sh. "000"		Sh. "000"
Capital	42,000	Drawings	10,000
Sales	15,000	Salaries	22,000
		Balance c/d	<u>xxxx</u>
	<u>57,000</u>		<u>57,000</u>

- Which of the following figures represents the balance c/d for the above account?
 A. Sh.10,000,000
 B. Sh.25,000,000
 C. Sh.32,000,000
 D. Sh.57,000,000 (2 marks)
26. Which of the following is a non-current asset?
 A. Inventory
 B. Cash
 C. Account receivable
 D. Free hold land (2 marks)
27. What is equity capital?
 A. Money invested in business by the owner
 B. Claim by owner against the business
 C. Money invested by the owner plus profit retained
 D. Money borrowed by the business (2 marks)
28. When a non-current asset is purchased, in which class of account is it recorded?
 A. Real account
 B. Nominal account
 C. Non-current asset account
 D. Personal account (2 marks)

29. What does the term business transaction mean?
A. Any activity that is concerned with the business
B. Any activity involving buying and selling in a business
C. Any activity taking place in business for business reason
D. Any activity that enable the business to make profit (2 marks)
30. What is the purpose of the books of original entries?
A. It is used for recording transactions in a chronological order
B. It is used to record accounts of the business
C. It is used to record transactions using double entry
D. It is used in balancing of the accounts (2 marks)
31. What does the term cash discount mean?
A. A discount given to the customer when paying for the goods sold
B. A discount according to the volume of goods a customer buys
C. A discount according to the amount a customer pays
D. A discount when a customer pays promptly (2 marks)
32. What is the meaning of imprest system in petty cashbook?
A. Amount spent by petty cashier
B. The amount spent is reimbursed
C. Amount petty cashier pay
D. The amount given to petty cashier (2 marks)
33. What are the journal entries if you buy a pick up on credit from a second-hand motor vehicle dealer called John Kiplagat?
A. Dr: John Kiplagat Cr: purchases
B. Dr: motor vehicle Cr: John Kiplagat
C. Dr: John Kiplagat Cr: purchases
D. Dr: John Kiplagat Cr: motor vehicle (2 marks)
34. Which of the following are personal accounts?
(i) Building
(ii) Wages
(iii) Accounts receivable
(iv) Accounts payable

A. (i) and (iv)
B. (ii) and (iii)
C. (iii) and (iv)
D. (ii) and (iv) (2 marks)
35. The sales day book is described as?
A. Part of the double entry system
B. Containing customer's' accounts
C. Containing real accounts
D. A list of credit sale (2 marks)
36. You have been provided with the following information: sales Sh.8,200,000, opening inventories Sh.1,300,000 closing inventories Sh.900,000 purchases Sh.6,400,000 carriage inwards Sh.200,000, return outward Sh.150,000 and returns inwards Sh.320,000. Calculate the cost of goods sold?
A. Sh.6,680,000
B. Sh.7,000,000
C. Sh.6,850,000
D. Sh.6,650,000 (2 marks)
37. What is a debit note?
A. It is a document that corrects overcharge
B. It shows the amount due from the buyer
C. It shows the amount due from the seller
D. It is a document that corrects undercharge (2 marks)

38. A company was formed with an authorised share capital of Sh.1,500,000. The par value per share was Sh.100. How many ordinary shares was the company expected to issue to the public?
- A. 15,000
 - B. 1,500,000
 - C. 100
 - D. 150,000
- (2 marks)
39. Company XYZ originally sold 25 items at Sh.120 each, less $33\frac{1}{3}$ per cent trade discount. The customers returned 4 of the items. Calculate the amount of credit note to be issued.
- A. Sh.1688.40
 - B. Sh.247.50
 - C. Sh.480.00
 - D. Sh.321.60
- (2 marks)
40. Depreciation is _____.
- A. The amount spent to a non-current asset
 - B. The salvage value of a non-current asset
 - C. The part of the cost of the non-current assets consumed during the period of use by the firm
 - D. The amount of money spent replacing noncurrent assets
- (2 marks)
41. If the two totals of a trial balance do not agree, the difference must be entered in?
- A. Statement or profit or loss
 - B. A suspense account
 - C. A nominal account
 - D. The capital account
- (2 marks)
42. What is working capital?
- A. The amount of capital invested by the owner
 - B. The excess of the current assets over the current liabilities
 - C. Capital less any amount of money taken from business
 - D. Total of non- current assets fewer current assets
- (2 marks)
43. Which of the following is a feature of a partnership?
- A. Liabilities of the partners are unlimited
 - B. Liabilities of the partners are limited
 - C. Each partner is liable for his liabilities
 - D. No partner can leave the partnership
- (2 marks)
44. What is a bank reconciliation statement?
- A. Sent by the bank when the account is overdrawn
 - B. Document that compares the cash balance of a company with corresponding amount on its bank statement.
 - C. Drawn up by the bank to verify the cash book
 - D. Sent by the bank when we have made an error
- (2 marks)
45. When shares are issued by a company for more than their par value, they are said to have been issued at a?
- A. Discount
 - B. Premium
 - C. Bonus
 - D. Surplus
- (2 marks)
46. For what reasons would the government be interested in the financial statements of a business entity?
- A. For loan repayment purposes
 - B. To assist in giving loan
 - C. For determining tax payable
 - D. To assist in preparation of the financial statements
- (2 marks)

47. A credit balance of Sh.20,000 on the cash column of the cash book would mean
- A. We have spent Sh.20,000 more than we have received
 - B. We have Sh.20,000 cash in hand
 - C. The book keeper has made a mistake
 - D. Someone has stolen Sh.20,000 cash
- (2 marks)
48. Accounting rules, practices and conventions should remain same from one year to another as per the?
- A. Convention of consistency
 - B. Convention of full disclosure
 - C. Convention of conservatism
 - D. Convention of materiality
- (2 marks)
49. The revenue recognition principle dictates that all types of incomes should be recorded or recognised when?
- A. Cash is received
 - B. At the end of accounting period
 - C. When they are earned
 - D. When interest is paid
- (2 marks)
50. What is the difference between two column and three column cash books?
- A. One has only two columns and the other has three columns
 - B. One has two columns and the other has three on both sides for amount
 - C. One has two columns and the other has three columns for amount
 - D. One has two columns and the other has three columns on both sides
- (2 marks)
-



CAMS LEVEL II

FOUNDATIONS OF ACCOUNTING

MONDAY: 24 April 2023. Morning Paper.

Time Allowed: 2 hours.

This paper is made up of fifty (50) Multiple Choice Questions. Answer ALL the questions by indicating the letter (A, B, C or D) that represents the correct answer. Each question is allocated two (2) marks. Do NOT write anything on this paper.

1. What do we call properties owned by a business?
 - A. Assets
 - B. Liabilities
 - C. Owner's capital
 - D. Shareholders equity(2 marks)

2. In the statement of financial position, total assets comprise of _____.
 - A. Current assets + Non- current assets
 - B. Current assets + Current liabilities
 - C. Capital + Liabilities + Goodwill
 - D. Capital + Non- current assets(2 marks)

3. A list of assets, liabilities and owner's equity of a business as at a specific date is _____.
 - A. Statement of financial position
 - B. An income statements
 - C. Statement of owners' equity
 - D. Retained earnings statement(2 marks)

4. Which statement describes the error of commission?
 - A. Purchases of a non-current asset is debited in purchases account
 - B. Purchase of inventory on credit is debited to the supplies account
 - C. Purchase of inventory on credit from Jane is credited in account of John another creditor
 - D. Purchase of asset in cash is omitted from the cash book(2 marks)

5. Overcasting of purchase journal would affect?
 - A. Sales account only
 - B. Purchase account only
 - C. Sales accounts and customers account
 - D. Suppliers account and purchases account(2 marks)

6. If the revenue was Sh.4,500,000 expenses were Sh.3,750,000 and the owner withdrew Sh.1,000,000. Determine the amount of net income or loss?
 - A. Net income of Sh.1,500,000
 - B. Net income of Sh.750,000
 - C. Net loss of Sh.3,750,000
 - D. Net loss of Sh.250,000(2 marks)

7. A company's financial statements do not report errors less than 2% of revenue. This is an example of the application of which of the following accounting concepts?
A. Business entity
B. Going concern
C. Consistency
D. Materiality (2 marks)
8. When the profit or loss statement is prepared, the bad debts recovered are treated as _____.
A. An income
B. As inventory
C. As an expense
D. As debtor (2 marks)
9. If the estimated amount of depreciation on equipment for a period is Sh.200,000. How would it be recorded in the books?
A. Debit depreciation account with Sh.200,000 Credit equipment with Sh,200,000
B. Debit equipment account with Sh.200,000 Credit depreciation account with Sh.200,000
C. Debit accumulated depreciation account with Sh.200,000 Credit depreciation account with Sh.200,000
D. Debit depreciation account with Sh.200,000 Credit accumulated depreciation account with Sh.200,000 (2 marks)
10. Which amount of inventory appears in the trial balance?
A. Inventory at the beginning of the current period
B. Inventory at the end of the current period
C. Cost of the inventory sold during the current period
D. Cost of inventory purchased during the current period (2 marks)
11. At the end of the financial period, the adjusting entry for accrued electricity was omitted. What would be the effect on the electricity expense for the year?
A. Electricity expense will be overstated.
B. Electricity expense will be understated
C. The current liabilities will be overstated
D. The income will be overstated (2 marks)

Use the information below to answer question 12 and 13.

Kaka Traders acquired machinery on 1 January 2020 at a cost of Sh. 4 million. The financial year of the business ends on 31 December every year and depreciation is provided at the rate of 20% per annum.

12. Calculate the net book value on 31 December 2022 if the depreciation is on straight line method.
A. Sh. 1,800,000
B. Sh. 2,400,000
C. Sh. 1,600,000
D. Sh. 1,200,000 (2 marks)
13. Calculate profit or loss on disposal if the machine was sold on 31 October 2021 for cash Sh. 2,600,000.
A. Loss of Sh. 1,000,000
B. Profit of Sh. 1,000,000
C. Loss of Sh. 200,000
D. Profit of Sh. 200,000 (2 marks)
14. What do we call the excess of net sales over the cost of goods sold in the profit or loss statement?
A. Operating income
B. Income from operations
C. Gross profit
D. Net profit (2 marks)
15. The balance in the prepaid rent expense account at the end of the period represents?
A. Asset
B. Liability
C. Revenue
D. Expense (2 marks)

16. Ali and Hassan agreed to form a partnership. Ali is to contribute Sh.5,000,000 in assets and devote half of his time to the partnership. Hassan is to contribute Sh.2,000,000 and devote full time to the partnership. Compute the profit or loss sharing ratio for Ali and Hassan.
- A. 5:2
 - B. 2:5
 - C. 1:2
 - D. 1:2
- (2 marks)
17. Dickson Bosire had the following assets and liabilities as at 1 March 2023:
- Motor vehicles Sh.900,000
 - Cash in hand Sh.25,000
 - Land and Premises Sh.3,000,000
 - Bank loan Sh.775,000
 - Non-trade payable Sh.45,000
 - Prepaid insurance Sh.35,000
- Calculate Dickson Bosire's capital as at 1 March 2023.
- A. Sh.455,000
 - B. Sh.3,960,000
 - C. Sh.920,000
 - D. Sh.3,140,000
- (2 marks)
18. The other name for a purchase day book is:
- A. Purchases invoice
 - B. Purchases journal
 - C. Daily purchases
 - D. Purchases ledger
- (2 marks)
19. In preparing a bank reconciliation statement, the amount of cheques outstanding would be?
- A. Added to the bank balance according to the bank statement
 - B. Deducted from the bank balance according to the bank statement
 - C. Added to the bank balance according to the depositor's records
 - D. Deducted from the bank balance according to the depositor's records
- (2 marks)
20. Which of the following outlines the correct flow of accounting information?
- A. Book of original entry → Source document → trial balance → ledger
 - B. Ledger → Source document → Book of original entry → trial balance
 - C. Source document → ledger → trial balance → Book of original entry
 - D. Source document → Book of original entry → ledger → trial balance
- (2 marks)
21. The journal used to record liabilities when a voucher system is used is called?
- A. Voucher
 - B. Unpaid voucher file
 - C. Cheque register
 - D. Voucher register
- (2 marks)
22. A petty cash fund is
- A. Used to pay relatively small amounts
 - B. Used to pay normal business expenses
 - C. Amount reimbursed to the petty cash cashier
 - D. Used to pay capital expenses
- (2 marks)
23. Sh.250,000 cash deposited in the business bank account will be posted in the cash book as?
- A. Debit cash column Sh.250,000
 - B. Debit bank column Sh.250,000
 - C. Debit cash column Sh.250,000
 - D. Debit bank column Sh.250,000
- (2 marks)

24. Which error will be committed if motor vehicle expenses are recorded in the motor vehicle account?
A. Error of principle
B. Error of original entry
C. Transposition error
D. Error of omission (2 marks)
25. At the end of financial year and before accounts are adjusted, accounts receivable has a balance of Sh.200,000 and allowance for doubtful debt has a credit balance of Sh20,500. If the estimate of the uncollectable debts is Sh.80,500, and the allowance for doubtful debt is maintained at 5%. What would be the balance of the accounts receivable?
A. Sh.119,500
B. Sh.113,705
C. Sh.180,000
D. Sh.194,205 (2 marks)
26. When the cheque is dishonoured after being deposited in the bank, it should be?
A. Credited to bank column in the cashbook
B. Credited to cash column in the cashbook
C. Credited to drawers account
D. Credited to dishonoured account (2 marks)
27. In the cashbook, which of the following transactions requires no posting to the ledgers?
A. Discount received
B. Discount allowed
C. Contra entries
D. Cash drawings (2 marks)
28. Which of the following describe purchases in the trading account?
A. Goods bought on credit
B. Goods paid for
C. Good bought for resale
D. Items bought (2 marks)
29. What causes depreciation in non-current assets?
A. Loss of value
B. Revaluation
C. Obsolescence
D. Decrease in capital (2 marks)
30. As at 1 January 2022, Kikoi Ltd. had retained earnings balance of Sh.1,000,000. During the year Kikoi Ltd. earned a gross profit of Sh.800,000, operating expenses amounted to Sh.450,000. In addition, the company paid cash dividend of Sh.200,000. What is the balance of retained earnings as at 31 December 2022?
A. Sh.1,000,000
B. Sh.1,150,000
C. Sh.1,350,000
D. Sh.1,550,000 (2 marks)
31. A business operates petty cash using imprest system. At the beginning of the month, the petty cashier was given Sh.120,000 out of which Sh.85,000 was spent. How much was reimbursed at the beginning of next month?
A. Sh.35,000.
B. Sh.85,000
C. Sh.100,000
D. Sh.120,000 (2 marks)
32. When the owner of the business takes some goods from the business for personal use, how does it affect the business?
A. The profit increases
B. The capital increases
C. The capital decreases
D. The profit decreases (2 marks)

33.

Cash account

	Sh. "000"		Sh. "000"
Capital	42,000	Drawings	10,000
Sales	15,000	Salaries	22,000

Balance the above account

- A. Sh.25,000 credit balance
 B. Sh.25,000 debit balance
 C. Sh.57,000 debit balance
 D. Sh.57,000 credit balance (2 marks)

34.

Which of the following statement defines the double entry system of accounting?

- A. Transaction in the ledgers must have a debit and a corresponding credit entry.
 B. All assets should be credited and all liabilities debited
 C. Only credit transactions should be credited.
 D. The trial balance totals should be equal on both the debit and credit sides (2 marks)

35.

The following balances were obtained from books of Mkataba Traders for the year ended 31 December 2022:

	Sh"000"
Dividends received	14,500
Administration expenses	55,600
Gross profits	281,100
Discount allowed	10,000

Calculate the net profit or loss

- A. Sh.240,000,000
 B. Sh.225,500,000
 C. Sh.230,000,000
 D. Sh.215,500,000 (2 marks)

36.

Which one of the following errors below would cause the trial balance not to balance?

- A. Error of principle
 B. Compensating error
 C. Single entry error
 D. Error of omission (2 marks)

37.

Credit note issued would be recorded in?

- A. Return inwards day book
 B. Purchase day book
 C. Return outwards day book
 D. Sales day book (2 marks)

38.

A process of accounting where income and expenses are recognised when earned or incurred is called?

- A. Going concern
 B. Accrual
 C. Prudence
 D. Materiality (2 marks)

Use the information below to answer questions 39, 40 and 41:

Chanda and Pete have been in partnership sharing profits and losses in the ratios of 3:2 after providing for capital at 15% per annum. Interest is charged on drawings at the rate of 10%. The following balances were extracted from the books of the partnership for the year ended 31 December 2022:

		Sh.
Capital:	Chanda	2,000,000
	Pete	1,000,000
Profit for year		4,000,000
Sales		6,500,000
Drawings:	Chanda	500,000
	Pete	300,000

39. Calculate the interest on capital for each partner
- A. Chanda Sh.200,000 and Pete Sh. 100,000
 - B. Chanda Sh.300,000 and Pete Sh. 150,000
 - C. Chanda Sh.150,000 and Pete Sh. 300,000
 - D. Chanda Sh.100,000 and Pete Sh. 200,000
- (2 marks)
40. Calculate the profit to be shared by the partners after making the necessary appropriations.
- A. Sh.3,630,000
 - B. Sh.4,080,000
 - C. Sh.450,000
 - D. Sh.4,000,000
- (2 marks)
41. Calculate the profit share for each partner
- A. Chanda Sh.2,178,000 and Pete Sh.1.452,000
 - B. Chanda Sh.2,400,000 and Pete Sh.1,600,000
 - C. Chanda Sh.2,000,000 and Pete Sh.2,000,000
 - D. Chanda Sh.1,600,000 and Pete Sh. 2,400,000
- (2 marks)
42. Kimutai, a trader, received cash in advance of Sh.45,000 from a credit customer. What is the effect of this transaction?
- A. Asset increases by Sh.45,000
 - B. Assets decreases by Sh.45,000
 - C. Liabilities decreases by Sh.45,000
 - D. Liabilities increases by Sh.45,000
- (2 marks)
43. Which of the following statements about retained earnings is **NOT** correct?
- A. It is made up of accumulated profits
 - B. It can be used to pay future dividends
 - C. It increases the equity capital
 - D. It can be used to pay operating expenses
- (2 marks)
44. A profit-making business that has a separate legal entity and in which ownership is divided into shares is known as _____?
- A. Sole proprietorship
 - B. Single proprietorship
 - C. Partnership
 - D. Company
- (2 marks)
45. What does a debit entry in liabilities signify?
- A. Increase in liabilities
 - B. Decrease in liabilities
 - C. Increase in capital
 - D. Increase in current liabilities
- (2 marks)
46. The salaries and wages account of Wakahiu traders had the following balances:
- Accrued balance 1 January 2022 - Sh.25,500
 - Accrued balance 31 December 2022 - Sh.32,300
 - Salaries paid during the year 2022 - Sh.420,000
- Calculate the amount of salaries and wages to be charged in the income statement for the year ended 31 December 2022.
- A. Sh.477,800
 - B. Sh.426,800
 - C. Sh.413,200
 - D. Sh.452,300
- (2 marks)
47. Why are cash discounts offered to the traders?
- A. To balance the cash book
 - B. To reduce the amount payable
 - C. To encourage prompt payment
 - D. It's a requirement for traders to offer discounts
- (2 marks)

48. Which of the following is a current asset?
- A. Accrued salaries.
 - B. Motor vehicles
 - C. Prepaid insurance
 - D. Accounts payable
- (2 marks)
49. Which of the following accounts would be closed to the income statement at the end of the period?
- A. Office equipment account
 - B. Bank loan account
 - C. Salaries and wages account
 - D. Suspense account
- (2 marks)
50. Wema Enterprise, a sole proprietor, had accounts receivable totaling Sh.2,500,000. A debtor who owed Sh.120,000 was declared bankrupt, hence it was to be written off. Allowance for doubtful debt is to be provided at rate of 5% of the outstanding accounts receivable. Calculate the balance of accounts receivable to be reported in the statement of financial position.
- A. Sh. 2,380,000
 - B. Sh.2,261,000
 - C. Sh.119,000
 - D. Sh. 2,620,000
- (2 marks)
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CAMS LEVEL II

FOUNDATIONS OF ACCOUNTING

MONDAY: 5 December 2022. Morning Paper.

Time Allowed: 2 hours.

This paper is made up of fifty (50) Multiple Choice Questions. Answer ALL the questions by indicating the letter (A, B, C or D) that represents the correct answer. Do NOT write anything on this paper.

1. Who among the following is **NOT** an internal user of accounting information?
 - A. Chief Executive Officer of the company
 - B. Production manager
 - C. Company inventory clerk
 - D. The investor of the company(2 marks)

2. Which is the correct double entry for a motor vehicle purchased on credit from General Motors Limited?
 - A. Debit Motor vehicle expense account, Credit General Motors Limited account
 - B. Debit Purchases account, Credit General Motors Limited account
 - C. Debit Motor vehicle account, Credit General Motors Limited account
 - D. Debit Motor vehicle account, Credit bank account(2 marks)

3. Revenue, incomes and expenditure incurred by business in a financial period are supposed to be recorded in which financial statement of account?
 - A. Statement of financial position
 - B. Statement of profit or loss
 - C. Cash flow statement
 - D. Statement of changes in equity(2 marks)

Use the information below to answer question 4 and 5.

Baraka Ltd. prepares its financial statements every year. In the year 2021, the total accounts receivables amounted to Sh.768,000. In the same year, debtors owing Sh.42,000 were declared bankrupt and they were written off. It is the policy of the company to provide 5% of the accounts receivable as doubtful debts.

4. Calculate the balance of the accounts receivable after the adjustment.
 - A. Sh.689,700
 - B. Sh.729,600
 - C. Sh.726,000
 - D. Sh.768,000(2 marks)

5. Calculate the amount of the doubtful debts for the year 2021.
 - A. Sh.38,400
 - B. Sh.36,300
 - C. Sh.42,000
 - D. Sh.78,300(2 marks)

6. Which of the following information is **NOT** provided by the accounting equation (Assets = Capital + Liabilities)
 - A. List of creditors
 - B. List of debtors
 - C. Supplies of the resources of the business
 - D. Dates when the items were acquired(2 marks)

7. Define book of original entry.
- It is a book that records prime entries
 - It is a book that checks the arithmetic accuracy of accounts
 - It is a book that corrects errors
 - It is a book that shows the totals of accounts (2 marks)
8. The following are reasons why the bank statement shows an overdraft while the cash book shows a debit balance on the same date **EXCEPT**?
- Cheques from customers recorded in the cash book but not credited
 - The bank has paid as per the standing orders
 - Cheques recorded in the cash book but returned by the bank
 - Cheques paid to suppliers but not presented to the bank (2 marks)
9. Define the term reserve.
- Appropriation of profit made for general or specific purpose
 - Appropriation of profit shared among owners
 - Appropriation to increase the dividends
 - Appropriation to replace non-current assets (2 marks)
10. Which of the following statement is **TRUE** about depreciation?
- The method fails to take into consideration the efficiency of the asset which declines as it gets old
 - It does not reduce the non-current asset to its residual value
 - The combined effects of depreciation is most felt in later years
 - It is difficult to depreciate additional non-current assets in the course of the year (2 marks)
11. Which of the following is **NOT** an adjustment in the appropriation section of the partnership income statement.
- Salary to partners
 - Drawings
 - Interest on drawings
 - Commission to partners (2 marks)
12. Interest on partners' capital can be defined as:
- Amount given to partners depending on the amount of money each has in the business
 - Amount given to partners equally
 - Amount given to partners to compensate them for using their money in business
 - Amount given to partners as a percentage of the money each partner has in the business (2 marks)
13. Why do organisations maintain petty cash book using the imprest system?
- To control petty cashier and petty cash
 - To record expenses
 - To show the totals of all business expenses
 - To pass the entries through the books of original entries (2 marks)
14. At the time of balancing accounts, the totals on both side of the account are double underlined. Why is this done?
- To close the account
 - To balance the account
 - To get the balancing figure
 - To prevent any more entries being made in the account (2 marks)
15. Balance the following account and state whether it's a credit or a debit balance.

Purchase day book August 2022					
Date	Particulars	Sh.	Date	Particulars	Sh.
2	Purity	350,000	14	Purity	35,000
9	Bank	66,000	30	James	18,000
12	Michael	650,000			
22	James	465,500			
26	Opiyo	78,900			

- A. A debit balance of Sh.1,610,400
B. A credit balance of Sh.1,557,400
C. A debit balance of Sh.1,557,400
D. A credit balance of Sh.1,610,000 (2 marks)
16. Proposed dividends are reported in which financial statement?
A. Income statement only
B. Retained earnings statement
C. Statement of financial position only
D. Income statement and statement of financial position (2 marks)
17. Which of the following principles assumes that a business will continue for the foreseeable future?
A. Historical cost
B. Periodicity
C. Objectivity
D. Going concern (2 marks)
18. Invoices received for goods purchased on credit from suppliers would first be entered in the _____.
A. Purchases day book
B. Sales day book
C. Purchases account
D. Sales account (2 marks)
19. The following entries appeared in the last statement of financial position of Dualmax Ltd.: Plant and machinery at cost Sh.18,000,000 and the accumulated depreciation at Sh.7,200,000 as at 30 September 2021. It is the practice of the company to depreciate machinery at 20% per annum diminishing balance.
Calculate the depreciation charge for the year ended 30 September 2022.
A. Sh.2,160,000
B. Sh.8,640,000
C. Sh.9,360,000
D. Sh.10,800,000 (2 marks)
20. The following are reasons for preparing bank reconciliation statement **EXCEPT**?
A. Ensure all unpresented cheques are presented
B. Explains the difference between the cash book balance and the bank statement
C. Ascertains the correct balance at the bank
D. Update the cash book (2 marks)
21. What should happen to a three-column cash book at the end of the accounting period?
A. Cash, bank and discount columns are balanced
B. Cash and bank columns are balanced and the discount columns are totalled
C. The cash column is balanced, and bank and discount columns are totalled
D. Cash, bank and discount columns are totalled (2 marks)
22. The primary objective of the trading account is to show the _____.
A. overall trading profit or loss for the period under review
B. net trading profit or loss for the period concerned
C. surplus or deficit on the turnover of goods sold in the period
D. difference between income earned and expenditure incurred in the period (2 marks)
23. Which of the following cheques is already issued by a company and is yet to be presented to the bank?
A. Uncredited Cheque
B. Uncollected Cheque
C. Bounced cheque
D. Outstanding cheque (2 marks)

24. The accounts payable as at 1 August 2022 were Sh.24,600 and Sh.48,240 as at 31 August 2022. Transactions for the month were: payments to creditors Sh.384,000, discount received Sh.8,200 and return outwards Sh.10,200.
- Determine the credit purchases for the month of August.
- A. Sh.426,040
 - B. Sh.407,640
 - C. Sh.378,760
 - D. Sh.389,240
- (2 marks)
25. A debit note is a document issued when goods are:
- A. Returned
 - B. Overcharged
 - C. Sold
 - D. Undercharged
- (2 marks)
26. The following balances refer to Mwanahamisi's assets and liabilities as at 1 May 2022:
- Plant and machinery Sh.30,000
 - Cash Sh.3,000
 - Land and buildings Sh.300,000
 - Bank overdraft Sh.75,000
 - Accounts payable Sh.7,500
 - Accounts receivable Sh.15,000
- Calculate Mwanahamisi's capital as at 1 May 2022.
- A. Sh.82,500
 - B. Sh.265,500
 - C. Sh.348,000
 - D. Sh.430,500
- (2 marks)
27. Errors are corrected through double entry. Select the book of account that is used to do so.
- A. Purchases journal
 - B. The trial balances
 - C. The journal
 - D. Sales journal
- (2 marks)
28. Which statement is **TRUE** about public limited company?
- A. Restricted transfer of shares
 - B. Does not have maximum membership
 - C. It has minimum membership
 - D. Owners have unlimited liabilities
- (2 marks)
29. Which of the following transactions will decrease assets and decrease liabilities.
- A. Purchase of inventory
 - B. Purchasing inventories on credit
 - C. Payment of a loan by cash or bank
 - D. Payment of salaries
- (2 marks)
30. Samuel received Sh.58,650 from one of his debtors. The book keeper debited debtors and credited cash with the same amount of money. Which error did the book keeper commit?
- A. Error of principle
 - B. Error of complete reversal of entries
 - C. Error of commission
 - D. Compensating error
- (2 marks)
31. For a partnership to maintain fixed capital account, which account should they open to maintain this?
- A. Capital account
 - B. Current account
 - C. Drawings account
 - D. Goodwill account
- (2 marks)

32. You were approached by a potential investor regarding the type of shares he would buy. You recommended preference shares to ordinary shares. Why did you give such advice?
- They are cheap
 - They readily available
 - They are less risky
 - They get more dividends
- (2 marks)
33. Melinda Ltd. was authorised to issue 80,000 ordinary shares of Sh.100 each and 40,000 12% preference shares of Sh.100 each. The company has issued 60,000 ordinary shares and 24,000 preference shares and they are fully paid. Calculate the amount of the total called up share capital.
- Sh.8,400,000
 - Sh.12,000,000
 - Sh.3,600,000
 - Sh.6,000,000
- (2 marks)
34. During the year ended 31 January 2021 the insurance account of Metro Ltd indicated an opening balance of Sh.8,476 paid in advance, in the year 2021 an amount of Sh.13,728 was paid including prepayment of Sh.4,485. Calculate the amount of insurance charged in the income statement in the year.
- Sh.13,728
 - Sh.17,719
 - Sh.22,204
 - Sh.9,243
- (2 marks)
35. The source document issued by the supplier to a company for goods returned is referred to as _____.
- Invoice
 - Debit note
 - Credit note
 - Statement of account
- (2 marks)

The following information relates to Ancestor, Baggy and Chotara operating a partnership as ABC Traders, use the information to answer question 36 and 37.

During the year ended 30 September 2021, Ancestor, Baggy and Chotara who were operating a partnership business made a profit of Sh.120,660. Their partnership agreement provided the following:

- Profit and loss sharing ratio 3:2:1
- Baggy was entitled to a salary of Sh.5,000 per month
- Interest on capital at the rate of 5%
- Interest on drawing at the rate of 10%

Capital contributed by each partner: Ancestor Sh.250,000, Baggy Sh.200,000 and Chotara Sh.150,000

Drawings made by each partner: Ancestor Sh.100,000, Baggy 80,000 and Chotara Sh.60,000

36. Calculate the amount of profit that was to be shared by partners
- Sh.120,660
 - Sh.114,660
 - Sh.144,660
 - Sh.54,660
- (2 marks)
37. Calculate the profit shared to each partner
- Ancestor Sh.72,330, Baggy Sh.48,220 and Chotara Sh.24,110
 - Ancestor Sh.27,330, Baggy Sh.18,220 and Chotara Sh.9,110
 - Ancestor Sh.60,330, Baggy Sh.40,220 and Chotara Sh.20,110
 - Ancestor Sh.57,330, Baggy Sh.38,220 and Chotara Sh.19,110
- (2 marks)
38. Of the following errors, which one will have an effect on the profit calculated?
- Unrecorded trade payables
 - Cash paid to a creditor and its correctly entered in the cash book
 - A liability paid recorded in the credit side of the cash book and credited in the loan account.
 - Rent accrued not recorded in the books of accounts
- (2 marks)

39. Which is the correct double entry for correcting the following error. Discount allowed of Sh.4,800 entered on the debit side of the discount received account.
- A. Debit discount allowed account, Credit Discount received account
 - B. Debit suspense account, Credit Discount Allowed Account
 - C. Debit discount received account, Credit Suspense Account
 - D. Debit suspense Account, Credit Discount received Account (2 marks)
40. An accounting software can do the following, **EXCEPT?**
- A. Financial record-keeping and analysis.
 - B. It records the purchase of goods and services, sales value and other financial transactions.
 - C. Accounting software enhances employment security
 - D. It is a business tool for bookkeeping and other financial operations (2 marks)
41. Why would creditors **NOT** be interested with the financial statements of a business.
- A. To find out the amount the business owes them
 - B. To know the net worth of the business
 - C. To know whether it is a going concern
 - D. To find out why the accounts receivable are very high (2 marks)
42. The purpose of the books of original entry in a business is?
- A. They contain all the important information regarding business transactions
 - B. They are easy to maintain
 - C. They do not involve double entry
 - D. They help in analysing transactions by keeping similar items together (2 marks)
43. If the two totals of a trial balance do not agree, the difference should be recorded in?
- A. The income statements
 - B. The capital accounts
 - C. The nominal account
 - D. The suspense account (2 marks)
44. Which of these errors will **NOT** affect the trial balance?
- A. Amount received from Jemila of Sh.117 is recorded in his account as Sh.711
 - B. Commission expenses has been debited in the commission receivables account.
 - C. Credit purchases of Sh.600 entered in the books of accounts as Sh.60.
 - D. A sale of Sh.2,500 was not recorded in the book of account. (2 marks)
45. Suppliers and creditors of a firm are interested in:
- A. The profitability position of the firm
 - B. The liquidity position of the firm
 - C. The market share position of the firm
 - D. The debt position of the firm (2 marks)
46. The cash account is _____.
- A. A personal account
 - B. A real account
 - C. A nominal account
 - D. None of the above (2 marks)
47. The matching concept matches _____.
- A. Assets with liabilities
 - B. Capital with income
 - C. Revenue with expenses
 - D. Expenses with capital (2 marks)
48. The accounting concept that requires all identified losses and gains to be recognised with reasonable certainty is called?
- A. Materiality
 - B. Accrual
 - C. Prudence
 - D. Subsistence over form (2 marks)

49. Fatma Ali operates a petty cash book using imprest system. At the beginning of the month of November 2022, the petty cash cashier was given Shs.100,000 out of which she spent Shs.80,000. How much will she be reimbursed at the end of the month?
- A. Sh.20,000
 - B. Sh.80,000
 - C. Sh.100,000
 - D. Sh.180,000
- (2 marks)
50. As of January 1, 2021, Queen's Store had a balance in its retained earnings account of Sh.150,000. During the year, Queen's Store had revenues of Sh.120,000 and expenses of Sh.67,500. In addition, the business paid cash dividends of Sh.30,000. What is the balance in Retained Earnings as at December 31, 2021 for Queen's Store?
- A. Sh.150,000
 - B. Sh.172,500
 - C. Sh.202,500
 - D. Sh.232,500
- (2 marks)
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CAMS LEVEL II

FOUNDATIONS OF ACCOUNTING

MONDAY: 1 August 2022. Morning paper.

Time Allowed: 2 hours.

This paper is made up of fifty (50) Multiple Choice Questions. Answer ALL the questions by indicating the letter (A, B, C or D) that represents the correct answer. Do NOT write anything on this paper.

1. Maendeleo Ltd. reported the following: assets Sh.500,000, liabilities Sh.350,000 and capital of Sh.100,000. What is the balance in retained earnings?
A. Sh.450,000
B. Sh.50,000
C. Sh.250,000
D. Sh.750,000 (2 marks)
2. A machine that cost Sh.120,000 has an accumulated depreciation of Sh.50,000. The machine is being depreciated at the rate of 10% per annum on a reducing balance basis. Calculate the machine's depreciation for the year.
A. Sh.50,000
B. Sh.70,000
C. Sh.12,000
D. Sh.7,000 (2 marks)
3. The credit entry for net profit is on the credit side of:
A. The trading account
B. Statement of profit or loss account
C. The drawings account
D. The capital account (2 marks)
4. Which of this best describes a statement of financial position?
A. An account proving the books balance
B. A record of closing entries
C. A listing of balances of expenses
D. A statement of assets and liabilities (2 marks)
5. Carriage inwards is charged to the trading account because:
A. It is an expense connected with buying goods
B. It should not go in the statement of financial position
C. It is not part of motor expenses
D. Carriage outwards goes in the profit and loss account (2 marks)
6. Given figures showing: Sales Sh.8,200; Opening inventory Sh.1,300; Closing inventory Sh.900; Purchases Sh.6,400; Carriage inwards Sh.200, the cost of goods sold figure is:
A. Sh.6,800
B. Sh.6,200
C. Sh.7,000
D. Sh.7,900 (2 marks)
7. The reason for giving special consideration to cash accounting procedures includes all of the following except:
A. Security problems involved
B. Large number of transactions involved
C. Possibility of fraud
D. Reliance on different accounting principles rather than on non-cash transactions (2 marks)

8. The costs of putting goods into a saleable condition should be charged to:
A. Trading account
B. Trial balance
C. Statement of financial position
D. Sales ledgers (2 marks)
9. Suppliers' personal accounts are found in the:
A. Nominal ledger
B. General ledger
C. Purchases ledger
D. Sales ledger (2 marks)
10. The sales day book is best described as:
A. Part of the double entry system
B. Containing customers' accounts
C. Containing real accounts
D. A list of credit sales (2 marks)
11. Which of the following are personal accounts?
(i) Buildings
(ii) Wages
(iii) Debtors
(iv) Creditors

A. (i) and (iv) only
B. (ii) and (iii) only
C. (iii) and (iv) only
D. (ii) and (iv) only (2 marks)
12. When Benard Mutua writes a cheque for Sh.50,000 and sends it to Susan, then Benard is known as:
A. The payee
B. The banker
C. The drawer
D. The creditor (2 marks)
13. If you want to make sure that your money will be safe when cheques are sent by the post, you should:
A. Not use the postal service in future
B. Always pay by cash
C. Always take the money in person
D. Cross your cheques 'Account Payee only, Not Negotiable' (2 marks)
14. An accounts clerk is issued with Sh.20,000 per week for petty cash. The first week of July 2022 the accounts clerk had used Sh.12,000 out of the total amount. How much did the chief accountant, reimburse the accounts clerk in the second week of July?
A. Sh.20,000
B. Sh.8,000
C. Sh.12,000
D. Sh.32,000 (2 marks)
15. A debit balance of Sh.1,000 in cash account shows:
A. There was Sh.1,000 cash in hand
B. Cash has been overspent by Sh.1,000
C. Sh.1,000 was the total cash paid out
D. The total of cash received was less than Sh.1,000 (2 marks)
16. Sh.5,000 cash taken from the cash till and banked is entered as follows:
A. Debit cash column Sh.5,000: Credit bank column Sh.5,000
B. Debit bank column Sh.5,000: Credit cash column Sh.5,000
C. Debit cash column Sh.5,000: Credit cash column Sh.5,000
D. Debit bank column Sh.5,000: Credit bank column Sh.5,000 (2 marks)

17. A credit balance of Sh.2,000 on the cash column of the cash book would mean?
A. We have spent Sh.2,000 more than we have received
B. We have Sh.2,000 cash in hand
C. The bookkeeper has made a mistake
D. Someone has stolen Sh.2,000 cash (2 marks)
18. Posting transactions in accounting means:
A. Making the first entry of a single-entry transaction
B. Entering items in a cash book
C. Making an entry of a double entry transaction
D. Something other than the above (2 marks)
19. A cash discount is best described as a reduction in the sum to be paid
A. If payment is made earlier than the agreed payment date
B. If payment is made by cash, not cheque
C. If payment is made either by cash or cheque
D. If purchases are made for cash, not on credit (2 marks)
20. Discounts received are:
A. Deducted when we receive cash
B. Given by us when we sell goods on credit
C. Deducted by us when we pay our accounts
D. Received from debtors (2 marks)
21. The total of the discounts received column in the cash book is posted to:
A. The debit side of the discounts allowed account
B. The debit side of the discounts received account
C. The credit side of the discounts allowed account
D. The credit side of the discounts received account (2 marks)
22. Sales invoices are first entered in:
A. The cash book
B. The purchases journal
C. The sales account
D. The sales journal (2 marks)
23. The total of the sales journal is entered on:
A. The credit side of the sales account in the general ledger
B. The credit side of the general account in the sales ledger
C. The debit side of the sales account in the sales ledger
D. The debit side of the sales day book (2 marks)
24. A purchase invoice shows 5 items of Sh.8,000 each, less trade discount of 25% and cash discount of 5% if paid within ten days. If payment is made within eight days, how much will the buyer pay?
A. Sh.28,500
B. Sh.28,000
C. Sh.26,000
D. Sh.40,000 (2 marks)
25. An alternate name for a sales journal is:
A. Sales invoice
B. Sales day book
C. Daily sales
D. Sales ledger (2 marks)
26. Define the term depreciation:
A. The amount spent to buy non-current assets
B. The salvage value of a non-current asset
C. The part of the cost of the non-current asset consumed during its period of use by the firm
D. The amount of money spent replacing non-current assets (2 marks)

27. A firm bought a machine for Sh.6,500,000. It is to be depreciated at the rate of 25% on reducing balance basis. Calculate the net book value of the machine after two years?
A. Sh.1,625,000
B. Sh.4,875,000
C. Sh.1,218,750
D. Sh.3,656,250 (2 marks)
28. When financial statements are prepared, the bad debts account is closed by transfer to the:
A. Statement of financial position
B. Statement of profit or loss
C. Trading account
D. Allowance for doubtful debts (2 marks)
29. The allowance for doubtful debt is created:
A. Where debtors become bankrupt
B. When debtors cease to be in business
C. To provide for possible bad debts
D. To write off bad debts (2 marks)
30. A profit making business that is a separate legal entity and in which ownership is divided into shares is known as:
A. Sole proprietorship
B. Company
C. Partnership
D. Corporation (2 marks)
31. The properties owned by a business enterprise are known as:
A. Assets
B. Liabilities
C. Shareholders' equity
D. Owners equity (2 marks)
32. A list of assets, liabilities and owners equity of a business entity as at a specific date is referred to as:
A. A statement of financial position
B. A statement of profit or loss
C. A statement of owner's equity
D. A retained earnings statement (2 marks)
33. If total assets increased by Sh.245,000 during a period of time and total liabilities increased by Sh.112,000 during the same period. Calculate the amount and direction (increase or decrease) of the period's change in the owner's equity is:
A. Sh.357,000 increase
B. Sh.357,000 decrease
C. Sh.133,000 increase
D. Sh.133,000 decrease (2 marks)
34. What does a debit signify?
A. An increase in an asset account
B. A decrease in an asset account
C. An increase in a liability account
D. An increase in the owner's capital (2 marks)
35. Select one of the errors below that is not disclosed by a trial balance:
A. Error of principle
B. Compensating error
C. Error of overstating one account
D. Error of omission (2 marks)
36. How should the receipt of cash from customers in payment of their accounts be recorded in the books of account?
A. Debit to cash; credit to accounts receivable
B. Debit to accounts receivable; credit to cash
C. Debit to cash; credit to accounts payable
D. Debit to accounts payable; credit to cash (2 marks)

37. The list of balances and the titles of the accounts in the ledger as at a given date is known as:
A. Statement of profit or loss
B. Statement of financial position
C. Retained earnings statement
D. Trial balance (2 marks)
38. If the estimated amount of depreciation on machinery for a period is Sh.75,000, the entry to record depreciation would be:
A. Debit depreciation expense, Sh.75,000; credit equipment, Sh.75,000
B. Debit equipment, Sh.75,000; credit depreciation expense, Sh.75,000
C. Debit depreciation expenses, Sh.75,000; credit accumulated depreciation Sh.75,000
D. Debit accumulated depreciation, Sh.75,000; credit depreciation expense Sh.75,000 (2 marks)
39. If the furniture and fittings account has a balance of Sh.342,100 and its accumulated depreciation account has a balance of Sh.23,895. What is the book value of furniture and fittings?
A. Sh.365,995
B. Sh.342,100
C. Sh.23,895
D. Sh.318,205 (2 marks)
40. Which of the following accounts should be closed to the statement of profit or loss at the end of a period?
A. Sales account
B. Salary expense account
C. Both sales and salary expense accounts
D. Neither sales nor salary expense accounts (2 marks)
41. A buyer has returned goods purchased on credit. Which document will inform the buyer of the acceptance of the goods returned by the seller?
A. A debit note
B. A credit note
C. An invoice
D. A bill (2 marks)
42. Jane purchased goods from a supplier for Sh.43,000, terms trade discount 5%. She paid Sh.1,500 for transport. She also received a cash discount of 2% for early payment. What is the cost of sales purchases?
A. Sh.40,850
B. Sh.44,500
C. Sh.41,533
D. Sh.41,490 (2 marks)
43. Which amount of inventory will appear in the trial balance at the end of the period?
A. Inventory at the beginning of the current period
B. Inventory at the end of the current period
C. Cost of inventory sold during the current period
D. Inventory sold during the period (2 marks)
44. The statement in which the total of all expenses are deducted from the total of all revenues is known as:
A. Trading statement
B. Statement of profit or loss
C. Statement of financial position
D. Cash flow statement (2 marks)
45. In the statement of profit or loss, the excess of net sales over the cost of sales is referred to as:
A. Net loss
B. Gross loss
C. Gross profit
D. Net profit (2 marks)

46. On 1 July 2022, salary expense had a credit balance of Sh.550,000. On 30 July 2022, the salaries of the month amounting to Sh.1,821,700 were paid. What was the salary expense for July 2022?
 A. Sh.1,821,700
 B. Sh.1,271,700
 C. Sh.550,000
 D. Sh.2,371,700 (2 marks)
47. At the end of the financial year, the adjusting entry for accrued salaries was inadvertently omitted. The effect of the error would be to:
 A. Understate expense for the year
 B. Overstate net income for the year
 C. Understate liabilities at the end of the year
 D. All of the above (2 marks)

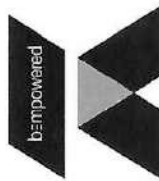
The following information was obtained from the books of Catherine Anne. Use the information to answer question 48, 49 and 50:

Catherine Anne
Statement of profit or loss for the year ended 30 June 2022:

	Sh. "000"	Sh. "000"
Sales		A
Sales returns		<u>(9,500)</u>
Net sales		120,000
Cost of sales:		
Opening inventory	B	
Purchases	60,000	
Closing inventory	<u>(30,000)</u>	
Cost of sales		<u>(50,000)</u>
Gross profit		C

48. Calculate the value of A
 A. Sh.110,500
 B. Sh.120,000
 C. Sh.129,500
 D. Sh.30,000 (2 marks)
49. Calculate the value of B
 A. Sh.20,000
 B. Sh.90,000
 C. Sh.30,000
 D. Sh.110,500 (2 marks)
50. Calculate the value of C
 A. Sh.90,000
 B. Sh.110,500
 C. Sh.70,000
 D. Sh.129,500 (2 marks)

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CAMS LEVEL II

FOUNDATIONS OF ACCOUNTING

MONDAY: 4 April 2022. Morning paper.

Time Allowed: 3 hours.

This paper is made up of a hundred (100) Multiple Choice Questions. Answer ALL the questions by indicating the letter (a, b, c or d) that represents the correct answer. Do NOT write anything on this paper.

1. If shares are sold by a company for more than their par value, they are said to have been issued at a:
(a) Discount.
(b) Premium.
(c) Bonus.
(d) Surplus. (1 mark)
2. Working capital is:
(a) Current assets minus current liabilities.
(b) Total assets minus total liabilities.
(c) Current assets minus total liabilities.
(d) Total assets minus current liabilities. (1 mark)
3. Invoices received for goods purchased on credit from suppliers would first be entered in the:
(a) Purchases day book.
(b) Sales day book.
(c) Purchases account.
(d) Sales account. (1 mark)
4. The total of the discount column on the credit side of a three-column cash book is taken to the:
(a) Debit of discount-allowed account.
(b) Debit of discount-received account.
(c) Credit of discount-allowed account.
(d) Credit of discount-received account. (1 mark)
5. A trader buys goods for Sh.5,000 less 20% trade discount. How much does the trader pay?
(a) Sh.5,000.
(b) Sh.4,500.
(c) Sh.4,000.
(d) Sh.3,600. (1 mark)
6. Returns inward appearing in the trial balance is deducted from:
(a) Purchases.
(b) Sales.
(c) Returns outward.
(d) None of the above. (1 mark)
7. Which of the following accounts is not a personal account?
(a) XYZ Ltd.
(b) Mrs. Atieno.
(c) Returns inward.
(d) KamashTrading Ltd. (1 mark)
8. A company's sales for the year amounted to Sh.39,000 and its cost of sales was Sh.21,000 and operating expenses Sh.5,000. What is the net profit?
(a) Sh.18,000.
(b) Sh.55,000.
(c) Sh.13,000.
(d) Sh.16,000. (1 mark)

9. Voting rights at company meetings are normally held by:
 (a) Ordinary shareholders.
 (b) Preference shareholders.
 (c) Debenture holders.
 (d) Ordinary and preference shareholders. (1 mark)
10. Depreciation is provided on:
 (a) Current assets.
 (b) Intangible assets.
 (c) Property, plant and equipment.
 (d) Liabilities. (1 mark)
11. A credit balance in the bank account in a firm's ledger indicates a:
 (a) Long-term liability.
 (b) Current asset.
 (c) Current liability.
 (d) Fixed asset. (1 mark)
12. A manager is entitled to a commission of 5% of profit. Calculate the manager's commission, if the profit is Sh.2,100,000.
 (a) Sh.100,000.
 (b) Sh.105,000.
 (c) Sh.111,000.
 (d) Sh.115,000. (1 mark)
13. Profit = Capital at the end + ? – Capital introduced – Capital in the beginning:
 (a) Sales.
 (b) Drawings.
 (c) Net Purchases.
 (d) Gross profit. (1 mark)
14. Outstanding income is:
 (a) An asset.
 (b) A liability.
 (c) An expense.
 (d) An income. (1 mark)
15. Choose the correct chronological order of ascertainment of profits.
 (a) Operating Profit, Net Profit, Gross Profit.
 (b) Operating Profit, Gross Profit, Net Profit.
 (c) Gross Profit, Net Profit, Operating Profit.
 (d) Gross Profit, Operating Profit, Net Profit. (1 mark)
16. Net sales during the year 2021 is Sh.285,000. Gross profit is 25% on sales. Find out the cost of goods sold?
 (a) Sh. 285,000.
 (b) Sh. 213,750.
 (c) Sh. 71,250.
 (d) Sh. 0. (1 mark)

Use the following information to answer question 17 and 18:

Cost of new machine purchased = Sh.120,000

Installation expenses = Sh.30,000

Estimated life of machine = 5 years

Residual value after 5 years = Sh.25,000

17. Calculate depreciation on the machine:
 (a) Sh.24,000.
 (b) Sh.54,000.
 (c) Sh.30,000.
 (d) Sh.25,000. (1 mark)

18. The company started production with this machine from 1 October 2021. The company closes its accounts on 31 December every year. Find the adjusted value of the machine on 31 December 2021.
- (a) Sh.143,750.
 (b) Sh.125,000.
 (c) Sh.175,000.
 (d) Sh.300,000. (1 mark)
19. A trial balance will **not** show:
- (a) A casting error in cash account.
 (b) The omission of a transaction from the day books.
 (c) An entry on the wrong side of an account.
 (d) A reversal of figures in a balance carried forward. (1 mark)
20. The following entry appeared in the last statement of financial position of a company:
 Machinery cost Sh.10,000.
 Accumulated depreciation Sh.4,000.
 It is the practice of the company to depreciate machinery at the rate of 20% per annum on reducing balance basis. The figure that will appear for accumulated depreciation in the next statement of financial position will be:
- (a) Sh.1,200.
 (b) Sh.4,800.
 (c) Sh.5,200.
 (d) Sh.6,000. (1 mark)
21. A credit balance in a partner's current account is part of the firm's:
- (a) Current liabilities.
 (b) Capital.
 (c) Long-term liabilities.
 (d) Assets. (1 mark)
22. Which of the following describes the practical framework of bookkeeping?
- (a) Classifying, recording and summarising.
 (b) Reporting, analysing and interpreting.
 (c) Classifying, analysing and interpreting.
 (d) Recording, summarising and reporting. (1 mark)
23. Which of the following principles assumes that a business will continue for a long time?
- (a) Historical cost.
 (b) Periodicity.
 (c) Objectivity.
 (d) Going concern. (1 mark)
24. The following balances refer to Ron and Sons Ltd:
 Machinery Sh.20,000, cash in hand Sh.2,000, land and buildings Sh.200,000, bank loan Sh.50,000, creditors Sh.5,000, debtors Sh.10,000. What is the company's capital?
- (a) Sh.55,000.
 (b) Sh.177,000.
 (c) Sh.232,000.
 (d) Sh. 287,000. (1 mark)
25. Which of the following items is not found in the current accounts of partnership business?
- (a) Drawings.
 (b) Goodwill.
 (c) Interest on capital.
 (d) Partners' salary. (1 mark)
26. Alex bought furniture on credit from Chanel Furniture Limited, which of the following journal entries will be made for this transaction in Alex's books?
- (a) Debit furniture credit cash.
 (b) Debit purchases credit Alex.
 (c) Debit Alex credit purchases.
 (d) Debit furniture and credit Chanel Furniture Limited. (1 mark)

27. Long-term liabilities normally include:
 (a) Proprietor's capital.
 (b) Loan secured by debentures.
 (c) Bank overdraft.
 (d) Trade creditors. (1 mark)
28. The main purpose of the day books is to:
 (a) Speed up the location of errors.
 (b) Provides a check on ledger postings.
 (c) Summarises entries of a similar type.
 (d) Provides totals for control accounts. (1 mark)
29. Goodwill is a:
 (a) Fictitious assets.
 (b) Tangible assets.
 (c) Intangible assets.
 (d) Expenses. (1 mark)
30. Copies of credit notes issued would be entered in the:
 (a) Returns inward day book.
 (b) Sales day book.
 (c) Returns outward day book.
 (d) Purchases day book. (1 mark)
31. Debentures are normally listed in the company's statement of financial position under:
 (a) Issued capital.
 (b) Reserves and provisions.
 (c) Long-term liabilities.
 (d) Current liabilities. (1 mark)
32. A firm's liabilities include:
 (a) Prepaid rent.
 (b) Trade debtors.
 (c) Bank overdraft.
 (d) Trade investments. (1 mark)
33. Which of the following require knowledge of subjects other than accountancy?
 (a) Recording of financial transactions.
 (b) Calculation of profits and losses.
 (c) Summaries of financial position.
 (d) Guidance on financial policy. (1 mark)
34. The totals of the purchases journal are posted to the:
 (a) Debit of purchases account.
 (b) Debit of the personal accounts concerned.
 (c) Credit of sales account.
 (d) Credit of the personal accounts concerned. (1 mark)
35. Discount allowed will appear on the:
 (a) Debit side of trading account.
 (b) Credit side of the statement of profit and loss.
 (c) Credit side of the sales account.
 (d) Debit side of the statement of profit and loss. (1 mark)
36. In the three-column cash book at the end of the accounting period:
 (a) Cash, bank and discount columns are balanced.
 (b) Cash and bank columns are balanced and the discount columns are totalled.
 (c) The cash column is balanced, and bank and discount columns are totalled.
 (d) Cash, bank and discount columns are totalled. (1 mark)

37. The primary objective of the trading account is to show the:
- Overall trading profit or loss for the period concerned.
 - Net trading profit or loss for the period concerned.
 - Profit or loss on the turnover of goods sold in the period.
 - Difference between income earned and expenditure incurred in the period. (1 mark)
38. The main purpose of a bank reconciliation statement is to:
- Ensure the cash book (bank columns) and the bank statement show the same balance.
 - Explain the difference between the cash book balance and the bank statement.
 - Ascertain the correct balance at the bank.
 - Update the cash book. (1 mark)
39. A statement of affairs is similar to a:
- Bank statement.
 - Statement of account.
 - Bank reconciliation statement.
 - Statement of financial position. (1 mark)
40. A business operates its petty cash by using the imprest system. At the beginning of the month, the petty cashier was given Sh.100,000 out of which she spent Sh.80,000. How much will she be reimbursed?
- Sh.20,000.
 - Sh.80,000.
 - Sh.100,000.
 - Sh.180,000. (1 mark)
41. The purchases day book records are:
- Payments to customers.
 - Credit purchases from suppliers.
 - Credit purchases of fixed assets.
 - All purchases of goods for resale. (1 mark)
42. Real accounts records deal with:
- Intangible assets.
 - Creditors and debtors.
 - Commodities.
 - Liabilities. (1 mark)
43. A bank statement is a:
- Copy of the customer's account in the books of his bank.
 - Copy of the bank's account in the books of the customer.
 - Certified statement of the balance of the bank account.
 - Warning to the customer that he has overdrawn his account. (1 mark)
44. The right side of a ledger account is:
- The balance of an account.
 - The debit side.
 - The credit side.
 - Blank. (1 mark)
45. The purchase of a motor car on credit from Toy Automotive Company for use in a firm should be recorded as:
- Debit maintenance of vehicle expense, Credit Toy Automotive Company.
 - Debit purchases, Credit Toy Automotive Company.
 - Debit motor vehicle, Credit Toy Automotive Company.
 - Debit motor vehicle, Credit Cash. (1 mark)
46. Determine the balance carried forward in the following ledger account:

Cash Account

	Sh.		Sh.
Capital	40,000	Drawings	10,000
Sales	15,000	Purchases	20,000
		Balance carried forward	?

- (a) Sh. 10,000.
 (b) Sh. 25,000.
 (c) Sh. 30,000.
 (d) Sh. 55,000. (1 mark)
47. Which of the following entries will be entered in the general journal?
 (a) Sold goods on credit.
 (b) Goods purchased and paid by cash.
 (c) Investment made by the owner.
 (d) Purchase goods on credit. (1 mark)
48. In the first month of operations, the total of the debit entries to the cash account amounted to Sh. 3,000 and the total of the credit entries to the cash account amounted to Sh.1,800. The cash account has a:
 (a) Sh.1,800 credit balance.
 (b) Sh.3,000 debit balance.
 (c) Sh.1,200 debit balance.
 (d) Sh.1,800 credit balance. (1 mark)
49. Current liabilities are such obligation which are to be satisfied:
 (a) Within two years.
 (b) Within one year.
 (c) Within three years.
 (d) Less than five years. (1 mark)
50. Sales are equal to:
 (a) Cost of goods sold + gross profit.
 (b) Cost of goods sold – Gross profit.
 (c) Gross profit = cost of goods sold.
 (d) Purchases. (1 mark)
51. A ledger is called a book of:
 (a) Primary entry.
 (b) Original entry.
 (c) Final entry.
 (d) None of the above. (1 mark)
52. A ledger account is prepared from:
 (a) Events.
 (b) Transactions.
 (c) Journal.
 (d) None of the above. (1 mark)
53. The debit balance of a personal account indicates:
 (a) Amount receivable.
 (b) Amount payable.
 (c) Cash in hand.
 (d) None of the above. (1 mark)
54. The balance of cash account indicates:
 (a) Net income.
 (b) Cash in hand.
 (c) Total cash received.
 (d) Total cash paid. (1 mark)
55. The trial balance shows:
 (a) Both debit and credit balance.
 (b) Only debit balance.
 (c) Only credit balance.
 (d) None of the above. (1 mark)

56. The balance on the debit side of bank column in cash book indicates:
 (a) Total amount withdrawn from bank.
 (b) Total amount deposited in the bank.
 (c) Cash at bank.
 (d) Loan paid. (1 mark)
57. The balance of the cash column of the cash book is always:
 (a) Debit.
 (b) Credit.
 (c) Both (a) and (b).
 (d) Neither (a) nor (b). (1 mark)
58. The balance of petty cash book is:
 (a) A liability.
 (b) An expense.
 (c) A gain.
 (d) An asset. (1 mark)
59. The petty cash book is used for recording:
 (a) Loan payment.
 (b) Sales receipts.
 (c) Huge cash payment.
 (d) Petty cash payments. (1 mark)
60. The cash book in book keeping records:
 (a) All receipts and payments in cash.
 (b) All cash and credit sale of goods.
 (c) All credit and cash purchase of goods.
 (d) All cash and bank transactions. (1 mark)
61. Cash discount is provided on:
 (a) Prompt payment.
 (b) Large quantities.
 (c) Purchase.
 (d) None of the above. (1 mark)
62. The debit balance as per the bank column cash book of ABC Traders on 31 December 2021 was Sh.1,500,000. As at 31 December 2021, cheques deposited, but not cleared, amounted to Sh.100,000 and cheques issued but not presented amounted to Sh.150,000. Balance as per the bank should be:
 (a) Sh.1,750,000.
 (b) Sh.1,550,000.
 (c) Sh.1,650,000.
 (d) Sh.250,000. (1 mark)
63. A business has assets of Sh.100,000 and liabilities of Sh.20,000. What is the amount of capital the business has?
 (a) Sh.120,000.
 (b) Sh.80,000.
 (c) Sh.100,000.
 (d) Sh.20,000. (1 mark)
64. Capital will reduce by:
 (a) Purchase of goods on credit
 (b) Selling the goods for cash
 (c) Furniture purchase for personal use
 (d) Purchase of goods in cash. (1 mark)
65. Liabilities increase by:
 (a) Purchasing goods on credit.
 (b) Rent due.
 (c) Taking of bank loan.
 (d) All of the above. (1 mark)

66. Business transactions are recorded:
(a) In chronological order.
(b) Weekly.
(c) At the end of month.
(d) Per annum. (1 mark)
67. The credit balance of bank account indicates:
(a) Bank balance.
(b) Amount payable to bank.
(c) Amount payable by the bank.
(d) None of the above. (1 mark)
68. Which of the following accounts will invariably have a debit balance?
(a) Account receivable.
(b) Account payable.
(c) Current account of partner.
(d) Bank account. (1 mark)
69. Which of the following accounts will invariably have credit balance?
(a) Current account of proprietor.
(b) Account receivable.
(c) Account payable.
(d) None of the above. (1 mark)
70. Personal account of a customer is likely to have:
(a) Only debit entries.
(b) Only credit entries.
(c) Both debit and credit entries.
(d) No debit or credit entries. (1 mark)
71. Ledger is a book in which:
(a) Real and nominal accounts are maintained.
(b) Real and personal accounts are maintained.
(c) Real, personal and nominal accounts are maintained.
(d) Personal and nominal accounts are maintained. (1 mark)
72. Which of the following is a book of prime entry and part of the double-entry system?
(a) The trial balance.
(b) The petty cash book.
(c) The sales day book.
(d) The purchase ledger. (1 mark)
73. Nominal account having debit balance represents:
(a) Income/gain.
(b) Expenses/loss.
(c) Cash.
(d) Assets. (1 mark)
74. When the total of debit and credit are equal, it represents:
(a) Debit balance.
(b) Credit balance.
(c) Nil balance.
(d) Current balance. (1 mark)
75. Which of the following account is increased by credit entries?
(a) Sales return account.
(b) Bank overdraft.
(c) Goodwill account.
(d) Purchases account. (1 mark)

76. The process of transferring the debit and credit items from a journal to their respective account in the ledger is referred to as?
 (a) Balancing.
 (b) Posting.
 (c) Arithmetic.
 (d) Entry. (1 mark)
77. The liabilities of a firm are Sh.300,000 and capital is Sh.700,000. What is the value of the assets?
 (a) Sh.700,000.
 (b) Sh.1,000,000.
 (c) Sh.400,000.
 (d) Sh.300,000. (1 mark)
78. Which of the following will cause the owner's equity to increase?
 (a) Expense.
 (b) Drawings.
 (c) Revenue.
 (d) Loss. (1 mark)
79. Total assets of a business are Sh.1,300,000 and net worth is Sh.800,000. What is the value of liabilities?
 (a) Sh.2,100,000.
 (b) Sh.500,000.
 (c) Sh.800,000.
 (d) Sh.460,000. (1 mark)
80. A sole proprietor made sales worth Sh.120,000. He incurred Sh.50,000 for the sale. How much gross profit did he earn?
 (a) Sh.50,000.
 (b) Sh.70,000.
 (c) Sh.120,000.
 (d) Sh.170,000. (1 mark)
81. A trail balance is prepared:
 (a) After preparation financial statements.
 (b) After recording transactions in subsidiary books.
 (c) After posting to ledger is complete.
 (d) After posting to ledger is complete and accounts have been balanced. (1 mark)
82. A trial balance shows the:
 (a) Final position of accounts.
 (b) Standard position of accounts.
 (c) Working position of accounts.
 (d) Current position of accounts. (1 mark)
83. Trial balance is considered as the connecting link between accounting records and preparation of financial statements. It provides a basis for:
 (a) Auditing accounting reports.
 (b) Accuracy of the ledger account.
 (c) Further processing of accounts.
 (d) All of the above. (1 mark)
84. Agreement of trial balance is affected by:
 (a) One sided errors only.
 (b) Two sided errors only.
 (c) Both (a) and (b).
 (d) Debit side errors only. (1 mark)
85. What will be the effect on trial balance if Sh. 2,000 received as rent and correctly entered in the cash book, but not posted to rent account?
 (a) Debit side of trial balance will exceed by Sh.2,000.
 (b) Debit side of trial balance will decrease by Sh.2,000.
 (c) Credit side of trial balance will decrease by Sh.2,000.
 (d) Credit side of trial balance will exceed by Sh.2,000. (1 mark)

86. Minimum number of members in the case of a public company is:
- (a) 4.
 - (b) 5.
 - (c) 6.
 - (d) 7.
- (1 mark)

87. Asha's Accessory Shop started the year with total assets of Sh.210,000 and total liabilities of Sh.120,000. During the year, the business recorded Sh.330,000 in revenues, Sh.165,000 in expenses. The net income reported by Asha's Accessory Shop for the year was:
- (a) Sh.120,000.
 - (b) Sh.150,000.
 - (c) Sh.195,000.
 - (d) Sh. 165,000.
- (1 mark)

88. Rodgers Company compiled the following financial information as at 31 December 2021:

- Sales revenue Sh.1,120,000
- Ordinary share capital Sh.240,000
- Buildings Sh.320,000
- Operating expenses Sh.1,000,000
- Cash Sh.280,000
- Dividends Sh.80,000
- Inventory Sh.40,000
- Accounts payable Sh. 160,000
- Accounts receivable Sh.120,000
- Retained earnings, 1 January 2021 Sh. 600,000

What is the value of Rodgers Company's assets as at 31 December 2021?

- (a) Sh.1,880,000.
 - (b) Sh.1,360,000.
 - (c) Sh.640,000.
 - (d) Sh.760,000.
- (1 mark)

89. As at 1 January 2021, Atieno's shop had a balance in its retained earnings account of Sh.100,000. During the year Atieno's shop had revenues of Sh.80,000 and expenses of Sh.45,000. In addition, the business paid cash dividends of Sh.20,000. What is the balance on retained earnings as at 31 December 2021 for Atieno's shop?
- (a) Sh.100,000
 - (b) Sh.115,000
 - (c) Sh.135,000
 - (d) Sh.155,000.
- (1 mark)

90. Use the following information for Light Ltd. for the year ended 30 September 2021 to answer question 90 – 92:

	Sh. "000"
Closing inventory	1,500
Sales	19,000
Operating expenses	10,000
Cash	15,000
Accounts payable	11,000
Dividends	6,000
Accounts receivable	4,000
Notes payable	1,000
Ordinary share capital	10,000
Equipment	9,500
Retained earnings (1 October 2020)	5,000

Calculate Light Ltd.'s net income:

- (a) Sh.7,500,000.
 - (b) Sh. 9,000,000.
 - (c) Sh.8,000,000.
 - (d) Sh.1,400,000.
- (1 mark)

91. Calculate Light Ltd.'s retained earnings:
- (a) Sh.8,000,000.
 - (b) Sh.1,800,000.
 - (c) Sh.1,400,000.
 - (d) Sh.300,000.
- (1 mark)
92. Calculate Light Ltd.'s total assets:
- (a) Sh.8,000,000.
 - (b) Sh.36,000,000.
 - (c) Sh.15,000,000.
 - (d) Sh.30,000,000.
- (1 mark)
93. The art of recording all business transactions in a systematic manner in a set of books is referred to as:
- (a) Accounting.
 - (b) Bookkeeping.
 - (c) Ledger.
 - (d) Journalising.
- (1 mark)
94. The person, firm or institution who does not pay the price in cash for the goods purchased or the services received is called:
- (a) Creditor.
 - (b) Proprietor.
 - (c) Debtor.
 - (d) Merchant.
- (1 mark)
95. Cash, goods or assets invested by the proprietor in the business for earning profit is called:
- (a) Profit.
 - (b) Capital.
 - (c) Non-current assets.
 - (d) Current assets.
- (1 mark)
96. The concession given on cash transactions is called:
- (a) Trade discount.
 - (b) Cash discount.
 - (c) Cash sale.
 - (d) Cash purchases.
- (1 mark)
97. Jared Kigen sold goods to Norton Mosomi on 19 October 2021 for Sh.60,000. The credit terms are 2½% cash discount if payment is received within 14 days. If payment was received on 25 October 2021, then the correct amount and the discount received respectively would be:
- (a) Sh.60,000 , Sh.250.
 - (b) Sh.61,500 , Sh.60,000.
 - (c) Sh.58,500 , Sh.1,500.
 - (d) Sh.46,000 , Sh.24,000.
- (1 mark)
98. Carriage outward in accounting is included as:
- (a) Direct incomes.
 - (b) Cost of sale.
 - (c) Expenses.
 - (d) Production cost.
- (1 mark)
99. A company that issues shares to raise funds results in:
- (a) Decrease in cash.
 - (b) Increase in cash.
 - (c) Increase in equity.
 - (d) Increase in liabilities.
- (1 mark)
100. When the purchase value of assets is more than net book value of an asset it is known as?
- (a) Appreciated liabilities.
 - (b) Appreciated revenue.
 - (c) Depreciation.
 - (d) Appreciation.
- (1 mark)
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CAMS LEVEL II

FOUNDATIONS OF ACCOUNTING

WEDNESDAY: 15 December 2021.

Time Allowed: 3 hours.

This paper has two sections. SECTION I has twenty (20) short response/computational questions. SECTION II has three computational questions. ALL questions are compulsory. Marks allocated to each question are shown at the end of the question. Any assumptions made must be clearly and concisely stated.

SECTION I - 40 MARKS

1. State the accounting equation. (2 marks)
2. Identify the accounting concept that assumes that an entity will continue in business in the foreseeable future. (2 marks)
3. Highlight two causes of depreciation of assets such as buildings, furniture and fittings. (2 marks)
4. Match the source document with the journal in which it is entered:

Source document	Journal
Sales invoice	Sales returns
Receipt	Purchases
Credit note	Sales
Goods received note	Cash book.

(2 marks)

5. Explain the term "capital expenditure". (2 marks)
6. Define "error of omission". (2 marks)
7. A business has the following balances:

	Sh.
Land	1,000,000
Machinery	200,000
Cash	10,000
Debentures	200,000

Required:

The value of the owner's equity.

(2 marks)

8. Outline two items that might be credited to the sales ledger control account. (2 marks)
9. List two qualities of useful accounting information. (2 marks)
10. Classify each of the following items as either an asset or a liability:
 - (i) Accounts receivable.
 - (ii) Pre-paid rent.
 - (iii) Machinery.
 - (iv) Lighting accrued.

(2 marks)

11. The following balances were extracted from the books of Zed Ltd. on 30 September 2021:

	Sh.
Accrued administrative expenses (1 October 2020)	972,800
Cash paid for administrative expenses during the year ended 30 September 2021	3,100,000
Accrued administrative expenses (30 September 2021)	704,600

Required:

Administrative expenses account. (2 marks)

12. Explain why the government might need accounting information. (2 marks)

13. State two classes of ledger accounts. (2 marks)

14. As at 1 July 2020, Julia had a rent pre-payment of Sh.600,000. She paid Sh.3,600,000 during the year ended 30 June 2021.

Required:

The rent charged to the statement of profit or loss for the year ended 30 June 2021. (2 marks)

15. The following information relates to BZ Enterprises for the month of November 2021:

	Sh.
Adjusted bank balance	490,000
Uncredited cheques	75,000
Unpresented cheques	120,000

Required:

Bank reconciliation statement. (2 marks)

16. K K purchased a motor vehicle for Sh.1,500,000 by cheque.

Required:

Post the transaction in the relevant ledger accounts. (2 marks)

17. Identify the ledger in which the account of each of the following can be found:

(i) Furniture. (1 mark)

(ii) Robert, a debtor. (1 mark)

18. The following balances were extracted from the books of Happy House Ltd. as at 30 September 2021:

	Sh.
Motor vehicles	2,300,000
Inventory	150,000
Cash	220,000
Furniture	550,000

Required:

(i) Total non-current assets. (1 mark)

(ii) Total current assets. (1 mark)

19. Highlight two contents of a partnership deed. (2 marks)

20. State the term used to describe the difference between cost price of an asset and net book value of the asset. (2 marks)

SECTION II

21. Thomas Haki's trial balance as at 30 June 2021 is as follows:

	Sh. "000"	Sh. "000"
Cash in hand	295	
Accounts receivable	12,300	
Purchases	92,100	
Returns inwards and returns outwards	550	307
Carriage inwards	215	
Accounts payable		9,370
Inventory (1 July 2020)	23,910	
Motor van	4,100	
Office equipment	6,250	
Carriage outwards	309	
Sales		130,900
Capital		22,535
Cash at bank	3,115	
Motor expenses	1,630	
Insurance expenses	492	
Office expenses	1,377	
Sundry expenses	284	
Rent	2,970	
Telephone charges	405	
Salaries and wages	<u>12,810</u>	
	<u>163,112</u>	<u>163,112</u>

Additional information:

Inventory as at 30 June 2021 was valued at Sh.27,475,000.

Required:

- (a) Statement of profit or loss for the year ended 30 June 2021. (12 marks)
- (b) Statement of financial position as at 30 June 2021. (8 marks)
- (Total: 20 marks)**

22. Leah Loa started a business on 1 September 2021 with Sh.2,000,000 that she deposited in a business bank account. She made the following transactions during the month of September 2021:

September 2021

- 2 - Withdrew Sh.500,000 from the bank for business use.
- 4 - Purchased goods on credit from Tom for Sh.600,000 and Jane for Sh.400,000.
- 6 - Purchased furniture for Sh.180,000 paying by cheque.
- 7 - Paid rent by cheque Sh.120,000.
- 9 - Sold goods on credit as follows:
King Sh.250,000 and Paul Sh.190,000
- 12 - Paid Tom his account by cheque.
- 16 - Paid wages Sh.60,000 by cash.
- 22 - King paid his account by cash.
- 25 - Paid for painting of the shop Sh.25,000 in cash.
- 26 - Sold goods in cash for Sh.150,000 and received the money. She used it for her personal needs.

Required:

- (a) Post the accounting entries in the appropriate ledger accounts and balance them as at 30 September 2021. (15 marks)
- (b) Trial balance as at 30 September 2021. (5 marks)
- (Total: 20 marks)**

23. Antony Muga is a small trader. The bank balance in the cash book and the balance as per the bank statement for Antony Muga for the month of March 2021 are as follows:

Cash book (Bank column only)

Debit	Sh.	March 2021	Sh.
March 2021			
1	30,000	6	15,000
4	8,000	6	29,450
6	5,000	7	2,000
6	10,500	11	17,000
10	8,750	18	24,000
18	48,550	20	11,900
24	21,400	23	46,440
28	50,000	29	25,000
30	6,500	29	42,100
31	24,190		
	<u>212,890</u>		<u>212,890</u>

Bank statement for month of March 2021:

	Debit (Sh.)	Credit (Sh.)	Balance (Sh.)
1			17,250
4		8,000	25,250
6		5,000	30,250
6	15,000		15,250
7	2,000		13,250
18		48,550	61,800
19		22,000	83,800
20	54,000		29,800
20	11,900		17,900
25	9,420		8,480
27	5,000		3,480
29	25,000		(21,520)

Required:

(a) Adjusted cash book for March 2021. (10 marks)

(b) Bank reconciliation statement as at 31 March 2021. (10 marks)

(Total: 20 marks)

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CAMS LEVEL II

PILOT PAPER

FOUNDATIONS OF ACCOUNTING

November 2021.

Time allowed: Two hours

This paper has two sections. Section One has twenty (20) multiple choice/short computational questions. Section Two has three computational questions. All questions are compulsory. Marks allocated to each question are shown at the end of the question.

SECTION ONE

[40 MARKS] [40 MINUTES]

1. Planning, recording, analysing and interpreting financial information is best referred to as:
 - A. Accounting
 - B. Balance sheet
 - C. Accounting equation
 - D. Accounting system

(2 marks)

2. The partnership form of business organisation is best described as:
 - A. It's a common form of organisation for service-type businesses.
 - B. It's a separate legal entity.
 - C. Enjoys an unlimited life.
 - D. Has limited Liability

(2 marks)

3. Funds received before the delivery of goods and services would be shown as:
 - A. Unearned revenue on the statement of income.
 - B. Unearned revenue on the statement of financial position
 - C. A credit to cash
 - D. Sales or service revenue on the statement of earnings

(2 marks)

4. If the adjusting entry for unearned revenues is **not** made, which of the following is true:
 - A. Credit will be overstated
 - B. Assets will be overstated.
 - C. Revenues will be overstated.
 - D. Liabilities will be overstated.

(2 marks)

5. On a classified balance sheet of a Kenyan company, current assets are customarily listed in which order:
 - A. In the order of liquidity.
 - B. In the order of acquisition.
 - C. With the largest dollar amounts first.
 - D. In alphabetical order.

(2 marks)

6. The amounts appearing on an income statement should agree with the amounts appearing on the post-closing trial balance. This statement is:
(a) True
(b) False
(2 marks)
7. A financial statement that reports assets, liabilities and owner's equity on a specific date is a:
A. Balance sheet
B. Accounting record
C. Accounting equation
D. Account balance
(2 marks)
8. Business activities that change the amounts in the accounting equation are:
A. Assets
B. Transactions
C. Accounts payable
D. Equities
(2 marks)
9. What is a account balance?
A. The owner's investment
B. The amount in an account
C. A business entity
D. The sum of all assets
(2 marks)
10. Anything of value that is owned is:
A. Owner's Equity
B. Liabilities
C. Assets
D. Unit of measurement
(2 marks)
11. One-person ownership is referred to as a:
A. Sole Proprietorship
B. Corporation
C. Partnership
D. None of the above.
(2 marks)
12. All of the following are examples of a service business except
A. Nail salon
B. Car wash
C. Plumbing company
D. A department store
(2 marks)
13. Owner's equity is best described as:
A. Liabilities
B. The amount owed by a company
C. The amount remaining after liabilities are subtracted from the assets
D. The relationship among assets, liabilities & owner's equity
(2 marks)

14. An equation showing the relationship among assets, liabilities & owner's equity is:
- (a) The accounting equation
 - (b) Owner's equity
 - (c) The accounting system
 - (d) All of the above
- (2 marks)
15. What are equities?
- (a) Financial right to the assets of a business
 - (b) Anything of value that is owned
 - (c) An amount owed by a business
 - (d) Fixed assets
- (2 marks)
16. The standard accounting equation is
- (a) $A = L + C$ or OE
 - (b) $A + L + C = OE$
 - (c) $L = A + OE$
 - (d) None of the above
- (2 marks)
17. Organised summaries of a business 's financial activities are best described as:
- A. Accounting systems
 - B. Accounting processes
 - C. Accounting records
 - D. Transactions
- (2 marks)
18. A proper net worth statement heading contains the name of the company, the title and date.
- A. True
 - B. False
- (2 marks)
19. What does "on account" refer too?
- A. Buy now, get later
 - B. Received goods, pay later
 - C. Assets increasing
 - D. Loans
- (2 marks)
20. The term used when the owner's personal financial information is recorded separately from their business is:
- A. Business entity
 - B. Unit of measurement
 - C. Owner's equity
 - D. None of the above
- (2 marks)
- (Total: 40 marks)**

SECTION TWO
[60 MARKS] [1 Hour 20 Minutes]

21. Mr Patapata is a merchant operating in Namanga border town.
- His trial balance for the year ended 31 December 2020 is as shown below:

	DR Sh. 000	CR Sh. 000
Motor vehicles	4,000	
Furniture and Fittings	3,000	
Inventory 1 January 2020	2,000	
Sales		30,000
Purchases	20,000	
Returns	2,000	1,000
Discounts	3,000	1,000
Trade receivables and trade payables	8,000	4,000
Provision for bad and doubtful debts		500
Bad debts	1,000	
Motor vehicles expenses	1,000	
Rent	500	
Salaries and wages	1,000	
Electricity and water	1,500	
Telephone	300	
Carriage inwards	200	
Carriage Outwards	300	
Drawings	3,000	
Capital		14,300
	<u>50,800</u>	<u>50,800</u>

Additional information:

- Stock on 31 December 2020 amounted to Sh. 3,000,000
- Motor vehicle expenses unpaid amount to Sh.300,000
- Unpaid electricity and water amount to Sh. 100,000
- Depreciation is provided on motor vehicles and fixtures at 20% and 10% respectively on cost

Required:

- (a) Income statement for the year ended 31 December 2020. (12 marks)
- (b) Statement of financial position as at 31 December 2020. (8 marks)
- (Total: 20 marks)**

22. B and M commenced business on 2 January 2021 with capital of Sh.2,000,000 in the bank. The following transactions took place during the month of January 2021:

January

- 2 Purchased goods worth Sh.175,000 on credit from Mathew
- 3 Bought furniture and fittings Sh.150,000 paying by cheque
- 5 Sold goods for cash Sh.275,000
- 6 Bought goods on credit Sh.114,000 from Peter
- 10 Paid rent by cash Sh.15,000
- 12 Bought stationery Sh.27,000 by cash
- 18 Goods returned to Mathew Sh.23,000
- 21 Rented out part of premises receiving rent by cheque Sh.5,000
- 23 Sold goods on credit to Urbanus for Sh.77,000
- 24 Bought a motor vehicle paying by cheque Sh.300,000
- 30 Paid the month's wages by cash Sh.117,000
- 31 The proprietor took cash for himself Sh.44,000.

Required:

- (a) Record the above transactions in necessary ledger accounts. (14 marks)
- (b) Extract a trial balance as at 31 January 2021. (6 marks)
- (Total: 20 marks)**

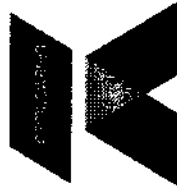
23. Baba Ndogo sole proprietorship received their bank statement for the month of July 2021. The bank balance was Sh.571,500 whereas the cash book balance was Sh.46,250.

The following discrepancies were later discovered:

- Bank charges of Sh.3,000 had not been entered in the cash book.
- Cheques totaling Sh. 22,500 had not yet been presented.
- Receipts of Sh.26,500 had not been entered in cash book.
- The bank had not been credited with receipts of Sh.98,500.
- Standing order amounting to Sh. 62,000 had not been entered into the cash book.
- Payment of Sh.74,900 were entered into the cash book as Sh.79,400.
- A cheque of Sh.150,000 from debtors had been returned by the bank marked refer to drawer.
- The opening cash balance of Sh.329,250 was recorded as a debit balance instead of a credit balance.
- An old cheque payment amounting to Sh.44,000 had been written back in the cash book but the bank had already honored it.

Required:

- (a) Adjusted cash book balance. (12 marks)
- (b) Bank reconciliation statement. (8 marks)
- (Total: 20 marks)**
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CAMS LEVEL II

FOUNDATIONS OF ACCOUNTING AND AUDITING

MONDAY: 30 August 2021.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

- (a) Highlight four errors that might not be revealed by preparing a trial balance. (4 marks)
- (b) Explain the following accounting concepts:
- (i) Accrual concept. (2 marks)
- (ii) Going concern concept. (2 marks)
- (c) Richard Tambo sells school books. A trial balance was extracted from his books of account as at 30 June 2021. The trial balance failed to agree and a suspense account was opened with a credit balance of Sh.26,200.

The following errors were identified:

1. Sales journal was overcast by Sh.7,200.
2. Payment of Sh.25,000 for repairs to motor vehicle was posted to the motor vehicle account.
3. Commission received of Sh.61,000 was debited to the commission income account.
4. The total of discounts allowed column in the cash book amounting to Sh.48,000 was posted to discounts received account.
5. Goods whose selling price was Sh.18,000 and cost price was Sh.15,000, were returned by a customer on 28 June 2021. These goods were neither recorded in the books, nor included in the closing inventory.
6. A credit purchase of Sh.7,400 was omitted from creditors account.

Required:

- (i) Journal entries to correct the above errors (Narrations not required). (7 marks)
- (ii) Suspense account duly balanced as at 30 June 2021. (5 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Classify the following expenses incurred by Safi Traders as either capital expenditures or revenue expenditures:
- (i) Carriage on returns outward.
- (ii) Fitting partitions in their shop.
- (iii) Purchase of weighing machine.
- (iv) Repairs of office computers. (4 marks)
- (b) Distinguish between "trade discount" and "cash discount". (4 marks)
- (c) Joy Alina is a sole trader trading under the name Joylina Traders. She maintains her petty cash using an imprest system. The monthly imprest amount is Sh.20,000. The following expenses were incurred in the month of July 2021:

July 2021	Sh.
1. Petty cash at hand	2,575
2. Petty cash restored to imprest amount	-
5. Paid wages	2,989

July 2021	Sh.
6. Cost of postage	1,358
13 Paid wages	2,920
15. Bought stationery	1,545
19. Paid wages	2,970
21. Bought postage stamps	1,210
24. Paid wages	2,998
26. Bought stationery	1,176
30. Bought envelopes for postage	970
1 August 2021 petty cash re-imbursed.	

Required:

Petty cash book with analytical columns for wages, postage and stationery.

(12 marks)

(Total: 20 marks)

QUESTION THREE

The following is the trial balance of Ujenzi Traders as at 30 June 2021:

	Sh. "000"	Sh. "000"
Land and building	8,000	
Furniture and fittings	5,000	
Purchases and sales	12,000	24,680
Cash at bank	410	
Cash in hand	150	
Accounts receivable and accounts payable	1,210	770
Bad debts written off	180	
Discounts allowed	70	
Rent received		1,480
Travelling expenses	280	
Salaries and wages	620	
Insurance expenses	60	
Capital		3,600
Drawings	170	
Inventory (1 July 2020)	1,800	
Advertising expenses	210	
Administrative expenses	130	
Internet and postage	240	
	<u>30,530</u>	<u>30,530</u>

Inventory as at 30 June 2021 was valued at Sh.950,000.

Required:

(a) Statement of profits or loss for the year ended 30 June 2021.

(12 marks)

(b) Statement of financial position as at 30 June 2021.

(8 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Outline two similarities between accounting and auditing.

(4 marks)

(b) (i) Explain the term "Public Accounts Committee".

(2 marks)

(ii) Highlight the role of the Public Accounts Committee.

(2 marks)

(c) Describe six functions that might be performed by an audit software.

(6 marks)

(d) Outline six users of audited financial statements.

(6 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Discuss five purposes that internal audit function serves in an organisation.

(10 marks)

(b) Enumerate five internal control measures that an organisation could put in place to control sales returns and accounts receivable.

(10 marks)

(Total: 20 marks)



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CAMS LEVEL II

FOUNDATIONS OF ACCOUNTING AND AUDITING

MONDAY: 17 May 2021.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

- (a) Explain four challenges one might face when using a computerised accounting system. (4 marks)
- (b) Identify five types of ledgers. (5 marks)
- (c) Highlight five professional ethics that govern the accounting profession. (5 marks)
- (d) Describe the following types of accounting errors:
- (i) Error of principle. (2 marks)
 - (ii) Error of commission. (2 marks)
 - (iii) Error of omission. (2 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Highlight four source documents used in accounting transactions. (4 marks)
- (b) (i) Distinguish between "discounts allowed" and "discounts received". (4 marks)
- (ii) The following information relates to Mena Enterprises for the month of December 2020:

Date	Transaction
December:	
1	Balance brought forward Cash - Sh.500,000
1	Balance brought forward Bank - Sh.1,480,000
2	Bought goods by cheque Sh.400,000
3	Made cash sales of Sh.360,000
5	Banked cash of Sh.400,000
7	Paid by cheque and received a 3% discount from each of the following suppliers: Sh. Jengo 300,000 Halua 600,000 Mraba 280,000
9	Purchased furniture by cheque amounting to Sh.600,000
14	Made cash drawings of Sh.100,000
17	Received the following amounts by cheque and allowed a 5% discount in each case: Sh. Shami 800,000 Benta 600,000 Mina 640,000
19	Paid Ruby Sh.160,000 cash less 3% discount.
22	Received cash from Sam Sh.300,000 less 4% discount.
29	Paid salaries of Sh.200,000 in cash.

Required:

Three column cash book.

(12 marks)

(Total: 20 marks)

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QUESTION THREE

The following is the trial balance for Jembe Kazi for the year ended 31 December 2020:

	Sh."000"	Sh."000"
Inventory (1 January 2020)	71,040	
Carriage inwards	9,300	
Carriage outwards	6,000	
Sales returns	6,150	
Purchases returns		9,660
Purchases	356,220	
Sales		558,000
Salaries	115,860	
Rent	9,120	
Insurance	2,340	
Motor vehicles expenses	19,920	
Office expenses	6,480	
Electricity expenses	4,980	
General expenses	9,420	
Building (net book value)	150,000	
Motor vehicles (net book value)	54,000	
Fixtures and fittings (net book value)	10,500	
Trade receivables	116,880	
Trade payables		51,930
Cash at bank	12,000	
Cash in hand	2,460	
Drawings	36,000	
Capital		379,080
	<u>998,670</u>	<u>998,670</u>

Inventory as at 31 December 2020 was valued at Sh.88,380,000.

Required:

- (a) Statement of profit or loss for the year ended 31 December 2020. (12 marks)
 - (b) Statement of financial position as at 31 December 2020. (8 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Distinguish between "errors" and "fraud". (4 marks)
 - (b) Highlight four differences between the role of "internal audit" and "external audit". (8 marks)
 - (c) Propose eight internal control measures that could be used by an organisation in the credit sales procedure. (8 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Discuss five challenges that an auditor might face during the process of gathering evidence. (10 marks)
 - (b) Describe five roles played by the Office of the Auditor General (OAG). (10 marks)
- (Total: 20 marks)**
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CAMS LEVEL II

FOUNDATIONS OF ACCOUNTING AND AUDITING

MONDAY: 23 November 2020.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

- (a) Identify the journal in which the summary of the information obtained from each of the following source documents is recorded:
- (i) Receipts.
 - (ii) Payment voucher.
 - (iii) Credit note.
 - (iv) Purchase invoice. (4 marks)
- (b) Explain four qualities of useful accounting information. (8 marks)
- (c) On 1 May 2020, Zuena Mrembo, a sole trader, had a cash balance of Sh.1,250,000. During the first week of May, the following transactions took place:

May

- 1 Paid salaries and wages amounting to Sh.250,000.
- 2 Made cash sales amounting to Sh.750,000.
- 3 Paid Jua Kali Ltd. Sh.250,000.
- 3 Paid Enzi Ltd. Sh.350,000
- 4 Paid water bill amounting to Sh.80,000.
- 4 Received Sh.400,000 from Ndogo Supermarket.
- 4 Paid electricity bill amounting to Sh.50,000
- 5 Paid rent amounting to Sh.200,000.
- 5 Received Sh.1,000,000 from Long Ltd.
- 6 Paid Naima Enterprises Sh.620,000.
- 7 Made cash sales amounting to Sh.1,350,000.

Required:

Cash book to record the transactions above.

(8 marks)

(Total: 20 marks)

QUESTION TWO

Doris Pendo started a mini-market on 1 April 2020 with Sh.250,000 in cash.

During the month of April 2020, the following transactions took place:

Date:

April 2020

- 2 Opened a bank account and deposited Sh.187,500.
- 3 Purchased furniture on credit worth Sh.40,000 from Bamboo Furnitures.
- 4 Purchased inventory on credit from Salama Traders and Sawa Traders at Sh.62,500 and Sh.55,000 respectively.
- 9 Returned furniture worth Sh.10,000 to Bamboo Furnitures.
- 11 Sold goods on credit to Pamela and Jacob at Sh.45,000 and Sh.50,000 respectively.
- 15 Paid wages of Sh.6,250 in cash.
- 18 Paid Salama Traders by cheque.

Date:

April 2020

- 21 Pamela settled her account in cash.
- 24 Paid Bamboo Furnitures by cheque.
- 27 Purchased inventory worth Sh.25,000 from Bibi Traders by cheque.
- 29 Introduced additional capital of Sh.75,000 in cash.
- 30 Paid rent of Sh.15,000 by cheque.

Required:

- (a) Post the above transactions in the necessary ledger accounts. (15 marks)
 - (b) Trial balance as at 30 April 2020. (5 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) The cash book of Alex Mua had a debit balance of Sh.90,000 as at 30 April 2020. On the same date, the credit balance as per the bank statement was Sh.150,000.

On examining the cash book and bank statement, the following differences were discovered:

- 1. A cheque amounting to Sh.24,000 had been paid into the account on 29 April 2020, but had not been credited by the bank until 1 May 2020.
- 2. Bank charges amounted to Sh.1,800.
- 3. A standing order of Sh.2,400 had been paid by the bank, but had not been entered in the cash book.
- 4. Interest income amounting to Sh.39,000 received into the bank account did not appear in the cash book.
- 5. Cheques paid to suppliers, but not yet presented to the bank for payment amounted to Sh.49,200.

Required:

- (i) Adjusted cash book balance. (3 marks)
 - (ii) Bank reconciliation statement. (3 marks)
- (b) On 1 April 2019, Aria and Buria started a partnership business. They agreed to share profits and losses equally.

Additional information:

- 1. Aria contributed a capital amount of Sh.1,500,000 while Buria contributed a capital amount of Sh.1,000,000.
- 2. It was agreed that interest be allowed on capital at the rate of 6% per annum, while interest charged on drawings would be 8% per annum.
- 3. Drawings for the year amounted to:

	Sh.
Aria	120,000
Buria	270,000
- 4. Profit for the year ended 31 March 2020 was Sh.448,500.

Required:

- (i) Income statement and appropriation account for the year ended 31 March 2020. (4 marks)
 - (ii) Partners' capital accounts. (10 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Define the following terms as used in auditing:
 - (i) Errors. (2 marks)
 - (ii) Irregularities. (2 marks)
 - (b) Explain four similarities between "internal audit" and "external audit". (8 marks)
 - (c) Discuss four functions of the office of the Auditor General or equivalent office in your country. (8 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) (i) Explain the term "fraud" as used in auditing. (2 marks)
- (a) (ii) Outline five common types of fraud in an organisation. (5 marks)
- (b) Outline six measures that an organisation could put in place to safeguard its cash against theft and misuse. (6 marks)
- (c) Highlight seven elements of an external audit report. (7 marks)

(Total: 20 marks)

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CAMS LEVEL II

FOUNDATIONS OF ACCOUNTING AND AUDITING

TUESDAY: 26 November 2019.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

- (a) Define the term "cash book". (2 marks)
- (b) Explain the use of the following source documents:
- (i) Debit note. (2 marks)
- (ii) Local purchase order. (2 marks)
- (c) Distinguish between "single entry system" and "double entry system" as used in accounting. (4 marks)
- (d) Describe how the following errors might be corrected:
- (i) Single entry error. (2 marks)
- (ii) Complete reversal of entry. (2 marks)
- (e) Highlight six users of accounting information. (6 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Ann Wakesho runs a small business. On 1 September 2019, Anne had petty cash of Sh.16,400. She withdrew Sh.33,600 from her bank account to cater for the week's expenses.

The following were her expenses for the week:

September 2019:

	Sh.
1 Bus fare	300
2 Postage stamps	4,250
2 Tea for customers	1,100
3 Cartridge	2,150
4 Purchase of pens and printing paper	500
4 Telephone airtime	3,800
4 Refreshments	2,600
5 Repair of office furniture	5,000
5 Taxi charges	4,350
6 Post cards	4,500
7 Tea for customers	1,000
7 Telephone airtime	3,700

Required:

A petty cash book with analytical columns for transport, postage and telephone, refreshments, office stationery and sundry expenses. (11 marks)

(b) The following balances were extracted from the records of Tony Mwema as at 30 September 2019:

	Sh.
Cash in hand	60,000
Cash at bank	550,000
Trade receivables	400,000
Trade payables	500,000
Inventory (1 October 2018)	1,050,000
Sales returns	25,000
Sales	2,800,000
Purchases	1,025,000
Capital	745,000
Salaries	200,000
Water and electricity	30,000
Administrative expenses	10,000
Drawings	45,000
Rent and rates	85,000
Inventory (30 September 2019)	675,000
Furniture and fittings	375,000
Motor vehicle	1,750,000
Bank loan	1,500,000
Rent received	60,000

Required:

Trial balance as at 30 September 2019.

(9 marks)

(Total: 20 marks)

QUESTION THREE

The following is the trial balance for Maji Mazuri Traders as at 30 June 2019:

	Sh.	Sh.
Capital account		1,218,000
Drawings	120,000	
Inventory (1 July 2018)	900,000	
Purchases	5,200,000	
Sales		6,200,000
Furniture	200,000	
Trade receivables	800,000	
Travel expenses	10,000	
Trade expenses	92,000	
Salaries	110,000	
Rent	48,000	
Advertising	100,000	
Insurance	8,000	
Commissions received		26,000
Discount allowed	4,000	
Bad debts written off	32,000	
Trade payables		400,000
Cash in hand	104,000	
Cash at bank	<u>116,000</u>	
	<u>7,844,000</u>	<u>7,844,000</u>

Inventory as at 30 June 2019 was valued at Sh.1,060,000.

Required:

(a) Income statement for the year ended 30 June 2019.

(12 marks)

(b) Statement of financial position as at 30 June 2019.

(8 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Highlight five benefits that could be derived from using computer assisted audit techniques (CAATs). (5 marks)
 - (b) Outline five techniques that an auditor could use to gather audit evidence. (5 marks)
 - (c) Explain five key stages of an audit. (10 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Explain five reasons why it is necessary for a limited liability company to be audited. (10 marks)
 - (b) Discuss five purposes of an internal control system. (10 marks)
- (Total: 20 marks)**
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CAMS LEVEL II

FOUNDATIONS OF ACCOUNTING AND AUDITING

MONDAY: 20 May 2019.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

- (a) Explain the term "accounting equation". (2 marks)
- (b) Describe the principle of double entry. (2 marks)
- (c) Identify four uses of the general journal. (4 marks)
- (d) The cash book of Ndire Wholesalers had a cash balance of Sh.31,450 and a bank overdraft of Sh.21,000 on 1 March 2019.

The following transactions took place during the month of March 2019:

Date	Transaction
March: 1	Cash sales directly banked Sh.54,600.
2	Received a cheque of Sh.24,400 from James Mwangi in full settlement of his account of Sh.25,000.
4	Bought goods for Sh.21,500 in cash.
8	Davis Maji paid his account of Sh.50,000 by cheque after deducting 5% cash discounts.
10	Withdrew cash from bank Sh.15,800 for office use.
12	Paid Mike Mugwe by cheque Sh.18,000 after having deducted a discount of 10%.
14	Paid wages and salaries by cash Sh.15,300.
16	Received commissions by cash Sh.4,800.
20	James Mwangi's cheque was dishonoured.
23	Received a cheque for Sh.9,500 from Leah Akinyi after deducting 5% cash discount.
25	Cash sales of Sh.18,200.
31	Banked all the cash leaving a balance of Sh.1,000.

Required:

Three column cash book.

(12 marks)
(Total: 20 marks)

QUESTION TWO

- (a) Explain the use of each of the following documents in accounting:
- (i) Invoice. (2 marks)
- (ii) Credit note. (2 marks)
- (iii) Bank statement. (2 marks)
- (b) Joyce Kanini prepared her trial balance for the month of March 2019 which failed to balance with a debit balance of Sh.94,000. Subsequent investigations revealed the following:
- The sales day book was overcast by Sh.250,000.
 - The purchases day book was overcast by Sh.104,000.

3. Rent received account was understated by Sh.22,000.
4. Part of the stationery charged to the income statement worth Sh.30,000 was still in the inventory.
5. Insurance expenses paid in cash of Sh.80,000 was omitted from the books.

Required:

- (i) Journal entries to correct the above errors. (10 marks)
 - (ii) Suspense account duly balanced. (4 marks)
- (Total: 20 marks)**

QUESTION THREE

The following list of balances were extracted from the records of Peter Wafula, a sole trader as at 31 March 2019:

	Sh.
Capital	52,300
Plant and machinery (net book value)	12,500
Purchases	138,300
Sales	150,600
Trade receivables	12,950
Trade payables	19,100
Wages and salaries	18,200
Cash at bank	1,600
Motor vehicles (net book value)	7,600
Motor vehicle expenses	3,800
Heat and light	2,200
Sales returns	1,400
Purchases returns	2,100
Drawings	18,500
Rent and rates	2,250
Administrative expenses	900
Bank loan	7,500
General expenses	11,400

Required:

- (a) Trial balance as at 31 March 2019. (10 marks)
 - (b) Income statement for the year ended 31 March 2019. (Assume closing inventories of Sh.11,400). (10 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) The internal control system encompasses all the policies and procedures adopted by the management of an entity to assist it in achieving management objectives.

Required:

- (i) Explain five control objectives that an internal control system over sales aims to achieve. (5 marks)
 - (ii) Discuss five inherent limitations of an internal control system. (5 marks)
- (b) Describe five elements of an unqualified audit report. (10 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Explain five differences between "auditing" and "accounting". (10 marks)
 - (b) Highlight five functions of the Directorate of Accounting Services or equivalent body in your country. (10 marks)
- (Total: 20 marks)**
-