

2804/302  
2807/302  
FINANCIAL ACCOUNTING  
March / April 2025  
Time: 3 hours



**THE KENYA NATIONAL EXAMINATIONS COUNCIL**  
**DIPLOMA IN ACCOUNTANCY**  
**DIPLOMA IN CO-OPERATIVE MANAGEMENT**  
**FINANCIAL ACCOUNTING**

**3 hours**

**INSTRUCTIONS TO CANDIDATES**

*This paper consists of SEVEN questions.  
Answer any FIVE questions in the answer booklet provided.  
All questions carry equal marks.  
Candidates should answer the questions in English.*

**This paper consists of 7 printed pages.**

**Candidates should check the question paper to ascertain that  
all the pages are printed as indicated and that no questions are missing.**

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**Turn over**

2/11/2020 - 2 yrs 4 months  
 28/02/2023 - 2 yrs 4 months  
 2020 -> 1 yr  
 2022 -> 2 months  
 2023 -> 2 months  
 2.3 yrs  
 $2\frac{4}{12} = 2\frac{1}{3}$  yrs

Plant A ->

1. (a) Explain four reasons that make double entry system of accounting important in an organization. (8 marks)

(b) The following information relates to plant owned by Wahu Ltd.  
 I. Balance as at 1 January 2022.

Plant A  
 Cost - 70000  
 sold - 50000  
 sold after 1 yr  
 10% on cost  
 Depr ->  $10\% \times 70000 = 7000$   
 Depr ->  $70000 - 16100 = 53900$   
 $2020 \rightarrow 70000 - 0 = 70000 \times \frac{1}{6} = 11666.67$   
 $2021 \rightarrow 70000 - 35 = 69965$   
 $2020 \rightarrow 70000 \times 10\% \times \frac{2}{12} = 1166.67$   
 $\rightarrow 70000 - 1166.67 = 68833.33$   
 $2021 \rightarrow 70000 \times 10\% \times \frac{1}{12} = 583.33$   
 $\rightarrow 68833.33 - 583.33 = 68250$   
 $2022 \rightarrow 68250 \times 10\% \times \frac{2}{12} = 1137.50$   
 $\rightarrow 68250 - 1137.50 = 67112.50$   
 $2023 \rightarrow 67112.50 \times 10\% \times \frac{1}{12} = 559.27$   
 $\rightarrow 67112.50 - 559.27 = 66553.23$

	Ksh.	
Plant at cost	200,000	
Accumulated provision for depreciation on plant account	10,500	

200000  
 (10500)  
 189500  
 B 100000  
 C 300000  
 D 15000

II. On 1 April 2022, the company bought plant B and C at a cost of Ksh 100,000 and Ksh 300,000 respectively

III. On 28<sup>th</sup> February 2023, the company bought plant D at Ksh 15,000 and on the same day, sold plant A at Ksh 50,000.  
 The plant had been bought on 2<sup>nd</sup> November 2020, at a cost of Ksh 70,000

IV. The company charges the depreciation on plant at 10% per annum on cost pro rata to time basis.

For each of the year ended 31 December 2022 and year 2023, prepare

- (i) plant account
- (ii) Accumulated provision for depreciation on plant account
- (iii) Plant disposal account.

(12 marks)

(a) Highlight four circumstances under which it may be necessary to recognise goodwill in a business organization. (8 marks)

Plant A c/a  
 1/1/22 Bal b/f 200000  
 1/4/22 Plant B 100000  
 1/4/22 Plant C 300000  
 28/2/23 Plant D 15000  
 11/1/2022 Bal b/d 615000

Loss and disposal  
 2020 dep 11666.67  
 2021 dep 7000  
 2022 dep 1166.67  
 2023 dep 584.50  
 11/1/2022 Bal b/d 615000

Cost - 70000  
 Dep -> (16333.34)  
 Value 53666.66  
 sold (50000)  
 Loss on disposal 3666.66

disposal a/c.  
 Plant A loss 36666

Depreciation a/c  
 P&L

18950

- (b) John and Chege are partners in a business sharing profits and losses in the ratio 2:3 respectively. The following is the balance sheet of their firm as at 31 December 2024.

John and Chege Balance sheet as at 31 December 2024				
	Ksh	Ksh	Ksh	Ksh
Capital Account			Non-current Assets	
John	200,000		Premises	240,000
Chege	<u>300,000</u>		Furniture	90,000
		500,000	Motor Vehicle	<u>100,000</u>
				430,000
Current Accounts			Current Assets	
John	10,000		Stock	20,000
Chege	<u>(2,000)</u>	8,000	Debtors	15,000
			Bank	<u>65,000</u>
				100,000
Current Liabilities				
Creditors		<u>22,000</u>		
		<u>530,000</u>		<u>530,000</u>

On 1 January 2025, the partnership was dissolved on the following conditions.

- I. The assets were realized as follows;
 

	Ksh.
Premises	300,000
Furniture	82,000
Motor vehicle	90,000
- II. John took stock costing Ksh 4,000 and the rest was sold at Ksh 15,000
- III. Debtors realized Ksh 13,400
- IV. Creditors were settled the due amounts less 5% cash discount.
- V. Dissolution expenses amounted to Ksh 6,500

Prepare:

- (i) Realization account.
- (ii) Capital accounts.
- (iii) Creditor's account.
- (iv) Bank account.

(12 marks)

3. (a) Outline four limitations of published financial statements. (8 marks)

(b) Yansh Company has a branch at Kinget. Goods are invoiced to the branch at cost plus 25%. The following details relate to the branch for the month of January 2025.

	Ksh.
Debtors balance as at (1 January 2025)	8,500
Cash sales by the branch - <i>Sales</i>	70,300
Credit sales - <i>Sales</i>	20,200
Stock at the branch (1 January 2025) - <i>Stock</i>	4,400
Goods spoilt - <i>Stock</i>	2,000
Cash received from debtors - <i>Debtors</i>	5,600
Goods sent to the branch - <i>Stock</i>	130,000
Wages paid by the head office - <i>Exp</i>	12,000
Water and electricity paid by head office - <i>Exp</i>	3,500
Sunday expenses - <i>Exp</i>	9,800
goods returned by customers to the branch - <i>Stock</i>	6,550
Discounts allowed to customers - <i>Exp</i>	1,700

Prepare the;

- Branch stock account
- Goods sent to branch account
- Branch expenses account
- Branch debtors account
- Branch stock adjustment account.

(12 marks)



4. (a) Highlight **four** ways in which pension funds may be invested. (8 marks)

(b) ABC Limited undertook a contract to construct a bridge at a price of Ksh. 10 million. The information relating to the contract for the year ended 31 December 2024 is as follows:

	Ksh. (000)
Materials purchased	1,000
Materials issued to the site	950
Direct wages	840
Plant purchased and installed	3,300
Hire charges of machinery	740
Site office expenses - paid	430
- due	20
Materials returned to store	130
Work certified	5,000
Cost of work not certified	2,410
Value of plant on 31 December 2024	3,000

ABC Limited received Ksh 4.8 million as payment on the work certified.

Prepare:

- (i) Contract account  
(ii) Contractee's account. (12 marks)

5. (a) Explain **four** types of legacies. (8 marks)

(b) Crusier Limited bought two machines AB and XY from Kaspia Limited on hire purchase terms as follows:

Date of Purchase	Machine AB	Machine XY
	Ksh	Ksh
Cash price	400,000	600,000
Deposit	80,000	100,000
Hire purchase interest	1,00,000	120,000

The hire purchase agreement provides for payment to be made in 24 equal monthly instalments, starting from the last day of the month of purchase. Hire Purchase interest is spread over the agreement period.

The accounting period of Crusier Limited ends on 31 December every year.

For each of the years ended 31 December 2022, 2023 and 2024, prepare:

- (i) Machinery account.
- (ii) Kospa Limited's account.
- (iii) Hire purchase interest suspense account. (12 marks)

6. (a) Salmon Enterprises buys and sells one particular type of stock, which is insured against fire. On 2nd April 2023 accidental fire destroyed a good part of the stock in the store. Stock costing Ksh 3,000 was salvaged but not their stores ledgers.

The sum insured of the stock was Ksh 120,000. The following information was retrieved from the records available.

- I. Total sales invoices during the period January to March 2023 amounted to Ksh 582,000.
- II. Credit customers had returned goods worth Ksh 11,700 some few days before the date of the fire.
- III. Opening stock on January 1, 2023 was Ksh 15,600.
- IV. Purchases of stock between January 1, 2023 and April 2, 2023 amounted to Ksh 391,000. The proprietor had withdrawn goods costing Ksh 12,000 during this period.
- V. Gross profit margin is  $33\frac{1}{3}\%$ .
- VI. On the date of the fire Ksh 9,150 was incurred for fire fighting expenses.
- VII. The insurance policy is subjected to average clause.

Prepare:

- (i) Trading account.
  - (ii) A statement to show the insurance claim recoverable. (10 marks)
- (b) Shaw Limited bought a 12% Ksh 100,000 loan stock of ABX Limited on 1 February 2022 at 78 - 80 cum interest. The brokerage fee was Ksh 3000. ABX Limited pays interest half yearly on 30<sup>th</sup> June and 31 December. On October 2023, Shaw Limited sold half of the loan stock at 90 - 93 ex interest to Bokole Limited

For each of the years ended 31 December 2022, 2023 and 2024.  
Prepare an investment account.

(10 marks)

7. (a) Explain four duties of a trustee in bankruptcy.

(8 marks)

- (b) On 1 January 2018, Azipo Limited leased a quarry from Kanko Limited for a period of 6 years. Royalty payable was Ksh 200 per ton of stones extracted. The minimum rent is Ksh 400,000 per annum. Short workings are recouped within one year after the year in which they fall. The output from the quarry was as follows:

Year	Output (tons)
2018	1501
2019	980
2020	2330
2021	873
2022	3000
2023	2800

Prepare:

- (i) Royalties payable account
- (ii) Land lords's account
- (iii) Short workings account.

(12 marks)

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