1. (a) Explain each of the following terms as used in accounting:
   (i) Matching concept;
   (ii) Duality;
   (iii) Money measurement concept;
   (iv) Realization concept. (8 marks)

(b) The following is a trial balance of Mwololo Traders as at 31st December 2010:

	Dr. Ksh	Cr. Ksh
Capital		393,800
Carriage inwards	3,800	
Purchases and Sales	237,200	390,400
Furniture and fittings (at cost)	72,000	
Accounts receivable & Accounts payable	156,000	93,800
Inventories	118,400	
Salaries and Wages	34,000	
Drawings	50,000	
Buildings	97,400	
Bank	39,600	
Office expenses	40,000	
Rent and Rates	29,600	
	878,000	878,000

Additional information:

- Inventories as at 31st December 2010 was valued at Ksh 53,000.
- Accrued salaries and wages amounted to Ksh 1,600.
- Depreciation is as follows:
  - Furniture and fittings 15% p.a.
  - Buildings 20% p.a.
- Provision for doubtful debts is 4% of debtors:

Prepare: (i) Income statement.
(ii) Statement of financial position. (12 marks)

2. (a) Distinguish between each of the following pairs of concepts:

   (i) cost control and cost reduction;
   (ii) cost allocation and cost absorption;
   (iii) controllable cost and uncontrollable cost;
   (iv) cost unit and cost centre. (8 marks)

(b) The summary of the bank column in the cash book of Evans Company Ltd for the year ended 31st December 2010 was as follows:

	Ksh
Opening balance	239,830
Receipts	48,209,310
	48,449,140
Payments	45,896,575
Closing balance	2,552,565

Upon investigation the following matters were discovered:

- Standing order amounting to Ksh 35,670 had been omitted from the cash book.
- A cheque drawn for Ksh 23,900 had been entered in the cash book as Ksh 29,300.
- Unpresented cheques amounted to Ksh 208,075 while uncredited cheques were Ksh 234,900.
- Bank charges of Ksh 65,540 had not been entered in the cash book.
- The receipts side of the cash book had been overcast by Ksh 29,000.
- A cheque of Ksh 187,530 had been debited to the company's bank account by their bankers by mistake.
- The bank statement as at 31st December 2010 showed a credit balance of Ksh 2,224,425.
- A direct transfer from a debtor's account amounting to Ksh 11,125 had not been recorded in the cash book.

Prepare:
   (i) updated cash book;
   (ii) bank reconciliation statement. (12 marks)

3. (a) On 1 January 2011, Mbuthia had the following assets and liabilities:

		Ksh
Cash at bank		1,400,000
Inventories		4,000,000
Accounts receivable:	Kamau	1,500,000
	Ndungu	960,000
Accounts payable:	Pole	1,300,000
	Matoke	850,000
Office equipment		420,000
Motor vehicle		3,200,000

During the month of January 2011, the following transactions took place:

January 2	withdrew Ksh 200,000 from the bank for office use.
4	purchased goods from Pole worth Ksh 250,000 on credit.
7	received a cheque of Ksh 940,000 from Ndungu in final settlement.
15	paid Matoke Ksh 600,000 by cheque on account.
20	bought office equipment Ksh 145,000 on credit from Patel Brothers.
27	paid Patel Brothers Ksh 130,000 in cash.
28	withdrew Ksh 170,000 cash for personal use.
30	made cash sales of Ksh 600,000.

(i) Determine Mbuthia's capital as at 1 January, 2010;

(ii) Post the above transactions to the relevant ledger accounts and balance off the accounts. (12 marks)

(b) In a factory, a worker is paid a basic wage of Ksh 10,000 per month plus an allowance of Ksh 40,000. The average number of days expected to be worked in a month are 25 of 8 hours each. Over time is paid at twice the normal hourly rate. The attendance record of the worker for a week showed the following:

	Hours
Monday	11
Tuesday	9
Wednesday	8
Thursday	8
Friday	11
Saturday	8

Determine the overtime wage due to the worker for the week. (8 marks)

4. (a) Explain **four** limitations of ratios as a tool for analysing financial statements.

(8 marks)

(b) Greenmark Limited prepares control accounts monthly. As at 1 December 2010, the balances in the control accounts were as follows:

Receivable ledger control account.
DR. 188,360,000
CR. 2,140,000

Payable ledger control account.
DR. 120,000
CR. 89,410,000

The following transactions took place during the month.

	Ksh
Credit sales	101,260,000
Credit purchases	68,420,000
Sales returns	9,160,000
Cash received from customers	91,270,000
Purchases returns	4,280,000
Cash paid to suppliers	71,840,000
Discount allowed	1,430,000
Discount received	880,000
Bad debts written off	460,000
Refund to customers	300,000
Contra settlements	480,000

Balances as at 31 December 2010.
- Receivable ledger balance, CR. 2,680,000.
- Payable ledger balance, DR. 90,000.

Prepare:
(i) receivable ledger control account;
(ii) payable ledger control account.

(12 marks)

5. (a) During the month of October, 2010, Alexa Ltd produced and sold 20,000 units of product Y.

The cost details were as follows:

	Ksh
Sales	4,000,000
Less Variable cost	3,000,000
Contribution	1,000,000
Less Fixed cost	800,000
Profit	200,000

It is expected that the cost relationship will hold in the month of November, 2010.

The company would like to increase its sales in the month of November, 2010. In order to do so, it has the following options:

Option I.
- Reduce the selling price per unit by 20%.

Option II.
- Spend Ksh 300,000 on an advertising campaign.

(i) Determine the break-even point, in units, for the two options;

(ii) Advise the management on which option to take. (10 marks)

(b) Explain **five** errors that do **not** affect the agreement of the trial balance. (10 marks)

6. (a) The opening cash balance of a firm as at 1st January, 2011 was Ksh 5,000
The budgeted sales were as follows:

	Ksh
November, 2010	80,000
December, 2010	90,000
January, 2011	75,000
February, 2011	75,000
March, 2011	80,000

Analysis of records shows that debtors settle their accounts according to the following pattern:

- 60% within the month of sale;
- 25% in the following month;
- 15% two months after sale.

The purchases budget was as follows:

	Ksh
December, 2010	60,000
January, 2011	55,000
February, 2011	45,000
March, 2011	55,000

- All purchases are on credit. Past experience shows that 90% of the purchases are settled in the month of purchase and the balance settled the month after.
- Wages are Ksh 15,000 per month.
- Overheads are Ksh 20,000 per month (including Ksh 5,000 depreciation), settled monthly.
- Taxation of Ksh 8,000 was to be settled in February, 2011. The company was to receive settlement of an insurance claim of Ksh 25,000 in the month of March, 2011.

Prepare a cash budget for the months of January, February and March, 2011.
(12 marks)

(b) Njuguna maintains a petty cash book on the imprest system. The monthly imprest being Ksh 30,000.
The following transactions took place in the month of April, 2011:

April	1	Received imprest of Ksh 30,000.
"	3	Bought postage stamps Ksh 2,000.
"	6	Paid Ksh 4,000 for Peter's account in purchases ledger.
"	7	Paid stationery Ksh 5,000.
"	8	Paid Lenana's account in the purchases ledger Ksh 5,000.
"	9	Bought electric light bulbs Ksh 2,000.
"	12	Paid for sugar, tea and milk Ksh 3,000.
"	17	Office cleaning expenses amounted to Ksh 2,000.
"	26	Paid for travelling expenses Ksh 1,000.

Prepare a petty cash book with analysis columns for postage and stationery, travelling, miscellaneous expenses, and ledger. (8 marks)

7. (a) The following details relate to Blue Shop for the month of October 2010.

October:	1	Cash in hand Ksh 141,300 and cash at bank Ksh 228,600.
"	3	Bought goods for cash Ksh 36,900.
"	4	Purchased goods on credit from Muna Enterprises for Ksh 52,200.
"	7	Sold goods on credit to Bedi Traders for Ksh 80,000 less 20% trade discount.
"	9	Withdrew Ksh 4,500 from the bank for private use.
"	15	Paid Muna Enterprises Ksh 45,000 by cheque in full settlement of their account.
"	25	Deposited cash into the bank Ksh 19,800.
"	30	Paid Ksh 4,500 by cheque for advertisement.
"	31	Cash sales amounted to Ksh 196,200
"	31	Received a cheque for Ksh 53,100 from Bedi Traders, after allowing a discount of Ksh 900.

Prepare a **three** column cash book. (12 marks)

(b) Kamau started business on 1 January 2007 and his financial year ends on 31 December. The following information was extracted from his books of accounts:

Year 31 December	**Accounts Receivable Ksh**	**Bad debts written off Ksh**
2007	6,000	423
2008	7,000	510
2009	7,750	604
2010	6,500	610

A provision for doubtful debts is made at 2% of accounts receivable.

Prepare, for the year ended 31 December 2007, 2008, 2009 and 2010:

(i) provision for doubtful debts account;
(ii) an extract of profit and loss account. (8 marks)