



**CERTIFICATE IN ACCOUNTING AND MANAGEMENT SKILLS (CAMS)**

**LEVEL II**

**FOUNDATIONS OF ACCOUNTING**

**WEDNESDAY: 19 August 2026. Morning Paper.**

**Time Allowed: 3 hours.**

**This paper consists 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.**

1. Which one of the following transactions is excluded from accounting records because of the money measurement convention?
  - A. Receiving an invoice for stationery bought on credit
  - B. Paying rent for a shop by mobile money transfer
  - C. Recording the owner's technical skill as a business asset
  - D. Depositing daily cash collections into the bank(2 marks)
2. When Neema Traders records an accrued service fee at the year end, which accounting basis is being applied?
  - A. Cash basis of accounting for receipts and payments
  - B. Historical basis of accounting for original costs
  - C. Break-up basis of accounting for closing assets
  - D. Accrual basis of accounting for earned income(2 marks)
3. Which one of the following documents is **MAINLY** used by the receiving department to confirm that goods ordered have been delivered?
  - A. Goods received note
  - B. Sales day book
  - C. Credit note
  - D. Bank statement(2 marks)
4. Which one of the following controls is **MOST** appropriate for reducing unauthorised changes in a computerised accounting system?
  - A. Keeping all printouts in numerical order
  - B. Using personal passwords and access rights
  - C. Recording all transactions in red ink
  - D. Preparing duplicate manual ledgers daily(2 marks)
5. Under the prudence concept, how should inventory be measured at the reporting date?
  - A. At the higher of selling price and original cost
  - B. At the estimated profit expected on resale
  - C. At the average of cost and replacement value
  - D. At the lower of cost and net realisable value(2 marks)
6. Which one of the following transactions would normally be entered in the general journal rather than in a specialised day book?
  - A. A credit sale of goods to a regular customer
  - B. A cash purchase of goods for immediate resale
  - C. A transfer of a motor van from owner to business
  - D. A receipt from a trade receivable through bank(2 marks)

7. The Companies Act, 2015 requires companies to keep proper accounting records. Which one of the following **BEST** supports this requirement?
- A. Records should allow financial statements to be prepared and audited
  - B. Records should contain only cash transactions of the company
  - C. Records should omit directors' transactions with the company
  - D. Records should be destroyed immediately after tax payment
- (2 marks)
8. A petty cashier submits vouchers for Sh.184,000 when the approved float is being restored. Which statement reflects the imprest arrangement?
- A. The petty cash balance should be transferred to drawings
  - B. The reimbursement should equal the full approved float
  - C. The petty cashier should bank the authorised vouchers
  - D. The reimbursement should equal the authorised vouchers
- (2 marks)
9. A receipt from a credit customer is entered only in the customer's account and omitted from the cash book. What is the likely effect?
- A. The trial balance totals would fail to agree
  - B. The sales ledger control account would be overstated
  - C. The profit for the period would be overstated
  - D. The bank reconciliation statement would not agree
- (2 marks)
10. When preparing financial statements for a sole trader, drawings of goods by the owner should be treated as \_\_\_\_\_.
- A. an operating expense charged to the profit or loss account
  - B. a reduction in purchases and a deduction from capital
  - C. a liability due from the business to the owner
  - D. a trade receivable due from an ordinary customer
- (2 marks)
11. Which one of the following balances would normally appear as a current liability in a statement of financial position?
- A. Insurance prepaid at the end of the accounting period
  - B. Trade receivables outstanding from credit customers
  - C. Office equipment held for use in business operations
  - D. Electricity accrued at the end of the accounting period
- (2 marks)
12. A trial balance difference has been identified, but the exact posting error is still being traced. Which account may be used temporarily?
- A. Partners' current account
  - B. Suspense account
  - C. Bank reconciliation account
  - D. Asset disposal account
- (2 marks)
13. In a partnership using fixed capital accounts, which item is normally recorded in the partners' current accounts?
- A. Original long-term capital contribution by each partner
  - B. Non-current asset purchased by the partnership
  - C. Bank loan obtained by the partnership from a lender
  - D. Share of profit and drawings made during the year
- (2 marks)
14. Kazi Ltd. issued ordinary shares above nominal value during the year. Where is the excess over nominal value normally recorded?
- A. Cash sales control account
  - B. Sales ledger control account
  - C. Inventory valuation account
  - D. Share premium account
- (2 marks)
15. Which one of the following choices correctly treats a cash discount received from a supplier?
- A. Debit trade payables and credit discount received
  - B. Debit discount allowed and credit trade receivables
  - C. Debit purchases and credit discount received
  - D. Debit trade receivables and credit discount allowed
- (2 marks)

16. A business had assets of Sh.32,000,000 and liabilities of Sh.11,800,000. During the month, the owner introduced Sh.2,200,000 cash and withdrew goods costing Sh.750,000 for personal use. Determine the revised capital balance, ignoring profit or loss.
- A. Sh.21,650,000
  - B. Sh.20,950,000
  - C. Sh.23,150,000
  - D. Sh.19,450,000
- (2 marks)
17. Goods with a list price of Sh.1,250,000 were purchased on credit subject to a trade discount of 8%. Determine the amount to be recorded in the purchases journal.
- A. Sh.1,250,000
  - B. Sh.1,350,000
  - C. Sh.1,100,000
  - D. Sh.1,150,000
- (2 marks)
18. A cash book showed a bank debit balance of Sh.214,500. The bank statement showed a direct dividend receipt of Sh.38,000, bank charges of Sh.5,600, standing order payments of Sh.27,400 and a dishonoured customer cheque of Sh.42,000, all not yet recorded. Determine the corrected cash book balance.
- A. Sh.260,500
  - B. Sh.173,700
  - C. Sh.177,500
  - D. Sh.302,900
- (2 marks)
19. Opening accrued commission income was Sh.64,000. Cash received during the year was Sh.488,000 while closing accrued commission income was Sh.72,000. Determine commission income for the year.
- A. Sh.480,000
  - B. Sh.496,000
  - C. Sh.624,000
  - D. Sh.416,000
- (2 marks)
20. Prepaid rent at the beginning of the year was Sh.17,500. Rent paid during the year was Sh.210,000. At the year end, rent prepaid was Sh.22,000 and rent accrued was Sh.12,000. Determine rent expense for the year.
- A. Sh.203,500
  - B. Sh.239,500
  - C. Sh.217,500
  - D. Sh.210,000
- (2 marks)
21. Equipment costing Sh.750,000 is depreciated at 25% per annum using the reducing balance method. Determine the depreciation charge for the second year.
- A. Sh.187,500
  - B. Sh.150,000
  - C. Sh.140,625
  - D. Sh.93,750
- (2 marks)
22. A machine that cost Sh.6,800,000 had accumulated depreciation of Sh.4,100,000 on the disposal date. It was sold for Sh.2,450,000. Determine the profit or loss on disposal.
- A. Profit Sh.250,000
  - B. Loss Sh.250,000
  - C. Profit Sh.1,650,000
  - D. Loss Sh.4,350,000
- (2 marks)
23. Opening trade receivables were Sh.415,000. Credit sales were Sh.2,560,000. Receipts from credit customers were Sh.2,220,000. Returns inward were Sh.96,000, discounts allowed Sh.45,000, bad debts Sh.28,000 and a dishonoured cheque Sh.32,000. Determine closing trade receivables.
- A. Sh.618,000
  - B. Sh.554,000
  - C. Sh.650,000
  - D. Sh.714,000
- (2 marks)

24. Opening trade payables were Sh.345,000. Credit purchases were Sh.1,980,000. Returns outward were Sh.74,000, payments to suppliers Sh.1,630,000, discounts received Sh.52,000 and contra transfers Sh.30,000. Determine closing trade payables.
- A. Sh.569,000
  - B. Sh.613,000
  - C. Sh.599,000
  - D. Sh.539,000
- (2 marks)
25. An inventory item cost Sh.590,000. It requires completion costs of Sh.65,000 and selling costs of Sh.18,000 before it can be sold for Sh.640,000. Determine the carrying value of the item.
- A. Sh.590,000
  - B. Sh.640,000
  - C. Sh.575,000
  - D. Sh.557,000
- (2 marks)
26. A trial balance had debit totals of Sh.22,486,000 and credit totals of Sh.22,541,000. Which suspense account entry would make the trial balance agree temporarily?
- A. Credit balance Sh.55,000
  - B. Debit balance Sh.55,000
  - C. Debit balance Sh.27,500
  - D. Credit balance Sh.27,500
- (2 marks)
27. Opening capital was Sh.1,430,000. During the year the owner introduced additional capital of Sh.400,000 and made drawings of Sh.260,000. Closing capital was Sh.2,040,000. Determine the profit for the year.
- A. Sh.210,000
  - B. Sh.470,000
  - C. Sh.730,000
  - D. Sh.870,000
- (2 marks)
28. A company reported profit after tax of Sh.1,280,000. It had 8% preference share capital of Sh.2,400,000 and declared ordinary dividend of Sh.0.80 per share on 660,000 ordinary shares. Determine total dividends declared.
- A. Sh.720,000
  - B. Sh.528,000
  - C. Sh.912,000
  - D. Sh.1,000,000
- (2 marks)
29. Linet Moraa and Daniel Kiptoo share residual profits in the ratio 5:3. Profit before appropriations was Sh.1,320,000. Interest on capital was Linet Sh.80,000 and Daniel Sh.40,000. Daniel was entitled to a salary of Sh.180,000. Calculate Daniel's total appropriation.
- A. Sh.422,500
  - B. Sh.562,500
  - C. Sh.742,500
  - D. Sh.602,500
- (2 marks)
30. Office equipment costing Sh.1,050,000 with an expected residual value of Sh.150,000 is depreciated evenly over five years. It was bought on 1 October 2025. Determine depreciation for the year ended 31 December 2025.
- A. Sh.45,000
  - B. Sh.52,500
  - C. Sh. 80,000
  - D. Sh.10,000
- (2 marks)

Use the following information to answer Question 31 to Question 34.

Tulia Traders, owned by Christine Adhiambo, maintains day books and a three-column cash book.

The following information relates to June 2026:

|                                                                 | Amount (Sh.) |
|-----------------------------------------------------------------|--------------|
| • Credit sales to Benta Stores, less 5% trade discount          | 720,000      |
| • Credit sales to Caleb Traders                                 | 530,000      |
| • Goods returned by Benta Stores                                | 34,000       |
| • Credit purchases from Daima Supplies, less 10% trade discount | 860,000      |
| • Credit purchases from Zuri Wholesalers                        | 420,000      |
| • Goods returned to Zuri Wholesalers                            | 45,000       |
| • Cash sales                                                    | 410,000      |
| • Cash purchases                                                | 180,000      |
| • Cheques received from credit customers                        | 900,000      |
| • Cash discount allowed to credit customers                     | 22,000       |
| • Payments to suppliers                                         | 980,000      |
| • Cash discount received from suppliers                         | 30,000       |
| • Opening bank balance, debit                                   | 125,000      |
| • Petty cash float maintained                                   | 30,000       |
| • Petty cash vouchers paid during the month                     | 23,600       |
| • Petty cash in hand before reimbursement                       | 6,400        |

31. Calculate the net credit sales after deducting goods returned by customers.  
A. Sh.1,180,000  
B. Sh.1,214,000  
C. Sh.1,146,000  
D. Sh.1,250,000 (2 marks)
32. Calculate the net credit purchases after deducting goods returned to suppliers.  
A. Sh.1,194,000  
B. Sh.1,104,000  
C. Sh.1,149,000  
D. Sh.1,239,000 (2 marks)
33. What bank balance should appear in the cash book after the June transactions are recorded?  
A. Sh.275,000  
B. Sh.251,400  
C. Sh.311,400  
D. Sh.227,800 (2 marks)
34. Determine the petty cash balance before reimbursement.  
A. Sh.23,600  
B. Sh.30,000  
C. Sh.6,400  
D. Sh.53,600 (2 marks)

Use the following information to answer Question 35 to Question 38.

Upendo Services, operated by Jared Kilonzo, provides depreciation on office equipment at 10% per annum on cost, proportionately for the period of ownership.

The following information relates to the year ended 31 December 2025:

|                                                                | Amount (Sh.) |
|----------------------------------------------------------------|--------------|
| • Office equipment at cost on 1 January 2025                   | 1,800,000    |
| • Accumulated depreciation on 1 January 2025                   | 630,000      |
| • Cost of equipment sold on 1 July 2025                        | 360,000      |
| • Accumulated depreciation on equipment sold at 1 January 2025 | 198,000      |
| • Sale proceeds of equipment sold                              | 130,000      |
| • Cost of new equipment purchased on 1 April 2025              | 600,000      |

35. Determine the carrying amount of the equipment sold immediately before disposal.  
 A. Sh.162,000  
 B. Sh.144,000  
 C. Sh.180,000  
 D. Sh.130,000 (2 marks)
36. What gain or loss should be recognised in the asset disposal account?  
 A. Profit Sh.14,000  
 B. Loss Sh.32,000  
 C. Loss Sh.14,000  
 D. Profit Sh.32,000 (2 marks)
37. What total depreciation expense should be charged for the year ended 31 December 2025?  
 A. Sh.189,000  
 B. Sh.207,000  
 C. Sh.225,000  
 D. Sh.180,000 (2 marks)
38. Determine the carrying amount of office equipment at 31 December 2025.  
 A. Sh.1,419,000  
 B. Sh.1,581,000  
 C. Sh.2,040,000  
 D. Sh.1,170,000 (2 marks)

Use the following information to answer Question 39 to Question 42.

Malaika Supplies prepared its draft accounts for the year ended 31 December 2025. Before approval of the accounts, the following balances and matters were identified:

|                         | Amount (Sh.) |
|-------------------------|--------------|
| Draft net profit        | 1,086,000    |
| Draft trade receivables | 740,000      |
| Draft trade payables    | 560,000      |

The following matters were then discovered:

- |       |                                                               |               |
|-------|---------------------------------------------------------------|---------------|
| (i)   | Sales returns day book undercast                              | Sh.26,000     |
| (ii)  | Fittings bought and debited to repairs                        | Sh.115,000    |
| (iii) | Depreciation on fittings not recorded, full-year rate         | 10% per annum |
| (iv)  | Rent prepaid at the year-end omitted                          | Sh.48,000     |
| (v)   | Credit purchase invoice completely omitted                    | Sh.90,000     |
| (vi)  | Receipt from Brian Otieno credited to Bryan Onyango's account | Sh.57,000     |

39. Item (v) should be classified as which type of accounting error?  
 A. Error of original entry  
 B. Error of principle  
 C. Error of commission  
 D. Error of complete omission (2 marks)
40. After processing all the corrections, what net profit should be reported for the year ended 31 December 2025?  
 A. Sh.1,095,500  
 B. Sh.1,031,500  
 C. Sh.1,211,500  
 D. Sh.1,121,500 (2 marks)
41. What amount should be reported as corrected trade receivables?  
 A. Sh.740,000  
 B. Sh.766,000  
 C. Sh.714,000  
 D. Sh.683,000 (2 marks)

42. What amount should be reported as corrected trade payables?

- A. Sh.560,000
- B. Sh.650,000
- C. Sh.624,000
- D. Sh.470,000

(2 marks)

Use the following information to answer Question 43 to Question 46.

Teresa Akinyi operates Nia Groceries in Mombasa. The following information relates to the year ended 31 December 2025.

|                              | Amount (Sh.) |
|------------------------------|--------------|
| Sales                        | 8,950,000    |
| Returns inward               | 210,000      |
| Opening inventory            | 930,000      |
| Purchases                    | 5,240,000    |
| Returns outward              | 160,000      |
| Carriage inwards             | 82,000       |
| Carriage outwards            | 97,000       |
| Wages                        | 680,000      |
| Rent                         | 480,000      |
| Electricity                  | 150,000      |
| Advertising                  | 120,000      |
| Bad debts written off        | 36,000       |
| Trade receivables            | 1,050,000    |
| Allowance for doubtful debts | 42,000       |
| Equipment at cost            | 1,200,000    |
| Motor van at cost            | 900,000      |
| Opening capital              | 1,700,000    |
| Cash drawings                | 300,000      |

**Additional information:**

|                                                                           |               |
|---------------------------------------------------------------------------|---------------|
| Closing inventory                                                         | Sh.1,080,000  |
| Goods taken by the owner for personal use, at cost                        | Sh.55,000     |
| Rent accrued                                                              | Sh.40,000     |
| Advertising prepaid                                                       | Sh.25,000     |
| Depreciation on equipment                                                 | 10% per annum |
| Depreciation on motor van                                                 | 20% per annum |
| Additional bad debt to be written off                                     | Sh.20,000     |
| Allowance for doubtful debts on closing trade receivables after write-off | 4%            |

43. What cost of goods sold figure should be reported for the year ended 31 December 2025?

- A. Sh.4,957,000
- B. Sh.5,037,000
- C. Sh.5,012,000
- D. Sh.5,117,000

(2 marks)

44. What gross profit should be reported after adjusting sales and cost of sales?

- A. Sh.3,573,000
- B. Sh.3,783,000
- C. Sh.3,993,000
- D. Sh.3,653,000

(2 marks)

45. What net profit should be reported after all year-end adjustments?

- A. Sh.1,861,800
- B. Sh.1,782,200
- C. Sh.1,885,800
- D. Sh.2,005,800

(2 marks)

46. What closing capital should be shown after profit and drawings are considered?

- A. Sh.3,285,800
- B. Sh.3,175,800
- C. Sh.3,530,800
- D. Sh.3,230,800

(2 marks)

**Use the following information to answer Question 47 to Question 50.**

Kopa Ltd. is preparing extracts from its financial statements for the year ended 31 December 2025 in accordance with the Companies Act, 2015. Corporation tax is provided at 30% under the Income Tax Act.

The following information is available:

- Opening ordinary share capital, Sh.10 ordinary shares Sh.3,000,000
- Opening share premium Sh.600,000
- Opening retained earnings Sh.1,250,000
- Ordinary shares issued during the year, shares Sh.80,000
- Issue price per ordinary share Sh.14
- Profit before tax for the year Sh.1,840,000
- Preference share capital Sh.2,000,000
- Preference dividend rate 8% per annum
- Ordinary dividend per year-end ordinary share Sh.1.20
- Transfer to general reserve Sh.200,000

47. Calculate the corporation tax charge for the year of income 2025.

- A. Sh.368,000
- B. Sh.552,000
- C. Sh.1,288,000
- D. Sh.1,840,000

(2 marks)

48. Determine the closing share premium balance.

- A. Sh.320,000
- B. Sh.600,000
- C. Sh.800,000
- D. Sh.920,000

(2 marks)

49. What retained earnings balance should remain after tax, dividends and reserve transfer?

- A. Sh.1,722,000
- B. Sh.2,338,000
- C. Sh.1,922,000
- D. Sh.1,562,000

(2 marks)

50. What total equity should be presented in Kopa Ltd.'s statement of financial position?

- A. Sh.8,322,000
- B. Sh.7,842,000
- C. Sh.8,642,000
- D. Sh.6,642,000

(2 marks)

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**CERTIFICATE IN ACCOUNTING AND MANAGEMENT SKILLS (CAMS)**

**LEVEL II**

**FOUNDATIONS OF ACCOUNTING**

**WEDNESDAY: 22 April 2026. Morning Paper.**

**Time Allowed: 3 hours.**

**This paper consists 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.**

1. Which one of the following statements is **NOT** an objective of financial accounting?
  - A. To help determine periodic profit or loss
  - B. To fix selling prices for all goods in the market
  - C. To provide information useful to users of accounts
  - D. To show the financial position of an entity(2 marks)
  
2. Which one of the following transactions increases assets and liabilities by the same amount?
  - A. Settlement of a supplier by cheque
  - B. Cash sale of goods at a profit
  - C. Purchase of inventory on credit
  - D. Owner introducing a motor vehicle into the business(2 marks)
  
3. Which one of the following parties is an internal user of accounting information?
  - A. Kenya Revenue Authority
  - B. Branch manager
  - C. Prospective investor
  - D. Trade creditor(2 marks)
  
4. A supplier sends a debit note to a customer mainly to record a \_\_\_\_\_.
  - A. credit purchase made by the supplier
  - B. cash sale
  - C. charge for an under-billing or goods not in accordance with invoice
  - D. credit balance allowed to the customer(2 marks)
  
5. Goods returned by a customer who had bought on credit are first recorded in the \_\_\_\_\_.
  - A. sales returns journal
  - B. purchases returns journal
  - C. general journal
  - D. cash book(2 marks)

6. Which one of the following statements **BEST** defines a ledger?
- A. A schedule prepared to reconcile the bank statement
  - B. A statement prepared at the end of the accounting period
  - C. A document used only for cash transactions
  - D. A book containing separate accounts in which transactions are classified under their respective headings
- (2 marks)
7. The discount column appearing on the debit side of a three-column cash book represents \_\_\_\_\_.
- A. discount allowed
  - B. trade discount
  - C. cash discount on purchases
  - D. discount received
- (2 marks)
8. Which one of the following statements is a disadvantage of a manual accounting system as compared to a computerised system?
- A. Lower initial set-up cost
  - B. Difficulty in producing quick reports for decision-making
  - C. Less dependence on electricity
  - D. Easier correction of errors through audit trails
- (2 marks)
9. The accrual basis of accounting requires that income and expenses should be recognised when they \_\_\_\_\_.
- A. appear in the bank statement
  - B. are approved by the owner
  - C. are earned or incurred
  - D. are paid in cash
- (2 marks)
10. Which one of the following errors does **NOT** affect the agreement of a trial balance?
- A. Entering one side of a journal entry only
  - B. Casting one side of the cash book incorrectly
  - C. Posting an amount to the wrong class of account
  - D. Recording the debit entry on the wrong side of an account
- (2 marks)
11. Which one of the following values of inventory normally appears in the trial balance before final accounts are prepared?
- A. Closing inventory
  - B. Net realisable value of closing inventory
  - C. Average inventory
  - D. Opening inventory
- (2 marks)
12. Which one of the following components is an intangible asset?
- A. Inventory
  - B. Office equipment
  - C. Motor vehicle
  - D. Software licence
- (2 marks)

13. In a partnership, the main purpose of maintaining fixed capital accounts and current accounts separately is to \_\_\_\_\_.
- A. avoid preparing an appropriation account
  - B. reduce the legal liability of partners
  - C. distinguish long-term partner investment from routine appropriations and drawings
  - D. record only cash contributions by partners
- (2 marks)
14. Retained earnings of a company represent \_\_\_\_\_.
- A. undistributed profits accumulated in the business
  - B. issued share capital not yet paid for
  - C. cash kept in the office safe
  - D. long-term loan capital raised by the company
- (2 marks)
15. Which one of the following statements is a primary use of a statement of changes in equity?
- A. To reconcile opening and closing owners' funds
  - B. To show only cash introduced and withdrawn by owners
  - C. To replace the statement of financial position
  - D. To list all source documents used during the year
- (2 marks)

**Use the following information to answer Question 16 to Question 22.**

Mwangaza Stationers, a sole trader in Nakuru, had the following assets and liabilities as at 1 June 2026: Inventory Sh.420,000; Equipment Sh.360,000; Trade receivables Sh.280,000; Cash at bank Sh.190,000; Trade payables Sh.250,000; 12% bank loan Sh.300,000.

During the first week of June 2026, the business made the following transactions:

- (i) Purchased goods with a list price of Sh.250,000 on credit subject to 12% trade discount and 3% cash discount if payment was made within ten days.
  - (ii) Paid for the goods in (i) within the discount period by bank transfer.
  - (iii) Purchased additional inventory by cheque Sh.90,000.
  - (iv) Made cash sales of Sh.140,000. The goods had cost Sh.100,000 and the full cash was banked immediately.
  - (v) The proprietor took goods costing Sh.18,000 for domestic use.
  - (vi) Purchased shelving on credit for use in the business Sh.64,000.
16. Calculate the amount paid to settle the supplier in transaction (ii).
- A. Sh.220,000
  - B. Sh.214,600
  - C. Sh.205,000
  - D. Sh.213,400
- (2 marks)
17. Determine the opening capital of Mwangaza Stationers as at 1 June 2026.
- A. Sh.1,150,000
  - B. Sh.700,000
  - C. Sh.1,800,000
  - D. Sh.400,000
- (2 marks)
18. Calculate the closing balance of trade payables after the above transactions, assuming that the opening trade payables were not settled during the period and the goods purchased in transaction (i) were paid for immediately within the discount period.
- A. Sh.314,000
  - B. Sh.250,000
  - C. Sh.564,000
  - D. Sh.284,000
- (2 marks)

19. Calculate the closing bank balance after the above transactions.  
 A. Sh.50,000  
 B. Sh.26,600  
 C. Sh.116,600  
 D. Sh.33,200 (2 marks)
20. Calculate the closing inventory balance after the above transactions.  
 A. Sh.630,000  
 B. Sh.602,000  
 C. Sh.522,000  
 D. Sh.612,000 (2 marks)
21. Determine the total assets of the business after the above transactions.  
 A. Sh.1,406,600  
 B. Sh.1,278,600  
 C. Sh.1,028,600  
 D. Sh.1,342,600 (2 marks)
22. Calculate the closing capital after the above transactions.  
 A. Sh.664,000  
 B. Sh.728,600  
 C. Sh.746,600  
 D. Sh.700,000 (2 marks)

**Use the following information to answer Question 23 to Question 29.**

The following balances were extracted from the books of Bahari Farm Supplies for the year ended 31 March 2026:

|                              | Amount (Sh.) |
|------------------------------|--------------|
| Sales                        | 15,800,000   |
| Opening inventory            | 1,240,000    |
| Purchases                    | 9,760,000    |
| Returns inward               | 340,000      |
| Returns outward              | 260,000      |
| Carriage inwards             | 180,000      |
| Carriage outwards            | 220,000      |
| Wages and salaries           | 1,860,000    |
| Rent and rates               | 420,000      |
| Advertising                  | 310,000      |
| General expenses             | 275,000      |
| Bad debts written off        | 96,000       |
| Allowance for doubtful debts | 54,000       |
| Trade receivables            | 1,120,000    |
| Equipment at cost            | 1,600,000    |
| Motor vehicles at cost       | 2,400,000    |
| Loan interest paid           | 96,000       |
| Capital                      | 3,780,000    |
| Drawings (cash)              | 520,000      |

**Additional information:**

- Closing inventory was valued at Sh.1,460,000.
- The proprietor had taken goods costing Sh.70,000 for personal use.
- Depreciation is to be provided on equipment at 10% p.a. on cost and on motor vehicles at 20% p.a. on cost.
- Rent prepaid at year end amounted to Sh.30,000.
- Wages accrued at year end amounted to Sh.120,000.
- An additional bad debt of Sh.24,000 is to be written off and the allowance for doubtful debts maintained at 5% of closing trade receivables.

23. Calculate the net purchases for the year ended 31 March 2026.

- A. Sh.9,500,000
- B. Sh.9,170,000
- C. Sh.9,690,000
- D. Sh.9,430,000

(2 marks)

24. Calculate the cost of goods sold for the year ended 31 March 2026.

- A. Sh.9,390,000
- B. Sh.9,730,000
- C. Sh.9,090,000
- D. Sh.9,650,000

(2 marks)

25. Calculate the gross profit for the year ended 31 March 2026.

- A. Sh.5,730,000
- B. Sh.6,150,000
- C. Sh.6,410,000
- D. Sh.6,070,000

(2 marks)

26. Calculate the closing allowance for doubtful debts.

- A. Sh.48,000
- B. Sh.54,800
- C. Sh.52,400
- D. Sh.56,000

(2 marks)

27. Determine the net trade receivables to be shown in the statement of financial position.

- A. Sh.1,065,200
- B. Sh.1,017,200
- C. Sh.1,041,200
- D. Sh.1,096,000

(2 marks)

28. Calculate the net profit for the year ended 31 March 2026.

- A. Sh.2,038,200
- B. Sh.2,114,200
- C. Sh.2,228,200
- D. Sh.1,943,400

(2 marks)

29. Determine the closing capital as at 31 March 2026.
- A. Sh.5,298,200
  - B. Sh.5,174,200
  - C. Sh.5,818,200
  - D. Sh.5,228,200
- (2 marks)

**Use the following information to answer Question 30 to Question 36.**

Umoja Hardware, a sole trader in Eldoret, extracted the following balances at 31 August 2026 before year-end adjustments: Cash book debit balance Sh.842,600; Inventory Sh.368,000; Trade receivables Sh.420,000; Trade payables Sh.295,000.

The following information was then obtained:

- The bank statement showed a direct deposit by a customer of Sh.83,000, bank charges of Sh.6,800, a standing order of Sh.24,500 and a dishonoured cheque of Sh.31,200, none of which had been entered in the cash book.
  - Unpresented cheques amounted to Sh.286,400 while deposits not yet credited by the bank amounted to Sh.198,700.
  - Insurance paid during the year was Sh.156,000. Prepaid insurance was Sh.18,000 at the beginning of the year and Sh.24,000 at the end of the year.
  - Electricity paid during the year was Sh.264,000. Accrued electricity was Sh.22,000 at the beginning of the year and Sh.31,500 at the end of the year.
30. Calculate the total amount of items that increase the cash book balance.
- A. Sh.55,500
  - B. Sh.83,000
  - C. Sh.281,700
  - D. Sh.114,200
- (2 marks)
31. Calculate the total amount of items that decrease the cash book balance.
- A. Sh.55,700
  - B. Sh.31,300
  - C. Sh.62,500
  - D. Sh.198,700
- (2 marks)
32. Calculate the corrected cash book balance at 31 August 2026.
- A. Sh.950,800
  - B. Sh.863,100
  - C. Sh.925,600
  - D. Sh.780,100
- (2 marks)
33. Determine the amount of unpresented cheques to appear in the bank reconciliation statement.
- A. Sh.87,700
  - B. Sh.198,700
  - C. Sh.114,200
  - D. Sh.286,400
- (2 marks)
34. Calculate the insurance expense to be charged in the statement of profit or loss for the year.
- A. Sh.162,000
  - B. Sh.138,000
  - C. Sh.150,000
  - D. Sh.156,000
- (2 marks)

35. Calculate the electricity expense to be charged in the statement of profit or loss for the year.
- A. Sh.255,500
  - B. Sh.286,000
  - C. Sh.273,500
  - D. Sh.264,000
- (2 marks)

36. Determine the working capital after all the above adjustments.
- A. Sh.1,348,600
  - B. Sh.1,241,600
  - C. Sh.1,675,100
  - D. Sh.1,380,100
- (2 marks)

**Use the following information to answer Question 37 to Question 43.**

- During the month of July 2026, Kijiji Distributors had the following information:

|                                                           | Amount (Sh.) |
|-----------------------------------------------------------|--------------|
| Opening trade receivables                                 | 640,000      |
| Opening trade payables                                    | 510,000      |
| Credit sales                                              | 2,480,000    |
| Receipts from customers                                   | 2,160,000    |
| Sales returns                                             | 84,000       |
| Discounts allowed                                         | 56,000       |
| Bad debts written off                                     | 32,000       |
| Contra transfers from trade receivables to trade payables | 45,000       |
| Dishonoured cheque from a customer                        | 18,000       |
| Credit purchases                                          | 1,860,000    |
| Payments to suppliers                                     | 1,520,000    |
| Purchases returns                                         | 62,000       |
| Discounts received                                        | 41,000       |

- Before the final accounts were prepared, the following errors were discovered:
    - (i) The sales day book had been overcast by Sh.27,000.
    - (ii) The purchases returns day book had been undercast by Sh.16,500.
    - (iii) Office equipment bought on credit for Sh.48,000 had been debited to purchases account.
    - (iv) A credit sale of Sh.35,000 had been completely omitted from the books. The goods sold had cost Sh.21,000.
    - (v) A purchase invoice for Sh.42,000 had been entered in the purchases account as Sh.24,000.
37. Calculate the closing balance on the trade receivables control account before correcting the errors.
- A. Sh.761,000
  - B. Sh.779,000
  - C. Sh.796,000
  - D. Sh.734,000
- (2 marks)
38. Calculate the closing balance on the trade payables control account before correcting the errors.
- A. Sh.718,500
  - B. Sh.702,000
  - C. Sh.671,000
  - D. Sh.685,500
- (2 marks)

39. Determine the corrected closing trade receivables balance after taking errors (i) and (iv) into account.
- A. Sh.796,000
  - B. Sh.734,000
  - C. Sh.769,000
  - D. Sh.742,000
- (2 marks)
40. Determine the corrected closing trade payables balance after correcting error (ii).
- A. Sh.745,000
  - B. Sh.685,500
  - C. Sh.702,000
  - D. Sh.718,500
- (2 marks)
41. What is the effect of error (iii) on net profit?
- A. There is no effect on net profit
  - B. Net profit is overstated by Sh.48,000
  - C. Net profit is understated by Sh.48,000
  - D. Net profit is understated by Sh.96,000
- (2 marks)
42. What is the effect of error (iv) on gross profit?
- A. Gross profit is understated by Sh.21,000
  - B. Gross profit is understated by Sh.14,000
  - C. There is no effect on gross profit
  - D. Gross profit is overstated by Sh.14,000
- (2 marks)
43. If a suspense account had been opened only for error (v), what balance would appear in the suspense account before correction?
- A. Sh.18,000 debit
  - B. Sh.42,000 debit
  - C. Sh.24,000 credit
  - D. Sh.18,000 credit
- (2 marks)

**Use the following information to answer Question 44 to Question 50.**

Achieng and Mutua are partners in a hardware business in Kisumu sharing profits and losses in the ratio of 3:2 respectively. The partnership agreement provides for: interest on fixed capitals at 10% per annum; a salary of Sh.360,000 per annum to Achieng; and a commission to Mutua equal to 5% of profit after charging salary and interest on capital but before charging the commission itself.

For the year ended 31 December 2026, the following information is available:

- Fixed capitals: Achieng Sh.1,800,000; Mutua Sh.1,200,000.
- Opening current accounts: Achieng credit Sh.84,000; Mutua debit Sh.26,000.
- Cash drawings during the year: Achieng Sh.240,000; Mutua Sh.180,000.
- Net profit before appropriation: Sh.2,150,000.

44. Calculate the total interest on partners' capitals for the year.
- A. Sh.360,000
  - B. Sh.120,000
  - C. Sh.300,000
  - D. Sh.180,000
- (2 marks)

45. Calculate Mutua's commission for the year.  
A. Sh.74,500  
B. Sh.107,500  
C. Sh.71,500  
D. Sh.149,000 (2 marks)
46. Calculate Achieng's share of the residual profit after salary, interest on capital and commission.  
A. Sh.849,300  
B. Sh.760,700  
C. Sh.1,389,300  
D. Sh.566,200 (2 marks)
47. Determine the total amount to be credited to Achieng's current account for the year.  
A. Sh.1,149,300  
B. Sh.1,233,300  
C. Sh.1,209,300  
D. Sh.1,389,300 (2 marks)
48. Calculate the closing balance on Mutua's current account.  
A. Sh.580,700  
B. Sh.554,700  
C. Sh.760,700  
D. Sh.734,700 (2 marks)
49. Determine the total closing balance on partners' current accounts.  
A. Sh.1,788,000  
B. Sh.1,814,000  
C. Sh.1,734,000  
D. Sh.1,638,000 (2 marks)
50. Calculate the closing total partners' equity as at 31 December 2026.  
A. Sh.4,488,000  
B. Sh.4,788,000  
C. Sh.4,900,000  
D. Sh.4,628,000 (2 marks)
- .....

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## CERTIFICATE IN ACCOUNTING AND MANAGEMENT SKILLS (CAMS)

### LEVEL II

#### FOUNDATIONS OF ACCOUNTING

**WEDNESDAY: 3 December 2025. Morning Paper.**

**Time Allowed: 3 hours.**

**This paper consists 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. Accounting concept that assumes the business will continue to operate into the foreseeable future is \_\_\_\_\_.  
A. going concern concept  
B. consistency concept  
C. prudence concept  
D. materiality concept  
(2 marks)
2. Matching concept in accounting implies that \_\_\_\_\_.  
A. all information must be disclosed regardless of the size  
B. expenses be reported in the same accounting period as the revenues  
C. only cash transactions should be disclosed in the books at the year end  
D. assets and liabilities should be disclosed in the books at year end  
(2 marks)
3. Which one of the following source documents is issued by the seller, to the buyer when goods are purchased or sold on credit?  
A Debit notes  
B Invoice  
C Receipt  
D Credit notes  
(2 marks)
4. When a customer returns goods to the seller, which source document is issued?  
A. Invoice  
B. Debit notes  
C. Receipt  
D. Credit notes  
(2 marks)
5. What is the **CORRECT** double entry when goods are returned by a customer to the supplier?  
A. Dr: Returns inwards accounts, Cr: Trade receivable account  
B. Dr: Returns outward account, Cr: Trade receivable account  
C. Dr: Trade receivable account, Cr: Returns inward account  
D. Dr: Trade receivable account, Cr: Returns outward account  
(2 marks)
6. Source documents are important in accounting because \_\_\_\_\_.  
A. they replace the need for the preparation of ledgers  
B. they are used to prevent errors when posting transactions  
C. they provide evidence and details of each transaction  
D. they are used to facilitate double entry in the books of accounts  
(2 marks)
7. On 5 January 2025, Katuu enterprises purchased goods worth Sh.450,000 on credit. What is the **CORRECT** double entry to record the transaction?  
A Dr: Purchases account Sh.450,000, Cr: Trade payables account Sh.450,000  
B Dr: Trade payable account Sh.450,000, Cr: Purchases account Sh.450,000  
C Dr: Purchases account Sh.450,000; Cr: Trade receivable account Sh.450,000  
D Dr: Trade receivable account Sh.450,000, Cr: Purchases account Sh.450,000  
(2 marks)

Use the following information to answer Question 8 to Question 10.

The following balances were extracted from the books of Mapema traders for the year ended 30 September 2025:

|                                  | Sh. "000" |
|----------------------------------|-----------|
| Sales                            | 96,000    |
| Inventory (1 October 2024)       | 3,750     |
| Purchases                        | 55,800    |
| Carriage inwards                 | 1,200     |
| Carriage outwards                | 1,300     |
| Return inwards                   | 600       |
| Return outwards                  | 700       |
| Discount allowed                 | 300       |
| Discount received                | 400       |
| Wages and salaries               | 15,950    |
| Rent and rates                   | 1,500     |
| Advertising                      | 2,500     |
| Interest paid on bank loan       | 900       |
| Heat and Lighting                | 400       |
| Machinery (at cost)              | 40,000    |
| Equipment (at cost)              | 30,000    |
| Motor vehicles                   | 26,250    |
| Fixtures and Fittings (at cost)  | 15,000    |
| <b>Accumulated depreciation:</b> |           |
| Machinery                        | 18,000    |
| Equipment                        | 9,000     |
| Motor vehicles                   | 11,250    |
| Furniture and fittings           | 5,400     |
| Trade Receivables                | 25,000    |
| Trade payables                   | 14,000    |
| Bad debts                        | 450       |
| Allowance for doubtful debts     | 250       |
| Cash and bank                    | 12,250    |
| Dividend received                | 500       |
| 10% Loan from bank               | 18,000    |
| Capital                          | 74,650    |
| Drawings                         | 8,000     |

The following additional information is available:

- (i) Inventory as at 30 September 2025 was valued at Sh.4,000,000
- (ii) Depreciation on non-current assets is provided on straight line method at the following rates:
  - Machinery 15% per annum.
  - Equipment 10% per annum.
  - Motor vehicle 20% per annum.
  - Furniture and fittings 12% per annum.
- (iii) Allowance for doubtful debts is maintained at 5% on trade receivable.
- (iv) The proprietor had taken goods which had cost Sh.150,000 for his domestic use.

8. Calculate the cost of goods sold during the year ended on 30 September 2025.

- A. Sh.56,150,000
- B. Sh.55,900,000
- C. Sh.56,500,000
- D. Sh.56,750,000

(2 marks)

9. Calculate the gross profit for the year ended on 30 September 2025.

- A. Sh.38,900,000
- B. Sh.38,800,000
- C. Sh.39,300,000
- D. Sh.39,500,000

(2 marks)

10. Calculate the total revenue income for the year that ended on 30 September 2025.
- A. Sh.40,000,000
  - B. Sh.39,500,000
  - C. Sh.40,400,000
  - D. Sh.39,700,000
- (2 marks)
11. The following information is available for ABC Ltd.:
- Opening Debtors: Sh.40,000
  - Credit Sales: Sh.150,000
  - Cash Received from Debtors: Sh.120,000
- Compute the closing debtors.
- A. Sh.60,000
  - B. Sh.70,000
  - C. Sh.50,000
  - D. Sh.80,000
- (2 marks)
12. XYZ Ltd. has the following information:
- Opening Creditors: Sh.25,000
  - Credit Purchases: Sh.100,000
  - Cash Paid to Creditors: Sh.90,000
- Calculate closing balance of creditors.
- A. Sh.30,000
  - B. Sh.35,000
  - C. Sh.25,000
  - D. Sh.40,000
- (2 marks)
13. Which one of the following **BEST** describes a debit note?
- A. A note issued by a buyer to request a reduction in payable amount
  - B. A note issued by a seller to reduce receivables at the end of the year
  - C. A receipt for cash received from a customer
  - D. A record of cash purchase
- (2 marks)
14. Which one of the following **BEST** describes a credit note?
- A. A record of cash sale
  - B. A note issued by a seller to reduce the amount receivable from a customer
  - C. A note issued by a buyer to request a reduction in payable amount
  - D. A purchase order issued to a supplier
15. Which one of the following **BEST** explains the full disclosure principle in accounting?
- A. All financial statements must include detailed explanations of accounting policies and material events to ensure transparency for users.
  - B. Only selected financial information such as profits or losses should be disclosed, omitting less important details to simplify reporting.
  - C. All assets and liabilities must be reported at their current market values, including irrelevant details, regardless of materiality.
  - D. All relevant financial information must be disclosed to users to make informed decisions.

**Use the following information to answer Question 16 to Question 18.**

The following information relates to trade receivables balances for Jirani Mwema traders during the year ended 30 June 2025:

|                             | Sh. "000" |
|-----------------------------|-----------|
| Balance as at 1 July 2024   | 1,345     |
| Sales for the year          | Y         |
| Receipts from customers     | 5,460     |
| Sales return                | 120       |
| Balance as at 31 July 2025  | 1,540     |
| Provision as at 1 July 2024 | 30        |

**Additional information:**

- (i) Opening balance consist of Sh.50,000 that has been outstanding for more than 1 year and was proposed to be written off at the end of 30 July 2025
- (ii) Jirani Mwema provides an allowance for doubtful debts at 5% of its outstanding trade receivables
- (iii) Cash sales for the year amounts to Sh.2,400,000

16. Calculate the total sales for the year ended on 30 June 2025.

- A. Sh.8,225,000
- B. Sh.5,825,000
- C. Sh.5,899,500
- D. Sh.8,299,500

(2 marks)

17. Calculate the amount of trade receivable as at 30 June 2025.

- A. Sh.1,465,500
- B. Sh.1,415,500
- C. Sh.1,445,500
- D. Sh.1,495,500

(2 marks)

18. Calculate the amount of allowance for doubtful debts to be charged in the statement of profit or loss at the end of the year.

- A. Sh.74,500
- B. Sh.44,500
- C. Sh.30,000
- D. Sh.104,500

(2 marks)

**Use the following information to answer Question 19 and Question 20.**

Timo traders had the following transactions for the year ended 30 November 2025:

- (i) Sold goods to Antony Mbuvi worth Sh.1,800,000
- (ii) Sold goods to Pius Nyawata worth Sh.2,300,000 ,10 % trade discount was allowed
- (iii) Bought from Susan Lelei goods worth Sh.1,000,000 less 5% trade discount and from Jack Oyoyo goods worth Sh.980,000 after 4% trade discount
- (iv) Cash sales amounted to Sh.2,400,000 while cash purchases amounted to Sh.1,245,000
- (v) Goods returned by customers amounted to Sh.60,000 while those returned to suppliers amounted to Sh.34,000

19. Calculate the total credit sales.

- A. Sh.4,100,000
- B. Sh.6,500,000
- C. Sh.3,870,000
- D. Sh.4,040,000

(2 marks)

20. Calculate the total credit purchases.

- A. Sh.3,225,000
- B. Sh.1,856,800
- C. Sh.3,191,000
- D. Sh.1,890,800

(2 marks)

21. The following information relates to Judith's Okoth insurance expense for the year ended 30 June 2025:

**Sh."000"**

|                                      |       |
|--------------------------------------|-------|
| Prepaid insurance 1 July 2024        | 1,200 |
| Cash paid                            | 8,800 |
| Accrued insurance as at 30 June 2025 | 650   |

Calculate the amount of insurance expense charged in the statement of profit or loss at the end of the year.

- A. Sh.8,800,000
- B. Sh.10,650,000
- C. Sh.10,000,000
- D. Sh.8,250,000

(2 marks)

**Use the following information to answer Question 22 to Question 24.**

Pastel traders' statement of profit or loss for the year ended 31 August 2025 showed a net profit of Sh.83,600. It was later discovered that Sh.18,000 paid for the purchase of a motor vehicle had been debited to the motor vehicle expenses account. It is the business policy to depreciate motor vehicle at 25% pa on straight line basis with a full years depreciation in the year of purchase.

22. Which type of error was committed?  
A. Error of principal  
B. Error of commission  
C. Error of original entry  
D. Compensating error (2 marks)
23. Which one of the following is the correct journal entry to correct the above error?  
A. Dr: Motor vehicle account Sh.18,000 Cr: Suspense account Sh.18,000  
B. Dr: Motor vehicle account Sh.18,000 Cr: Motor vehicle expense account Sh.18,000  
C. Dr: Suspense account Sh.18,000 Cr: Motor vehicle account Sh.18,000  
D. Dr: Motor vehicle expense account Sh.18,000 Motor vehicle account Sh.18,000 (2 marks)
24. Calculate the adjusted net profit or loss.  
A. Sh.119,600  
B. Sh.97,100  
C. Sh.65,600  
D. Sh.83,600 (2 marks)

**Use the following information to answer Question 25 to Question 27.**

Bright Star Traders had office equipment with a cost of Sh.120,000 and accumulated depreciation of Sh.30,000 at 1 January 2025. During the year, they sold some of this equipment for Sh.50,000, making a profit of Sh10,000. In addition, they purchased new equipment costing Sh.80,000. The company provides depreciation at 10% per annum on cost.

25. Calculate the original cost of the equipment that was sold.  
A. Sh.50,000  
B. Sh.60,000  
C. Sh.70,000  
D. Sh.80,000 (2 marks)
26. Calculate the amount of accumulated depreciation on the equipment sold?  
A. Sh.20,000  
B. Sh.10,000  
C. Sh.30,000  
D. Sh.40,000 (2 marks)
27. What is the balance of office equipment at the end of the year?  
A. Sh.120,000  
B. Sh.160,000  
C. Sh.150,000  
D. Sh.140,000 (2 marks)
28. The following information was obtained from the books of Oliver Penda Traders for the year ended 30 September 2025:

|                                     |                 |
|-------------------------------------|-----------------|
|                                     | <b>Sh."000"</b> |
| Opening Capital (1 October 2024)    | 100,000         |
| Drawings during the year            | 16,500          |
| Additional Capital during the year  | 59,450          |
| Closing Capital (31 September 2025) | 270,000         |

Calculate the profit or loss for the year.

- A. Profit of Sh.127,050  
B. Profit of Sh.186,500  
C. Loss of Sh.94,050  
D. Profit of Sh.94,050 (2 marks)

Use the following information to answer Question 29 and Question 30.

The bookkeeper of Terrazzo Traders discovered that an amount paid to Pluto traders a supplier has been wrongly entered in Jupiter Traders also a supplier's account but correctly entered in the cash book.

29. Which type of error was committed?  
 A. Error of commission  
 B. Error of principle  
 C. Compensating errors  
 D. Error of complete reversal (2 marks)
30. The above error is corrected by \_\_\_\_\_.  
 A. Dr: Jupiter traders account and Cr: Pluto traders account  
 B. Dr: Jupiters traders account and Cr: Suspense account  
 C. Dr: Suspense account and Cr: Pluto traders account  
 D. Dr: Pluto traders account and Cr: Jupiter traders account (2 marks)
31. Which one of the following types of account is the purchase of a motor vehicle recorded?  
 A. Real account  
 B. Nominal account  
 C. Motor vehicle account  
 D. Personal account (2 marks)
32. When goods are purchased on credit and then returned back to suppliers, what is the correct double entry?  
 A. Dr: Return outward account, Cr: Accounts payable  
 B. Dr: Accounts payable, Cr: Return outward account  
 C. Dr: Accounts receivable, Cr: Return outward account  
 D. Dr: Return outward account, Cr: Accounts receivable (2 marks)
33. The following balances were extracted from the books of Hotspot Entrepreneurs for the year ended 30 September 2025. When the trial was prepared it failed to balance and the difference was put in the suspense account.
- |                     | Sh."000" |
|---------------------|----------|
| Capital             | 10,200   |
| Accounts payable    | 4,100    |
| Inventory           | 3,600    |
| Accounts receivable | 4,500    |
| Bank                | 2,800    |
- Calculate the amount that was posted to the suspense account.  
 A. Debit Sh.3,400,000  
 B. Credit Sh.3,400,000  
 C. Credit Sh.700,000  
 D. Debit Sh.700,000 (2 marks)
34. Which one of the following statements is **FALSE** about a bank reconciliation statement?  
 (i) It is Part of the double entry system  
 (ii) It is not part of the double entry system  
 (iii) It is sent by the firm to the bank  
 (iv) It is Posted to the ledger accounts  
 A. (iii) and (iv)  
 B. (i) and (ii)  
 C. (i), (ii) and (iv)  
 D. (ii), (iii) and (iv) (2 marks)
35. Which one of the following entries should be posted in the journal?  
 (i) Payment for cash purchases  
 (ii) Fixtures bought on credit  
 (iii) Credit sales of goods  
 (iv) Sale of surplus machinery  
 A. (i), (ii) (iii) and (iv)  
 B. (ii) and (iii)  
 C. (iii) and (i)  
 D. (ii) and (iv) (2 marks)

36. Which one of the following is **NOT** a function of a trial balance?
- A. To assist in identifying arithmetic errors in the ledger
  - B. To identify single entry errors in the books of accounts
  - C. To calculate profit or loss made by the business in a given period
  - D. To provide a summary of all the closing balances in the ledger
- (2 marks)
37. Which one of the following is **NOT** a benefit of using accounting software?
- A. Data processing is faster compared to manual system
  - B. It's more effective and efficient to the organisation
  - C. It eliminates the need of having accounts clerks
  - D. Retrieval of softcopy documents is faster and secure
- (2 marks)
38. Which one of the following is **NOT** a factor to consider when installing computerised accounting system?
- A. Cyber security risks
  - B. Compatibility with other existing electronic equipment
  - C. Availability of reliable power
  - D. The name of the business
- (2 marks)
39. Drawings in kind are charged to which financial statement?
- A. Statement of profit or loss
  - B. The statement of financial position
  - C. Statement of changes in equity
  - D. Cash flow statement
- (2 marks)
40. The following balances relate to Mars Traders assets and liabilities as at 30 September 2025. Machinery Sh.20,000,000 Bank balance Sh.200,000, Land and buildings Sh.200,000,000, Bank loan Sh.50,000,000, Trade payables Sh.500,000 and trade receivables Sh.1,000,000. Determine the amount of capital as at 30 September 2025.
- A. Sh.169,700,000
  - B. Sh.220,700,000
  - C. Sh.170,700,000
  - D. Sh.270,700,000
- (2 marks)
41. Which one of the following is **NOT** an accounting concept?
- A. Materiality
  - B. Substance over form
  - C. Prudence
  - D. Historical Cost
- (2 marks)
42. The objective of financial accounting includes the following, **EXCEPT** \_\_\_\_\_.
- A. facilitating decision-making
  - B. maintaining accountability
  - C. discouraging comparison
  - D. accurate financial reporting
- (2 marks)
43. The following are characteristics of accounting, which one is **NOT**?
- A. It is a non-monetary focus
  - B. It is a systematic process
  - C. It is a dual nature both quantitative and qualitative
  - D. It acts as an information system
- (2 marks)
44. Which one of the following is **NOT** an element of financial statements?
- A. Expenses
  - B. Cash flow
  - C. Assets
  - D. Incomes
- (2 marks)

45. In accounting, cost principle stands for \_\_\_\_\_.
- A. rules requiring use of the same accounting methods and policies from one period to the next
  - B. methods that require to record revenue when it is earned and expenses when they are incurred, regardless of when the cash is actually received or paid
  - C. guidelines that require assets to be recorded at their original cost in the statement of financial position
  - D. concepts that require expenses to be recorded in the same accounting period as the revenues they helped generate (2 marks)
46. Which one of the following groups relies on a company's financial statements to assess its ability to repay borrowed funds?
- A. Management
  - B. Government
  - C. Customers
  - D. Creditors (2 marks)
47. Which one of the following reasons explains why employees need accounting information?
- A. To monitor the financial health of the business
  - B. To support planning, performance evaluation and daily operations
  - C. To assess the business's ability to repay loans
  - D. To compare the business's performance against industry benchmarks (2 marks)
48. Which one of the following is the definition of a petty cash book?
- A. A ledger used to record small, recurring expenses of a business
  - B. A financial record used to focus on cash inflows and outflows
  - C. A record that organises and summarises financial transactions
  - D. A record that lists a business's financial transactions in chronological order (2 marks)

**Use the following information to answer Question 49 and Question 50.**

Sun, Moon and Star formed a partnership and contributed capital as follows Sh.4,500,000, Sh.3,000,000 and Sh.2,400,000 respectively. Moon was to get a salary of Sh.35,000 per month. Interest on capital was agreed at 10% per annum. During the year ended 30 September 2025 the partnership made a profit of Sh.3,600,000.

49. Calculate total interest on capital paid to partners.
- A. Sh.690,000
  - B. Sh.990,000
  - C. Sh.450,000
  - D. Sh.750,000 (2 marks)
50. Calculate the total amount of profit or loss shared among partners.
- A. Sh.2,190,000
  - B. Sh.2,875,000
  - C. Sh.3,600,000
  - D. Sh.2,430,000 (2 marks)
- .....



**CAMS LEVEL II**

**FOUNDATIONS OF ACCOUNTING**

**WEDNESDAY: 20 August 2025. Morning Paper.**

**Time Allowed: 3 hours.**

**This paper consists 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. A current asset that can be transferred into cash within three months is known as \_\_\_\_\_.  
A. cash equivalent  
B. intangible asset  
C. operating asset  
D. cash asset  
(2 marks)
2. The accounting cycle includes the following, **EXCEPT** \_\_\_\_\_.  
A. recording  
B. decision-making  
C. classification  
D. interpreting  
(2 marks)
3. Which one of the following is **NOT** a characteristic of accounting principles?  
A. Results-oriented  
B. Factual  
C. Practical  
D. Summarising  
(2 marks)
4. Which one of the following items is included in the category of cash?  
A. Bank deposits  
B. Inventory  
C. Accounts receivables  
D. Investments  
(2 marks)

**Use the following information to answer Question 5 and Question 6.**

**The following information was extracted from the books of Oceanic Limited for the year ended 31 December 2024:**

|                                      | Sh.       |
|--------------------------------------|-----------|
| Fully paid-up, Sh.10 ordinary shares | 1,000,000 |
| 12%. Sh.20 preference shares         | 500,000   |
| Profit after tax                     | 600,000   |

5. Calculate total dividends payable to the preference shareholders.  
A. Sh.120,000  
B. Sh.600,000  
C. Sh.60,000  
D. Sh.100,000  
(2 marks)
6. Calculate the amount of retained earnings assuming that the ordinary dividend of Sh.2.50 was paid per share.  
A. Sh.250,000  
B. Sh.290,000  
C. Sh.100,000  
D. Sh.310,000  
(2 marks)

7. Long term assets without any physical existence but possessing a value are called \_\_\_\_\_.  
 A. intangible assets  
 B. fixed assets  
 C. current assets  
 D. investments (2 marks)
8. Which one of the following accounts is used to record the difference in a trial balance totals?  
 A. Profit and loss account  
 B. Nominal account  
 C. Capital account  
 D. Suspense account (2 marks)
9. What does a credit entry signify in real accounts?  
 A. Decrease of an expense  
 B. Decrease in value of an asset  
 C. An increase in income  
 D. Increase in the value of an asset (2 marks)
10. The main objective of book-keeping is to \_\_\_\_\_.  
 A. examine the accuracy of business transactions  
 B. keep correct and complete record of business transactions  
 C. compute the profit or loss for the business  
 D. show the correct position for the assets and liabilities (2 marks)
11. The process of recording business transactions in chronological order is called \_\_\_\_\_.  
 A. recording  
 B. posting  
 C. journalising  
 D. classifying (2 marks)
12. Which one of the following classes of assets do copyrights, patents and trademarks belong to?  
 A. Current assets  
 B. Fixed assets  
 C. Intangible assets  
 D. Investments (2 marks)
13. A sum of Sh.20,000 withdrawn by the proprietor for personal use was debited to the travelling expenses account.  
 Which one of the following is the **CORRECT** journal entry to rectify the error?
- |                                | <b>Dr.</b><br><b>Sh.</b> | <b>Cr.</b><br><b>Sh.</b> |
|--------------------------------|--------------------------|--------------------------|
| A. Suspense account            | 40,000                   |                          |
| Bank account                   |                          | 20,000                   |
| Cash account                   |                          | 20,000                   |
| B. Travelling expenses account | 20,000                   |                          |
| Drawings account               |                          | 20,000                   |
| C. Drawings account            | 20,000                   |                          |
| Bank account                   |                          | 20,000                   |
| D. Drawings account            | 20,000                   |                          |
| Travelling expenses            |                          | 20,000                   |
- (2 marks)
14. Which one of the following statements explains an error of commission?  
 A. Sales of Sh.50,000 was not entered in the sales book  
 B. Amount of Sh.80,000 received from a customer Jane Kairu was credited to another customer Jane Kariuki  
 C. Purchase of new chairs and desks for office use for Sh.100,000 was recorded in the purchases day book  
 D. Amount spent on repairing the compound wall of Sh.120,000 was debited to the building account (2 marks)

15. Alex Mumo, a sole trader had trade receivables of Sh.270,000 as at 1 March 2025. During the month of March 2025, cash sales and credit sales amounted to Sh.720,000 and Sh.1,650,000 respectively. The trader received Sh.1,530,000 from his credit customers in the course of the month.

Calculate the balance on Alex's trade receivables account at the end of March 2025.

- A. Sh.150,000
- B. Sh.390,000
- C. Sh.87,000
- D. Sh.111,000

(2 marks)

Use the following information to answer Question 16 to Question 18.

Cate and Kate started a partnership business with an initial investment of Sh.5,000,000 and Sh.7,000,000 respectively. They agreed to share profits in the ratio of their investments. Cate is entitled to a monthly salary of Sh.15,000. While Kate made monthly drawings of Sh.20,000. Interest on drawings is charged at an annual interest rate of 10%. At the end of the year, the business made a total profit of Sh.600,000 before considering Cate's salary and Kate's interest on drawings.

16. Calculate the amount of profit that Cate received.

- A. Sh.200,000
- B. Sh.250,000
- C. Sh.300,000
- D. Sh.350,000

(2 marks)

17. How much interest on drawings is charged to Kate at the end of the year?

- A. Sh.11,000
- B. Sh.12,000
- C. Sh.22,000
- D. Sh.24,000

(2 marks)

18. Calculate the final net profit of the business after deducting Cate's salary and charging Kate's interest on drawings.

- A. Sh.420,000
- B. Sh.460,000
- C. Sh.660,000
- D. Sh.240,000

(2 marks)

19. Which one of the following statements **CORRECTLY** describes the double entry system used for posting accounting transactions?

- A. Every accounting transaction posted in the ledger must be having a debit and a corresponding credit entry
- B. All assets should be credited
- C. Only credit transactions should be credited
- D. The trial balance totals should be equal on both the debit and credit sides

(2 marks)

20. Which one of the following statements **BEST** describes the term "liquidation" in the context of a public limited company?

- A. Expanding the company operations
- B. The company has liquid cash
- C. Bring the company to an end by selling its assets
- D. Cash flow statement

(2 marks)

21. Which one of the following statements describes the **BEST** way to detect an error of complete omission?

- A. Checking and verifying the trial balance
- B. Reviewing and adjusting the suspense account
- C. Comparing records with source documents
- D. Ensuring all accounts are fully balanced

(2 marks)

22. Which one of the following statements **BEST** describes an error of principle?

- A. Purchase 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 Paul Matu is credited in account of Peter Tiony another creditor
- D. Purchase of asset in cash is omitted from the cash book

(2 marks)

23. The following are intangible assets, **EXCEPT** \_\_\_\_\_.  
 A. goodwill  
 B. patents  
 C. land  
 D. trademarks (2 marks)
24. The following are revenue expenses, **EXCEPT** \_\_\_\_\_.  
 A. salaries and wages  
 B. electricity expense  
 C. painting of a new building  
 D. re-painting building after five years of use (2 marks)
25. Which one of the following statements **BEST** describes 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)
26. Which one of the following is **NOT** an objective of the accounting standards?  
 A. To ensure comparability of financial statement  
 B. To ensure uniformity in reporting  
 C. To provide guiding concepts in preparation of financial statements  
 D. To direct on number of accountants required during preparation of financial statement (2 marks)
27. Errors of complete omission affect the following statements, **EXCEPT** \_\_\_\_\_.  
 A. the trial balance  
 B. statement of profit or loss  
 C. statement of financial position  
 D. the cashflow statement (2 marks)
28. What is the **MAIN** purpose of an appropriation account in the statement of profit or loss of company accounts?  
 A. To record only cash transactions of the company  
 B. To allocate the company's profit after tax among stakeholders and reserves  
 C. To compare with the statement of financial position for the company  
 D. To track the company's operating expenses and cash flow during a financial period (2 marks)

Use the following information to answer Question 29 to Question 31.

Kamakias Ltd. purchased office furniture for Sh.250,000 on credit. Two days later, they paid Sh.150,000 of the amount owed to the supplier through a bank transfer.

29. Which one of the following is the correct double-entry when the business purchases the office furniture on credit?  
 A. Debit: Office Furniture account Sh.250,000, Credit: Cash account Sh.250,000  
 B. Debit: Office Furniture account Sh.250,000, Credit: Accounts Payable account Sh.250,000  
 C. Debit: Accounts Payable account Sh.250,000, Credit: Office Furniture account Sh.250,000  
 D. Debit: Cash account Sh.250,000, Credit: Office Furniture account Sh.250,000 (2 marks)
30. What will be the new balance of accounts payable after making a payment of Sh.150,000 to the supplier?  
 A. Sh.100,000  
 B. Sh.250,000  
 C. Sh.150,000  
 D. Sh.400,000 (2 marks)
31. Which one of the following is the **CORRECT** double-entry for the payment of Sh.150,000 to the supplier?  
 A. Debit: Cash Sh.150,000, Credit: Accounts Payable Sh.150,000  
 B. Debit: Accounts Payable Sh.150,000, Credit: Cash Sh.150,000  
 C. Debit: Office Furniture Sh.150,000, Credit: Accounts Payable Sh.150,000  
 D. Debit: Accounts Payable Sh.150,000, Credit: Office Furniture Sh.150,000 (2 marks)

32. Which one of the following is **NOT** included in the cost of sales calculation?
- Purchases
  - Depreciation
  - Direct expenses
  - Opening stock
- (2 marks)
33. Stationery at the beginning of the year was Sh.6,600, stationery purchased during the year amounted Sh.22,500 and the value of stationery at the end of the year was Sh.5,950. Calculate the amount of stationery to be posted in the statement of profit or loss.
- Sh.23,150
  - Sh.21,850
  - Sh.22,500
  - Sh.29,100
- (2 marks)
34. Makau Ltd.'s inventory at the end of the year was overstated by Sh.75,000. What is the effect of this in the books of accounts?
- Overstatement of inventory sold by Sh.75,000
  - Understatement of gross profit by Sh.75,000
  - Overstatement of net income by Sh.75,000
  - Understatement of net income by Sh.75,000
- (2 marks)
35. Cheques which are drawn and taken to the bank and are not debited in the bank statement are called \_\_\_\_\_.
- uncredited cheques
  - unpresented cheques
  - dishonoured cheques
  - undebited cheques
- (2 marks)
36. As part of the initial capital, a partner contributed office equipment that had an original cost of Sh.200,000 and accumulated depreciation of Sh.125,000. The partners agreed to revalue the equipment at Sh.90,000. What amount should be recorded in the books?
- Sh.125,000
  - Sh.90,000
  - Sh.75,000
  - Sh.200,000
- (2 marks)
37. As at 1 April 2024, Tata Enterprises had a credit capital balance of Sh.9,500,000. During the year ended 31 March 2025, the owner withdrew Sh.1,800,000 and the business incurred a net loss of Sh.900,000. Calculate the amount of capital as at 31 March 2025.
- Sh.8,600,000
  - Sh.11,300,000
  - Sh.12,200,000
  - Sh.6,800,000
- (2 marks)
38. Calculate the book value of an equipment with an original cost of Sh.225,000 and accumulated depreciation of Sh.140,000.
- Sh.85,000
  - Sh.225,000
  - Sh.140,000
  - Sh.365,000
- (2 marks)
39. The value of inventory that appears in the trial balance at the end of the period is referred to as \_\_\_\_\_.
- opening inventory
  - closing inventory
  - purchased inventory
  - cost of inventory sold
- (2 marks)
40. The estimated amount of depreciation on equipment for a period is Sh.200,000, what is the double entry?
- Debit: Depreciation account      Credit: Equipment account
  - Debit: Equipment account      Credit: Depreciation account
  - Debit: Income statement      Credit: Provision for depreciation account
  - Debit: Provision for depreciation account      Credit: Income statement
- (2 marks)

41. Which one of the following assets is an example of a current asset?
- Motor vehicle
  - Accounts receivable
  - Accounts payable
  - Furniture and fittings
- (2 marks)
42. Receipt of cash from a credit customer in payment of his account would be recorded by \_\_\_\_\_.
- |                               |                             |
|-------------------------------|-----------------------------|
| A. Debit: Cash book           | Credit: Accounts receivable |
| B. Debit: Accounts receivable | Credit: Cash book           |
| C. Debit: Cash book           | Credit: Accounts payable    |
| D. Debit: Accounts payable    | Credit: Cash book           |
- (2 marks)
43. A business has assets worth Sh.2,900,000 and liabilities worth Sh.1,750,000. Calculate the amount of owners' equity.
- Sh.4,650,000
  - Sh.2,900,000
  - Sh.1,150,000
  - Sh.1,750,000
- (2 marks)
44. Kap Ltd.'s revenue during the year ended 30 September 2024 amounted to Sh.450,000 and expenses amounted to Sh.375,000. Calculate the net profit or net loss during the year.
- Loss Sh.75,000
  - Profit Sh.450,000
  - Loss Sh.375,000
  - Profit Sh.75,000
- (2 marks)
45. A list of assets, liabilities and capital of a business as at a specific date is known as \_\_\_\_\_.
- statement of profit or loss
  - statement of financial position
  - retained earnings statement
  - statement of owners' equity
- (2 marks)
46. When a company issue its shares at a price higher than the par value, it is said that the company has issued the shares at \_\_\_\_\_.
- their face values
  - a premium
  - discount
  - market price
- (2 marks)
47. The salaries account of Jitegemee Ltd. had a credit balance of Sh.55,000 at the end of February 2025. During the month of March 2025, salaries amounting to Sh.521,700 were paid but Sh.65,000 remained unpaid. Calculate the total salaries expense for the month March 2025.
- Sh.521,700
  - Sh.586,700
  - Sh.531,700
  - Sh.511,700
- (2 marks)
48. The difference between net sales and cost of goods sold is called \_\_\_\_\_.
- net profit
  - gross profit
  - net loss
  - goods for sale
- (2 marks)
49. At the end of the financial period, the adjusting entry for accrued salaries was omitted when preparing statement of profit or loss. What was the effect of this?
- Over casted the net profit
  - Over casted the net loss
  - Under casted net loss
  - Under casted net profit
- (2 marks)

50. Which one of the following financial statements is most useful to creditors when assessing a company's ability to repay loans?
- A. Statement of profit loss
  - B. Statement of financial position
  - C. Statement of cash flows
  - D. Statement of changes in equity
- (2 marks)

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CAMS LEVEL II

FOUNDATIONS OF ACCOUNTING

THURSDAY: 24 April 2025. Morning Paper.

Time Allowed: 3 hours.

This paper consists 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. The following are objectives of financial accounting, **EXCEPT** \_\_\_\_\_.
- A. to ascertain profit of a firm
  - B. to develop laws used in accounting
  - C. to control and monitor performance
  - D. to ascertain financial position of a firm
- (2 marks)

Use the following information to answer Question 2 and Question 3.

Byron Onyango operates a retail shop. On 2 February 2025, he purchased goods worth Sh.600,000 on credit from a distributor who offered 10% trade discount and 4% cash discount. Assuming payment was done within 2 weeks:

2. How much did Onyango pay if he paid for the goods on 9 February 2025?
- A. Sh.540,000
  - B. Sh.516,000
  - C. Sh.518,400
  - D. Sh.60,000
- (2 marks)
3. How much did Onyango pay if he paid for the goods on 20 February 2025?
- A. Sh.600,000
  - B. Sh.516,000
  - C. Sh.540,000
  - D. Sh.60,000
- (2 marks)
4. Allowance for doubtful debt is created in accordance to \_\_\_\_\_ accounting principle.
- A. substance over form
  - B. conservatism
  - C. historical cost
  - D. going concern
- (2 marks)

Use the following information to answer Question 5 and Question 6.

Jamaa Bora, a sole trader, had the following assets and liabilities as at 28 February 2025:

|                   |            |
|-------------------|------------|
|                   | <b>Sh.</b> |
| Trade payables    | 158,000    |
| Equipment         | 460,000    |
| Motor vehicles    | 251,600    |
| Inventory         | 246,000    |
|                   | <b>Sh.</b> |
| Trade receivables | 230,000    |
| Cash at bank      | 291,000    |
| 10% Bank loan     | 250,000    |

During the week of 1 March to 7 March 2025, Jamaa Bora made the following transactions:

- Bought extra equipment on credit for Sh.55,200
- Bought extra inventory by cheque with Sh.22,800
- Paid creditors by cheque for Sh.31,600

5. Determine Jamaa Bora's capital as at 1 March 2025.
- Sh.1,070,600
  - Sh.408,000
  - Sh.1,478,600
  - Sh.1,050,400
- (2 marks)
6. Calculate the value of total assets after the transactions of 7 March 2025.
- Sh.2,170,600
  - Sh.1,502,200
  - Sh.1,478,600
  - Sh.1,335,200
- (2 marks)
7. Kaana Nice bought goods on credit from Peter Part. In which ledger will the account of Peter Part be found in the books of Kaana?
- Nominal ledger
  - General ledger
  - Purchases ledger
  - Sales ledger
- (2 marks)
8. Which one of the following statements **BEST** describes the term "ledger account"?
- A record that summarises all transactions related to a specific account in the general ledger
  - A book that records only cash transactions of a business
  - A financial statement prepared at the end of the accounting period
  - A document used to record daily business transactions before posting them to the journal
- (2 marks)
9. Which one of the following statements does **NOT** charge drawings in goods?
- Statement of profit or loss account
  - The statement of financial position
  - Statement of changes in owners' equity
  - Cash flow statement
- (2 marks)
10. Transport expenses account of Supa Mat Traders had the following balances:
- Accrued balance 1 January 2024 Sh.25,500
  - Accrued balance 31 December 2024 Sh.34,300
  - Transport expenses paid during the year 2024 Sh.380,000
- Calculate the amount of transport expenses to be charged in the statement of profit or loss for the year ended 31 December 2024.
- Sh.414,300
  - Sh.380,000
  - Sh.213,200
  - Sh.388,800
- (2 marks)

**Use the following information to answer Question 11 to Question 14.**

The following information was extracted from the books of Mama Wema Traders for the year ended 31 March 2025:

|                         | Sh. "000" |
|-------------------------|-----------|
| Sales                   | 86,000    |
| Inventory: 1 April 2024 | 12,000    |
| 31 March 2025           | 10,000    |
| Drawing in goods        | 3,000     |
| Purchases               | 54,000    |
| Returns: Inwards        | 2,100     |
| Outwards                | 1,800     |
| Carriage outwards       | 4,200     |
| Discount received       | 4,500     |
| Carriage inwards        | 3,200     |
| Operating expenses      | 6,800     |
| Discount allowed        | 1,500     |

11. Calculate the net sales.  
A. Sh.83,900,000  
B. Sh.86,000,000  
C. Sh.84,200,000  
D. Sh.30,400,000 (2 marks)
12. Calculate the cost of goods sold.  
A. Sh.30,900,000  
B. Sh.53,000,000  
C. Sh.32,000,000  
D. Sh.60,400,000 (2 marks)
13. Calculate the gross profit for the period.  
A. Sh.30,400,000  
B. Sh.35,400,000  
C. Sh.23,500,000  
D. Sh.30,900,000 (2 marks)
14. Calculate the net profit.  
A. Sh.15,500,000  
B. Sh.22,900,000  
C. Sh.32,000,000  
D. Sh.18,400,000 (2 marks)
15. Which one of the following errors will cause the trial balance **NOT** to balance?  
A. Error of principle  
B. Compensating error  
C. Casting error  
D. Error of omission (2 marks)
16. When the statement of profit or loss is prepared, decrease in allowance for doubtful debts during the financial year is treated as \_\_\_\_\_.  
A. inventory  
B. an income  
C. an expense  
D. a new debt (2 marks)
17. The financial statement in which the total expenses is deducted from the total revenues is known as \_\_\_\_\_.  
A. bank reconciliation statement  
B. statement of financial position  
C. statement of profit or loss  
D. cash flow statement (2 marks)
18. Which one of the following statements explain why owners primarily analyse a company's financial statements?  
A. To determine their salaries and bonuses  
B. To assess profitability and return on investment  
C. To evaluate daily operational efficiency  
D. To check compliance with labour laws (2 marks)

**Use the following information to answer Question 19 to Question 21.**

Jitegemee Ltd. purchased machinery at a cost of Sh.12,000,000. The company provides depreciation at the rate of 20% per annum.

19. Calculate the net book value of the machine at the end of the fourth year using the straight line method.  
A. Sh.9,600,000  
B. Sh.7,200,000  
C. Sh.4,800,000  
D. Sh.2,400,000 (2 marks)

20. Calculate the net book value of the machine at the end of the third year using the reducing balance method.
- A. Sh.4,320,000
  - B. Sh. 6,144,000
  - C. Sh. 4,800,000
  - D. Sh.5,856,000
- (2 marks)
21. Calculate gain or loss on disposal assuming the machine was disposed of on the first day of the third year for Sh.6,000,000. Depreciation was provided on straight-line method, applying full year depreciation policy.
- A. Sh.1,200,000 profit
  - B. Sh.1,200,000 loss
  - C. Sh.4,800,000 profit
  - D. Sh.3,600,000 loss
- (2 marks)
22. The following are contents of Articles of Association for a company, **EXCEPT** \_\_\_\_\_.
- A. classification of shares
  - B. procedure for holding Annual General Meeting (AGM)
  - C. company's name
  - D. procedure for appointment of the auditors
- (2 marks)
23. A company has assets worth Sh.400,000 and liabilities of Sh.200,000. What is the ratio of liabilities to assets?
- A. 0.4 : 1
  - B. 2.5 : 1
  - C. 1.5 : 1
  - D. 0.5 : 1
- (2 marks)
24. At the time of admission of a new partner, undistributed profits appearing in the statement of financial position of the old firm is transferred to the capital account of \_\_\_\_\_.
- A. old partners in new profit-sharing ratio
  - B. all the partners in the new profit-sharing ratio
  - C. old partners in the old profit-sharing ratio
  - D. the anticipated profit of the partnership
- (2 marks)
25. The following information was extracted from the trial balance of Toti Limited as at 31 March 2025:
- 12% bank loan Sh.400,000
  - Interest paid Sh.38,000
- Calculate the interest expense to be debited to profit or loss account.
- A. Sh.48,000
  - B. Sh.50,000
  - C. Sh.55,000
  - D. Sh.10,000
- (2 marks)
26. Which one of the following is **NOT** a method of calculating depreciation of a tangible asset?
- A. Sum of the years digit method
  - B. Reducing balance method
  - C. Amortisation method
  - D. Straight line method
- (2 marks)
27. How is discount allowed recorded in the ledger?
- A. Dr trade receivable Cr discount allowed
  - B. Dr trade receivable Cr discount received
  - C. Dr discount received Cr trade receivable
  - D. Dr discount allowed Cr trade receivable
- (2 marks)
28. The balance of accounts payable in the books of Maharibu Ltd. as at 1 January 2024 was Sh.2,500,000 and Sh.4,200,000 as at 31 December 2024. During the year, Sh.32,000,000 was paid to creditors. Calculate the total purchases for the year 2024.
- A. Sh.30,300,000
  - B. Sh.33,700,000
  - C. Sh.31,600,000
  - D. Sh.38,700,000
- (2 marks)

29. When financial statements are prepared, bad debts written off are recorded in the \_\_\_\_\_.  
A. statement of financial position  
B. statement of profit or loss  
C. statement of changes in equity  
D. statement of cash flows (2 marks)
30. The desired cash float for the month of March 2025 was Sh.260,000. Out of this amount, Sh.189,800 was spent during the period. Calculate the cash that was supposed to be reimbursed at the end of the period.  
A. Sh.260,000  
B. Sh.70,200  
C. Sh.254,000  
D. Sh.189,800 (2 marks)

**Use the following information to answer Question 31 and Question 32.**

Antony, Benson and Charles formed a partnership business with capital contribution of Sh.1,500,000, Sh.1,000,000 and Sh.800,000 respectively. Benson was to receive a salary of Sh.35,000 per month. Interest on capital was agreed at 10% per year. During the year ended 31 March 2025, the partnership made a profit of Sh.1,200,000.

31. Calculate the total interest on capital paid.  
A. Sh.330,000  
B. Sh.250,000  
C. Sh.230,000  
D. Sh.180,000 (2 marks)
32. Calculate the total amount of profit or loss shared among partners.  
A. Sh.420,000  
B. Sh.450,000  
C. Sh.1,200,000  
D. Sh.870,000 (2 marks)
33. Which one of the following types of accounting is concerned with producing outputs for external users?  
A. Forensic accounting  
B. Financial accounting  
C. Operational accounting  
D. Lean accounting (2 marks)
34. Which one of the following is **NOT** a process associated with an accounting information system?  
A. Auditing existing data  
B. Collecting and recording data  
C. Providing information to users  
D. Analysing and managing data (2 marks)
35. The criterion fulfilled by an effective accounting report is \_\_\_\_\_.  
A. relevance, timeliness, accuracy, completeness and summarisation  
B. relevance, timeliness, accuracy, completeness and globalisation  
C. relevance, legibility, speed and automation  
D. reliability, accuracy, scalability, efficiency and quality (2 marks)
36. Wages paid for machine installation was debited in wages account instead of machinery account. This type of an error is called \_\_\_\_\_.  
A. compensating error  
B. error of commission  
C. error of principle  
D. error of commission (2 marks)
37. Bonus shares are issued to \_\_\_\_\_.  
A. new shareholders at a discounted price  
B. new shareholders free of cost  
C. existing shareholders free of cost  
D. existing employees at less cost (2 marks)

38. Part of capital which can be called up at the time of winding a company is called \_\_\_\_\_.  
A. authorised capital  
B. uncalled capital  
C. reserve capital  
D. issued capital (2 marks)
39. Discount allowed is recorded on which side of the cashbook?  
A. Debit side  
B. Credit side  
C. Petty cash side  
D. Not recorded (2 marks)
40. The cashbook is meant for recording \_\_\_\_\_.  
A. only cash payments  
B. only cash receipts  
C. petty expenses  
D. all cash transactions (2 marks)
41. Morgan Ltd.'s total assets increased by Sh.200,000 and the liabilities increased by Sh.120,000. Calculate the increase/decrease in the capital.  
A. Increase by Sh.320,000  
B. Increase by Sh.80,000  
C. Decrease by Sh.320,000  
D. Decrease by Sh.80,000 (2 marks)
42. In the books of KK Ltd., the ledger account of Jason Brown, a customer, shows a debit balance of Sh.450,000. What does this mean?  
A. Brown has paid Sh.450,000 to the business  
B. Brown owes the business Sh.450,000  
C. The business has paid Brown Sh.450,000  
D. The business owes Brown Sh.450,000 (2 marks)
43. A bookkeeper mistakenly treated a capital expenditure item as revenue expenditure. What is the effect of this error?  
A. Gross profit is understated  
B. Total assets are overstated  
C. Net profit is overstated  
D. Total assets are understated (2 marks)
44. The inventory in the books of Trust Ltd. as at 31 December 2024 was overstated by Sh.6,000,000. What was the effect on the gross profit for the year to 31 December 2024?  
A. Overstated by Sh.6,000,000  
B. Understated by Sh.6,000,000  
C. Overstated by Sh.12,000,000  
D. No effect (2 marks)
45. Which one of the following statements **BEST** explains the imprest system of petty cash?  
A. Each month, an equal amount of cash is transferred into petty cash  
B. The exact amount of petty cash expenditure is reimbursed at intervals to maintain a fixed float  
C. Petty cash must be kept under lock and key  
D. The total petty cash must never fall below the imprest amount (2 marks)
46. Which one of the following is a book of original entry?  
A. Nominal Ledger  
B. Journal  
C. Receivables ledger  
D. Asset register (2 marks)

47. The dividend paid to shareholders during the financial year is called \_\_\_\_\_.  
A. final dividend  
B. interim dividend  
C. unclaimed dividend  
D. proposed dividend (2 marks)
48. The difference on James Brown trial balance was entered in a suspense account. It was later found that the purchases journal had been undercast. Which one of the following ledger entries is required to correct the error?  
A. Debit trade payable's account, Credit purchases account  
B. Debit purchases account, Credit trade payable's account  
C. Debit purchases account, Credit suspense account  
D. Debit suspense account, Credit purchases account (2 marks)
49. A trader accepted Sh.50,000 from a debtor in full settlement of a debt of Sh.65,000. What effect will this have on the owner's capital?  
A. Increase it by Sh.15,000  
B. Decrease it by Sh.15,000  
C. Increase it by Sh.50,000  
D. Decrease it by Sh.65,000 (2 marks)
50. How will interest on capital and share of profit appear in a partner's current account?  
A. Debit: interest on capital, Debit share of profit  
B. Debit: interest on capital, Credit: share of profit  
C. Debit: share of profit, Credit: interest on capital  
D. Credit: interest on capital, Credit share of profit (2 marks)
- .....



CAMS LEVEL II

FOUNDATIONS OF ACCOUNTING

WEDNESDAY: 4 December 2024. Morning Paper.

Time Allowed: 3 hours.

This paper consists 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 one of the following errors affects the trial balance?  
A. Error of recording transaction in the wrong class  
B. Error which cancels each other  
C. Error of overstating one account  
D. Error of omitting a transaction (2 marks)
2. The financial report where expenses are deducted from income is called \_\_\_\_\_.  
A. bank reconciliation statement  
B. statement of profit or loss  
C. statement of financial position  
D. cash flow statement (2 marks)
3. A decrease in allowance for doubtful debts is treated as \_\_\_\_\_ in the statement of a profit or loss.  
A. revenue income  
B. capital expense  
C. revenue expense  
D. capital income (2 marks)
4. A credit balance in the cash book means \_\_\_\_\_.  
A. an overdraft  
B. money in bank  
C. money withdrawn from bank  
D. money deposited in the bank (2 marks)
5. When a company buys goods on credit and then returns them back to the supplier, the transaction will be recorded as?  
A. Dr return outward account, Cr accounts payable  
B. Dr accounts payable, Cr return outward account  
C. Dr accounts receivable, Cr return outward account  
D. Dr return outward account, Cr accounts receivable (2 marks)
6. KK enterprises had a revenue of Sh.5,500,000, capital expenses of Sh.1,250,000 and revenue expenses of Sh.3,750,000. The owner had cash drawings of Sh.1,000,000 for personal use in year ended 30 November 2024. Calculate KK enterprises net profit or loss for year ended 30 November 2024?  
A. Sh.500,000  
B. Sh.1,750,000  
C. Sh.500,000  
D. Sh.3,250,000 (2 marks)
7. Which one of the following statements **BEST** explains the term error of commission?  
A. Purchases of motor vehicle debited in purchases account and credited bank account  
B. Purchase of goods on credit is debited to the purchases account and credited in creditors account  
C. Sales of goods on credit to Zebedia is debited in account of Zebedee and credited in sales account  
D. Purchase of motor vehicle in cash debited in cash book and credited in motor vehicle account (2 marks)

8. John Kipkurui operates a retail shop. On 21 September 2024, he purchased goods worth Sh.500,000 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 Kipkurui pay if he paid for the goods on 28 September 2024?
- Sh.425,000
  - Sh.427,500
  - Sh.450,000
  - Sh.477,500
- (2 marks)
9. Which one of the following value of inventory appears in the trial balance?
- Value inventory at the beginning of the current period
  - Value inventory at the end of the current period
  - Value of inventory sold during the current period
  - Value of inventory purchased during the current period
- (2 marks)
10. Sasa trader's financial year ends on 31 December every year. At the end of the financial year 2023, salaries for the month of December had not been paid and were omitted when preparing final accounts. How did this affect the profit or loss for year ended 2023?
- The loss was overstated
  - The profit was understated
  - The profit was overstated
  - The profit was not affected
- (2 marks)

**Use the following information to answer Questions 11 to Questions 13:**

At end of the financial year 2023 and before accounts are adjusted, Bima traders accounts receivable had a balance of Sh.4,000,000 and allowance for doubtful debt at start of year 2023 was Sh.210,000. They estimated the uncollectable debts during the year to be Sh.80,000. The allowance for doubtful debt is to be maintained at 5%.

11. Calculate the allowance for doubtful debt on the outstanding receivables to be adjusted in the income statement for the year.
- Sh.14,000 Income
  - Sh.14,000 Expense
  - Sh.200,000 Expense
  - Sh.196,000 Income
- (2 marks)
12. What will be the balance for the accounts receivable at end of year 2023?
- Sh.3,800, 000
  - Sh.3,920,000
  - Sh.3,724,000
  - Sh.3,804,000
- (2 marks)
13. The accounting concept which is used to account for allowance for doubtful debts is called \_\_\_\_\_.
- going concern
  - substance over form
  - historical cost convention
  - prudence concept
- (2 marks)
14. Wind Power Ltd. reported the following during the period that ended on 30 September 2024:
- |             | Sh.       |
|-------------|-----------|
| Assets      | 6,000,000 |
| Liabilities | 3,500,000 |
| Capital     | 1,000,000 |
- Calculate the amount of retained earnings.
- Sh.4,500,000
  - Sh.1,500,000
  - Sh.2,500,000
  - Sh.5,000,000
- (2 marks)

**Use the information below to answer Question 15 and Question 16:**

A purchase invoice for Sh.415,000 from Susan was completely omitted from the books. The book keeper went ahead to prepare statement of profit or loss. The reported profit for the year ended 31 March 2024 was Sh.958,000.

15. How would the above error be corrected using a journal?  
A. Debit accounts payable and credit Susan  
B. Debit purchases and credit Susan account  
C. Debit Susan account and credit payable account  
D. Debit accounts payable and credit purchase account (2 marks)
16. Calculate the adjusted profit after correcting the error.  
A. Sh.543,000  
B. Sh.958,000  
C. Sh.415,000  
D. Sh.1,373,000 (2 marks)
17. On 30 September 2024, Mazeze Mwema a sole trader owned a motor van valued at Sh.4,000,000. He provides depreciation at the rate of 20% per annum on a straight-line method. After how many years will the motor van have a nil value?  
A. 2 years  
B. 3 years  
C. 5 years  
D. 4 years (2 marks)

**Use the following information to answer Questions 18 to Questions 20:**

X, Y and Z are partners operating a Partnership business. The Partnership deed provides for interest of 10% on capital per annum, interest on drawings at 10% per annum and profits and losses to be shared at the ratio of 3:2:1 for X, Y and Z respectively. The following trial balance was obtained from the books of the Partnership for the year ended 30 September 2024:

**XYZ Trial Balance as at 30 September 2024**

|                          |   | Sh. "000"           | Sh. "000"           |
|--------------------------|---|---------------------|---------------------|
| Gross profit             |   |                     | 7,500               |
| Wages and salaries       |   | 450                 |                     |
| Capital accounts         | X |                     | 600                 |
|                          | Y |                     | 400                 |
|                          | Z |                     | 200                 |
| Current accounts         | X |                     | 100                 |
|                          | Y |                     | 80                  |
|                          | Z |                     | 60                  |
| Drawings                 | X | 80                  |                     |
|                          | Y | 60                  |                     |
| Other operating expenses |   | 350                 |                     |
| Non- current assets      |   | <u>8,000</u>        |                     |
|                          |   | <u><b>8,940</b></u> | <u><b>8,940</b></u> |

18. Calculate the net profit or loss for the year ended 30 September 2024.  
A. Sh.7,200,000  
B. Sh.7,500,000  
C. Sh.6,700,000  
D. Sh.6,840,000 (2 marks)
19. Calculate share of profit or loss to each partner for the year ended 30 September 2024.  
A. X Sh.3,290,000; Y Sh.2,193,333; Z Sh.1,096,667  
B. X Sh.3,350,000; Y Sh.2,233,333; Z Sh.1,160,667  
C. X Sh.3,283,000; Y Sh.2,189,000; Z Sh.1,094,000  
D. X Sh.3,297,000; Y Sh.2,198,000; Z Sh.1,099,000 (2 marks)

20. Calculate the current account balances for the year ended 30 September 2024.
- A. X Sh.3,362,000: Y Sh.2,247,333: Z Sh.1,176,667
  - B. X Sh.3,422,000: Y Sh.2,287,333: Z Sh.1,196,667
  - C. X Sh.3,369,000: Y Sh.2,252,000: Z Sh.1,179,000
  - D. X Sh.3,355,000: Y Sh.2,243,000: Z Sh.1,174,000
- (2 marks)

**Use the following information to answer Question 21 and Question 22:**

During the year ended 31 August 2024, Kibo traders had net sales of Sh.7,800,000 and goods purchased amounted to Sh.5,200,000. Inventory at 1 September 2023 was valued at Sh.600,000 and as at 31 August 2024 was Sh.700,000.

21. Calculate the cost of goods sold during the year ended 31 August 2024.
- A. Sh.5,800,000
  - B. Sh.5,900,000
  - C. Sh.2,000,000
  - D. Sh.5,100,000
- (2 marks)
22. Calculate the gross profit or loss for the year ended 31 August 2024.
- A. Sh.2,000,000
  - B. Sh.1,900,000
  - C. Sh.2,700,000
  - D. Sh.5,800,000
- (2 marks)
23. Which one of the following shows the treatment of uncredited cheques when preparing a bank reconciliation statement?
- A. Subtracted from credit cash book balance
  - B. Subtracted from bank statement credit balance
  - C. Added to the debit cash book balance
  - D. Subtracted from debit cash book balance
- (2 marks)
24. Petty cash fund is \_\_\_\_\_.
- A. used to pay relatively small expenses
  - B. set aside for future use
  - C. to buy non-current assets in future
  - D. established to be used in repaying loans
- (2 marks)
25. Which one of the following costs should be added when determining the value of plant and machinery?
- A. Repairs and maintenance
  - B. Cost of fuel
  - C. Installation cost
  - D. Salary of the driver
- (2 marks)
26. Calculate the amount of depreciation using reducing balance method for the third year of use for equipment which was purchased at Sh.950,000. The depreciation is provided at the rate of 25% per annum.
- A. Sh.237,500.00
  - B. Sh.178,125.00
  - C. Sh.100,195.35
  - D. Sh.133,593.75
- (2 marks)
27. The following information was obtained from Joy traders as at 31 August 2023. Total assets were valued at Sh.4,100,000 and liabilities of Sh.1,500,000. Calculate the owners' equity.
- A. Sh.4,100,000
  - B. Sh.1,500,000
  - C. Sh.2,600,000
  - D. Sh.3,950,000
- (2 marks)
28. Which one of the following costs is added to the purchases when calculating the cost of goods sold?
- A. Carriage outward
  - B. Carriage inward
  - C. Return outward
  - D. Return inward
- (2 marks)

29. Which one of the following source documents is prepared when goods returned to the supplier are received?
- Debit notes
  - Credit note
  - Invoice
  - Receipt
- (2 marks)
30. Which one of the following statements is **NOT** a characteristic of ordinary shareholder?
- They have no fixed return every year
  - They have no special security on liquidity
  - They receive dividends during good years
  - Dividend are paid before creditors and interest
- (2 marks)
31. Which one of the following statements is a characteristic of preference shareholders?
- Preferential right to vote in meetings
  - Preferential right in the management
  - Dividends paid varies with performance
  - Preferential right to dividend every year
- (2 marks)

**Use the following information to answer Question 32 and Question 33:**

|                                      | Sh.       |
|--------------------------------------|-----------|
| Opening Inventory (1 January 2023)   | 234,500   |
| Purchases(credit)                    | 750,540   |
| Sales (credit)                       | 1,740,000 |
| Carriage inwards                     | 15,500    |
| Return inwards                       | 43,500    |
| Return outwards                      | 35,500    |
| Discount received                    | 24,000    |
| Discount allowed                     | 32,000    |
| Trade receivables (31 December 2023) | 550,000   |
| Trade payables (31 December 2023)    | 235,000   |
| Closing inventory (31 December 2023) | 27,400    |

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32. Calculate the amount received from trade receivables during the year ending 31 December 2023?
- Sh.1,740,000
  - Sh.1,265,500
  - Sh.1,114,500
  - Sh.1,190,000
- (2 marks)
33. Calculate the amount received from trade payables during the year ending 31 December 2023?
- Sh.515,540
  - Sh.480,040
  - Sh.750,540
  - Sh.456,040
- (2 marks)
34. Which one of the following statements is **NOT** a requirement in the matching concept?
- The revenues of a particular period must match with the expenses of that period
  - The concept requires allocation of cost in different accounting periods
  - Revenues should only be recorded if there is a reasonable certainty about its realisation
  - The comparison of incomes and expenses of a period gives the net profit or loss
- (2 marks)
35. In which book of original entry is discount received recorded?
- Cash book
  - Purchase ledger
  - Sales journal
  - Sales ledger
- (2 marks)
36. Which one of the following assets can be converted into cash within a year?
- Trade receivables
  - Trade payables
  - Motor vehicles
  - Goodwill
- (2 marks)

37. Which one of the following liabilities is payable in more than one year?  
A. Accounts payable  
B. Bank loan  
C. Bank overdraft  
D. Accounts receivables (2 marks)
38. Which one of the following is a claim for owners in business?  
A. Liability  
B. Assets  
C. Equity  
D. Cash (2 marks)
39. Which one of the following class of accounts records expenses, gains and losses?  
A. Personal accounts  
B. Real accounts  
C. Nominal accounts  
D. Impersonal accounts (2 marks)
40. Who among the following is an internal user of financial statements?  
A. Creditors  
B. Trading partners  
C. Government  
D. Employee (2 marks)
41. Real account is an account that \_\_\_\_\_.  
A. records and keeps track of the business revenues and expenses  
B. represents business purchases and sales of goods and services  
C. closes at the end of accounting year  
D. does not close at the end of the accounting year (2 marks)
42. Which one of the following **BEST** explains the revenue of a business?  
A. Income generated by the sale of goods or services  
B. Income generated by the sale of non-current assets  
C. Income generated by the sale of investment  
D. Income generated to re- pay non- current liabilities (2 marks)
43. Which one of the following statements is a feature of a partnership business?  
A. The partnership is a legal entity  
B. They share profits and losses among themselves  
C. They should contribute equal capital  
D. liabilities of the partners are limited by capital (2 marks)
44. Which one of the following is considered as a disadvantage of a sole proprietorship form of business?  
A. Personal control  
B. Easy formation  
C. Unlimited liability  
D. Faster in decision making (2 marks)

**Use the following information to answer Question 45 and Question 46:**

During the year ended on 31 August 2024, Joginder Menta, a sole trader had net sales of Sh.7,800,000 and the cost of goods purchased was Sh.5,200,000. Inventory on 1 September 2023 was valued at Sh.600,000 and inventory as at 31 August 2024 was Sh.700,000.

45. Calculate the cost of goods sold during the year.  
A. Sh.5,800,000  
B. Sh.5,900,000  
C. Sh.5,200,000  
D. Sh.5,100,000 (2 marks)

46. Calculate the gross profit or loss for the year.

- A. Sh.2,000,000
- B. Sh.1,900,000
- C. Sh.2,700,000
- D. Sh.5,800,000

(2 marks)

Use the information below to answer Question 47 to Question 49:

The following information was extracted from the books of Moonlight Ltd. for the year ended 30 September 2024:

|                                             | Sh.       |
|---------------------------------------------|-----------|
| Profit before tax and director's emolument  | 8,000,000 |
| 500,000 Ordinary shares of Sh.10 fully paid | 5,000,000 |
| Retained profit 1 October 2023              | 240,000   |
| Directors emolument                         | 200,000   |
| Dividends for the year was 20%              |           |
| Corporation tax rate 30%                    |           |

47. Calculate total dividends for year.

- A. Sh.1,600,000
- B. Sh.1,000,000
- C. Sh.2,340,000
- D. Sh.4,700,000

(2 marks)

48. Calculate corporation tax payable for the year ended 30 September 2024.

- A. Sh.1,600,000
- B. Sh.1,000,000
- C. Sh.2,340,000
- D. Sh.4,700,000

(2 marks)

49. Calculate the retained profit as at 30 September 2024.

- A. Sh.1,600,000
- B. Sh.1,000,000
- C. Sh.2,340,000
- D. Sh.4,700,000

(2 marks)

50. The following are factors to consider when installing a computerised accounting system **EXCEPT** \_\_\_\_\_.

- A. cybercrime issues
- B. compatibility with other existing electronic equipment
- C. availability of reliable power
- D. the name of the business

(2 marks)

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**CAMS LEVEL II**

**FOUNDATIONS OF ACCOUNTING**

**WEDNESDAY: 21 August 2024. Morning Paper.**

**Time Allowed: 2 hours.**

**This paper consists 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 one of the following is a content of cash receipt?
- A. The charges which will be imposed on buyer if he fails to pay
  - B. Terms and conditions regarding payment of the items sold
  - C. Mode used to make payment of products or services sold
  - D. Items of the products or services that the business has sold
- (2 marks)

**Use the information below to answer Question 2 to Question 4:**

A firm purchased machinery at a cost of Sh.8,000,000. The firm provides depreciation at the rate of 20% per annum.

2. Calculate the net book value of the machine at the end of the third year using straight line method.
- A. Sh.4,800,000
  - B. Sh.3,200,000
  - C. Sh.6,400,000
  - D. Sh.2,400,000
- (2 marks)
3. Calculate the net book value of the machine at the end of the third year using reducing balance method.
- A. Sh.3,094,000
  - B. Sh.4,600,000
  - C. Sh.4,096,000
  - D. Sh.2,928,000
- (2 marks)
4. Calculate the gain or loss on disposal if the machine was disposed on the 1<sup>st</sup> day of the third year for Sh.5,000,000 and depreciation was provided on a straight line method full year policy.
- A. Sh.200,000 profit
  - B. Sh.600,000 loss
  - C. Sh.200,000 profit
  - D. Sh.800,000 loss
- (2 marks)
5. Internet expenses account of Canister traders had the following balances:
- (i) Accrued balance 1 January 2023 - Sh.15,500
  - (ii) Accrued balance 31 December 2023 - Sh.32,300
  - (iii) Internet expense paid during the year 2023 - Sh.320,000

Calculate the amount of internet expenses to be charged in the statement of profit or loss for the year ended 31 December 2023.

- A. Sh.377,800
  - B. Sh.313,200
  - C. Sh.352,300
  - D. Sh.336,800
- (2 marks)

**Use the information below to answer Question 6 and Question 7:**

A sales invoice for Sh.65,000 was completely omitted from the books of Mweiga Traders. The accountant went on to prepare the statement of profit or loss and realised Sh.405,000 as net profit for the period.

6. Using a journal entry, how would you correct the above error?
- A. Debit creditors account; credit accounts receivable account
  - B. Debit purchases account; credit creditors account
  - C. Debit suspense account; credit creditors account
  - D. Debit trade receivables account; credit sales account
- (2 marks)
7. After correcting the error, what is the adjusted net profit?
- A. Sh.550,000
  - B. Sh.470,000
  - C. Sh.465,000
  - D. Sh.85,000
- (2 marks)
8. How does carriage inwards cost omitted affect profit for the year?
- A. Overstates the net profit
  - B. Overstates cost of sale
  - C. No effect on the profit
  - D. Reduce production costs
- (2 marks)
9. Which of the following is **NOT** a statement prepared by a company for financial reporting at the end of the year?
- A. Partnership deed/agreement
  - B. Statement of comprehensive income
  - C. Statement of financial position
  - D. Cash flow statement
- (2 marks)
10. In the context of partnership accounting, what is the primary purpose of maintaining a capital account and a current account?
- A. To simplify tax calculations on the amount invested in the business by the partners
  - B. To differentiate between long-term capital and short-term financial activities of partners
  - C. To record personal expenses of partners and business expenses separately for the year
  - D. To manage the cash inflow and cash out flow of the business more effectively
- (2 marks)
11. What is the purpose of a petty cash voucher in accounting?
- A. To record large cash transactions
  - B. To summarise monthly expenses
  - C. To document small cash expenses
  - D. To reconcile bank statements
- (2 marks)
12. Which of the following is a disadvantage of computerised accounting system compared to a manual accounting system?
- A. Increased likelihood of human error
  - B. Difficulty in accessing historical data
  - C. Time-consuming calculations
  - D. Higher initial setup and maintenance costs
- (2 marks)

**Use the information below to answer Questions 13 to Question 15:**

The following information was extracted from the books of single city Ltd. for the year ended 31 May 2024:

|                                       | Sh. "000" |
|---------------------------------------|-----------|
| Profit before tax and interest        | 10,600    |
| Ordinary share of Sh. 10 fully paid   | 6,000     |
| Retained profit 1 June 2023           | 620       |
| 12% debenture                         | 2,500     |
| Dividends for the year Sh.5 per share |           |
| Corporation tax rate 30%              |           |

13. Calculate total interest paid.  
 A. Sh.1,272,000  
 B. Sh.74,400  
 C. Sh.72,000  
 D. Sh.1,263,000 (2 marks)
14. Calculate corporation tax payable for the year.  
 A. Sh.1,600,000  
 B. Sh.4,210,000  
 C. Sh.3,000,000  
 D. Sh.3,157,680 (2 marks)
15. Calculate the retained profit as at 31 May 2024.  
 A. Sh. 7,210,000  
 B. Sh. 1,620,000  
 C. Sh. 4,987,920  
 D. Sh. 4,700,000 (2 marks)
16. Which of the following is not included in the sales ledger control account?  
 A. Cash receipts from debtors  
 B. Bad debts written off  
 C. Provisions for doubtful debts  
 D. Cheque payments from debtors (2 marks)
17. Which of the following items on a bank reconciliation statement would require an adjusting entry on the company cashbook?  
 A. Bank charges  
 B. Uncredited cheques  
 C. Unpresented cheques  
 D. Bank errors (2 marks)
18. Kenton Omondi the sole trader of Blue-Sky Enterprises took goods costing Sh.70,000 for his own use. What is the proper journal entry for this transaction?  
 A. Debit Drawings, Credit Cash  
 B. Debit Drawings, Credit Purchases  
 C. Debit Capital, Credit Drawing  
 D. Debit Capital, Credit Purchases (2 marks)
19. Which of the following is a capital expenditure?  
 A. Salaries for work shop staff  
 B. Stamp duty for purchase of land  
 C. Software annual renewal fees  
 D. Legal fees for debt collection (2 marks)

**Use the following information to answer Question 20 to Question 22:**

The following trial balance was obtained from the books of Pamoja Traders for the year ended 30 June 2024:

**Pamoja Traders Trial Balance as at 30 June 2024**

|                         | Sh."000"     | Sh."000"     |
|-------------------------|--------------|--------------|
| Capital                 |              | 1,098        |
| Inventory (1 July 2023) | 900          |              |
| Purchases               | 5,200        |              |
| Sales                   |              | 6,200        |
| Office furniture        | 200          |              |
| Trade receivables       | 800          |              |
| Carriage inwards        | 50           |              |
| Carriage outwards       | 52           |              |
| Administrative expenses | 266          |              |
| Commission received     |              | 26           |
| Discount allowed        | 4            |              |
| Bad debts written off   | 32           |              |
| Trade payables          |              | 400          |
| Bank balance            | <u>220</u>   |              |
|                         | <u>7,724</u> | <u>7,724</u> |

Inventory as at 30 June 2024 was Sh.1,060,000 and allowance for doubtful debts is to be provided at the rate 5% of trade receivables balances.

20. Calculate the cost of sales.  
 A. Sh.5,092,000  
 B. Sh.5,040,000  
 C. Sh.5,200,000  
 D. Sh.5,090,000 (2 marks)
21. Calculate the allowance for doubtful debts.  
 A. Sh.40,000  
 B. Sh.38,400  
 C. Sh.42,000  
 D. Sh.20,000 (2 marks)
22. Calculate the net profit or loss.  
 A. Sh.768,000  
 B. Sh.582,000  
 C. Sh.884,000  
 D. Sh.720,000 (2 marks)
23. Which of the following is a nominal account?  
 A. Trade receivable account  
 B. Fixed capital account  
 C. Rent receivable account  
 D. Motor vehicle account (2 marks)

**Use the following information to answer Question 24 to Question 26:**

Heshima Traders operate as a sole trader and maintains a petty cash book on imprest system. The monthly imprest amount is Sh.50,000. The following expenses were incurred in the month of May 2024:

| May | 2024                               | Sh.    |
|-----|------------------------------------|--------|
|     | 1. Petty cash at hand              | 5,450  |
|     | 2. Cash reimbursed                 | ?      |
|     | 3. Paid wages                      | 14,000 |
|     | 4. Payment for postage             | 2,500  |
|     | 13. Paid wages                     | 4,000  |
|     | 17. Purchased stationery           | 4,200  |
|     | 20. Paid wages                     | 12,700 |
|     | 28. Purchased envelopes and stamps | 2,100  |

The petty cashier is reimbursed the amount spent at the end of the month or when the balance falls below Sh.50,000.

24. Calculate the amount reimbursed at the end of the month of May 2024.  
 A. Sh.5,450  
 B. Sh. 44,550  
 C. Sh.49,500  
 D. Sh.50,000 (2 marks)
25. What is the total postage expense that will be reported in the statement of profit or loss?  
 A. Sh.6,600  
 B. Sh.2,100  
 C. Sh.2,500  
 D. Sh.4,600 (2 marks)
26. What is the amount of wages expense that will be reported in statement of profit or loss?  
 A. Sh.14,000  
 B. Sh.12,700  
 C. Sh.30,700  
 D. Sh.28,000 (2 marks)

27. Kale Traders had the following transactions for April 2024:
- (i) Sold goods to Josta Traders on credit worth Sh.600,000
  - (ii) Sold good to Anex Trader's goods worth Sh.300,000 and was given 10 % trade discount
  - (iii) Bought from True Trader's goods worth Sh.400,000 less 4% trade discount and from Jack goods worth Sh.320,000 after 5% trade discount
  - (iv) Made cash sales to Respect traders worth Sh.400,000

Calculate the total credit sales for the month of April 2024.

- A. Sh.400,000
  - B. Sh.870,000
  - C. Sh.600,000
  - D. Sh.1,254,000 (2 marks)
28. In which book of prime entry are the invoices issued by a trader recorded?
- A. Purchases journal
  - B. Purchases returns journal
  - C. Sales journal
  - D. Sales return journal (2 marks)
29. A motor vehicle is purchased at a cost of Sh.5,000,000 with a down payment of Sh.1,000,000. How will this affect the non-current assets and liabilities in the statement of financial position?
- A. Assets increased by Sh.4,000,000 and liabilities increased by Sh.4,000,000
  - B. Assets increased by Sh.5,000,000 and liabilities increased by Sh.4,000,000
  - C. Assets decreased by Sh.4,000,000 and liabilities increased by Sh.4,000,000
  - D. Assets increased by Sh.4,000,000 and liabilities decreased by Sh.4,000,000 (2 marks)

Use the following table to answer Question 30 to Question 32:

|       | Capital<br>Sh. | Assets<br>Sh. | Liabilities<br>Sh. |
|-------|----------------|---------------|--------------------|
| (i)   | 4,000,000      | X             | 1,800,000          |
| (ii)  | Y              | 7,100,000     | 2,900,000          |
| (iii) | 2,001,000      | 3,200,000     | Z                  |

30. What is the value of X?
- A. Sh.5,800,000
  - B. Sh.2,200,000
  - C. Sh.5,000,000
  - D. Sh.2,000,000 (2 marks)
31. What is the value of Y?
- A. Sh.4,200,000
  - B. Sh.10,000,000
  - C. Sh.4,200,000
  - D. Sh.5,300,000 (2 marks)
32. What is the value of Z?
- A. Sh.3,801,000
  - B. Sh.4,901,000
  - C. Sh.1,199,000
  - D. Sh.5,201,000 (2 marks)
33. A proprietor withdrew money from the business bank account for personal use. What is the double entry?
- A. Debit bank account, credit drawings account
  - B. Debit drawings account, credit bank account
  - C. Debit capital account, credit bank account
  - D. Debit capital account, credit drawings account (2 marks)

**Use the following information to answer Question 34 to Question 35:**

The following expenditures were made by Alpha Limited during the year ended 31 March 2024:

|                        | Sh.     |
|------------------------|---------|
| Premises repairs       | 54,600  |
| Purchases of furniture | 195,000 |
| Purchases of goods     | 364,000 |

34. Determine the total capital expenditure.

- A. Sh.195,000
- B. Sh.249,600
- C. Sh.418,600
- D. Sh.613,600

(2 marks)

35. Determine total revenue expenditure.

- A. Sh.418,600
- B. Sh.364,000
- C. Sh.249,600
- D. Sh.613,600

(2 marks)

**Use the following information to answer Question 36 to Question 38:**

- |       | Item              |
|-------|-------------------|
| (i)   | Credit sales      |
| (ii)  | Returns outwards  |
| (iii) | Discount received |

36. In which control account is item (i) above recorded.

- A. Sales ledger control account
- B. Trade receivable account
- C. Purchases ledger control account
- D. Trade payables account

(2 marks)

37. In which control account is item (ii) above recorded.

- A. Sales ledger control account
- B. Returns outward account
- C. Purchases ledger control account
- D. Trade payables account

(2 marks)

38. In which control account is item (iii) above recorded.

- A. Sales ledger control account
- B. Purchases ledger control account
- C. Returns outward account
- D. Discount received account

(2 marks)

39. On 1 January 2023, the capital of Jamii Traders was Sh.1,200,000. On December 2023, the capital was Sh.870,000. What could have caused the change in capital?

- A. A lot of money might be at the bank
- B. The business might have made heavy loss
- C. The book keeper might have stolen money
- D. Business money might have been misplaced

(2 marks)

**Use the following information to answer Question 40 to Question 43:**

On 1 March 2014, Bara Traders had Sh.27,500 cash in hand and Sh.160,000 cash at bank. The following transactions took place during the month:

March 2. Cash sale Sh.18,000

9. Paid Zed traders a cheque of Sh.19,000 after deducting a discount of Sh.1,000

12. Paid insurance by cheque Sh. 7,500

15. Received a cheque of Sh.40,500 from Tembo traders after deducting Sh.4,500 cash discount

22. Bought stationery in cash Sh.900

25. Received a cheque of Sh.34,200 from Polo retailers after deducting Sh.1,800 cash discount

31. Proprietors withdrew Sh.3,400 in cash from the firm and used it to pay his house rent

40. Calculate the balance at bank.

- A. Sh.181,500
- B. Sh.200,500
- C. Sh.160,000
- D. Sh.208,200

(2 marks)

41. Calculate the balance in hand.

- A. Sh.27,500
- B. Sh.41,200
- C. Sh.78,800
- D. Sh.79,700

(2 marks)

42. Calculate the total discount received.

- A. Sh.2,800
- B. Sh.6,300
- C. Sh.1,000
- D. Sh.8,100

(2 marks)

43. Calculate the total discount allowed.

- A. Sh.2,800
- B. Sh.1,000
- C. Sh.8,100
- D. Sh.6,300

(2 marks)

44. Explain the term “accounting concepts”.

- A. These are terms used by a business entity to interpret its financial statement
- B. These are accounting methods used to present accounts so that they can be understood
- C. These are accounting rules used in business to record its financial transactions and organise its bookkeeping
- D. These are ideas, assumptions and conditions based on which a business entity records its financial transactions and organises its bookkeeping

(2 marks)

45. When the trial balance fails to balance the balancing figure is called?

- A. Balance brought forward
- B. Balance carried down
- C. Suspense balance
- D. Profit and loss

(2 marks)

46. Who among the following is an external user of accounting information?

- A. Managers
- B. Directors
- C. Employees
- D. Government

(2 marks)

47. 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

(2 marks)

48. When a statement of profit or loss is prepared, the bad debts recovered during the financial year are treated as:
- A. An income to the business
  - B. As an asset to the business
  - C. As an expense to the business
  - D. As liabilities to the business
- (2 marks)
49. The following are objectives of financial accounting, **EXCEPT** \_\_\_\_\_.
- A. to ascertain profit or loss made by the business
  - B. to prepare memorandum of association
  - C. to act as a tool of control of business operations
  - D. to prepare the statement of financial position
- (2 marks)
50. Which one of the following accounting books is a book of original entry?
- A. Salaries and wages journal
  - B. Purchase journal
  - C. Starting trial balance
  - D. Income statement
- (2 marks)
- .....

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**CAMS LEVEL II**

**FOUNDATIONS OF ACCOUNTING**

**WEDNESDAY: 24 April 2024. 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. Double entry accounting system is defined as \_\_\_\_\_.  
A. An accounting system which is useful for both small and large businesses  
B. Accounting system which involves all the two interested with accounting information  
C. An Accounting system in which transactions are recorded with single aspect  
D. An Accounting system in which business transactions are recorded with dual aspects (2 marks)
2. The liabilities of partners in a Partnership business are \_\_\_\_\_.  
A. Unlimited  
B. Equal  
C. Limited  
D. Unequal (2 marks)
3. Kaka Limited's income statement for the year ended 31 December 2023 showed a net profit of Sh.3,000,000. During the year, the company had paid preference dividends amounting to Sh.1,000,000 and ordinary dividend of Sh.1,500,000. Sh.200,000 was transferred to the general reserves. At the start of the year, retained profit amounted to Sh.1,830,000.  
  
Ignoring taxation, calculate the amount of retained profit carried forward to the year 2024.  
A. Sh.300,000  
B. Sh.2,130,000  
C. Sh.(2,130,000)  
D. Sh.(300,000) (2 marks)
4. The cash book of Bendu Ltd. shows an overdraft of Sh.2,000,000. Compute the balance after depositing Sh.10,000,000 cash and paying Sh.72,000 for rent by cheque.  
A. Sh.4,800,000 (Dr)  
B. Sh.4,800,000 (Cr)  
C. Sh.800,000 (Dr)  
D. Sh.800,000 (Cr) (2 marks)
5. Accrual basis of accounting system is based on \_\_\_\_\_.  
A. Materiality concept  
B. Cost concept  
C. Matching concept  
D. Continuity concept (2 marks)

6. On 1 April 2022, Clinton Wambua purchased furniture and fittings at a cost of Sh.500,000. On 1 October 2022 he purchased additional furniture and fittings at a cost of Sh.200,000. He provides depreciation at the rate 10% per annum on cost of the furniture and fittings on pro rata basis. Calculate the accumulated depreciation for the period ending 31 March 2023.
- Sh.70,000
  - Sh.60,000
  - Sh.50,000
  - Sh.20,000
- (2 marks)
7. A machine is purchased for Sh.1,000,000. The residual value at the end of its expected useful life of 4 years is estimated at Sh.400,000. Calculate the amount of depreciation to be charged in the income statement every year.
- Sh.150,000
  - Sh.100,000
  - Sh.80,000
  - Sh.90,000
- (2 marks)
8. How should this transaction be recorded in the books of account? Purchase of a motor vehicle from Toy Automotive Company for use in business.
- Dr. Maintenance of vehicle expense Cr. Toy Automotive Company
  - Dr. Purchases Cr. Toy Automotive Company
  - Dr. Motor vehicle Cr. Toy Automotive Company
  - Dr. Motor vehicle Cr. Cash
- (2 marks)

The following is a Motor vehicle account of Tembo secondary school:

| Motor vehicle account |              |             |              |
|-----------------------|--------------|-------------|--------------|
|                       | Sh."000"     |             | Sh."000"     |
| Balance b/d           | 2,000        | Disposal    | 1,500        |
| Bank                  | <u>2,000</u> | Balance c/d | <u>???</u>   |
|                       | <u>4,000</u> |             | <u>4,000</u> |

9. Calculate the balance carried down.
- Sh.1,500,000
  - Sh.4,000,000
  - Sh.2,500,000
  - Sh.2,000,000
- (2 marks)
10. Morgan Ltd.'s accounts payable as at 1 January 2023 was Sh.2,500,000 and Sh.4,200,000 as at 31 December 2023 respectively. During the year, the company paid Sh.32,000,000 to creditors. Calculate the credit purchases for the year 2023.
- Sh.30,300,000
  - Sh.33,700,000
  - Sh.31,600,000
  - Sh.38,700,000
- (2 marks)
11. Calculate net profit or loss given: Opening capital of Sh.10,650,000, closing capital Sh.11,350,000 and drawings of Sh.3,300,000.
- Loss of Sh.4,000,000
  - Profit of Sh.4,000,000
  - Loss of Sh.7,300,000
  - Profit of Sh.7,300,000
- (2 marks)
12. When the financial statements are prepared, the bad debts written off are recorded in \_\_\_\_\_.
- The statement of financial position
  - Statement of profit or loss
  - The trading account
  - Allowance for doubtful debts
- (2 marks)

13. How is discount allowed recorded in the ledger account?  
 A. Dr Trade receivable Cr Discount allowed  
 B. Dr Trade receivable Cr Discount received  
 C. Dr Discount received Cr Trade receivables  
 D. Dr Discount allowed Cr Trade receivables (2 marks)
14. Explain the term “depreciation”.  
 A. It is the estimated loss of value in non-current assets  
 B. It is the amount of money a business earns non-current assets  
 C. It is the amount of money set aside from non-current assets  
 D. It is the money received when non-current assets are revalued (2 marks)

Use the information below to answer question 15 and question 16.

The following income statement was obtained from the books of Onesmus Wambari for the year ended 31 December 2023.

| Onesmus Wambari                                      |                |                |
|------------------------------------------------------|----------------|----------------|
| Income statement for the year ended 31 December 2023 |                |                |
|                                                      | Sh. “000”      | Sh. “000”      |
| Sales                                                |                | 38,500         |
| Less cost of sales:                                  |                |                |
| Opening inventory                                    | 1,800          |                |
| Purchases                                            | XXX            |                |
| Less closing inventories                             | <u>(3,000)</u> | <u>(XXX)</u>   |
| Gross profit                                         |                | XXX            |
| Less expenses:                                       |                |                |
| Rent                                                 | 2,400          |                |
| Wages and salaries                                   | 1,500          |                |
| Lighting                                             | 600            |                |
| Depreciation                                         | <u>300</u>     | <u>(4,800)</u> |
|                                                      |                | <u>7,700</u>   |

15. Calculate the cost of purchases.  
 A. Sh.27,200,000  
 B. Sh.32,000,000  
 C. Sh.29,000,000  
 D. Sh.26,000,000 (2 marks)
16. Calculate the gross profit.  
 A. Sh.2,900,000  
 B. Sh.7,700,000  
 C. Sh.12,500,000  
 D. Sh.14,300,000 (2 marks)
17. What are reserves?  
 A. Amount set aside to be distributed as dividends by the company  
 B. Amount set aside from profit to cater for debtors who fail to pay  
 C. Amount set aside from profit to revalue non-current assets  
 D. Amount set aside from profits to retain non-current assets (2 marks)
18. A petty cashier has an imprest of Sh.260,000. He is reimbursed the amount spent by him. He submits details of expenses of Sh.189,800. He has an unpaid voucher of Sh.3,200. How much will be reimbursed at the start of the next period?  
 A. Sh.260,000  
 B. Sh.70,200  
 C. Sh.254,000  
 D. Sh.189,800 (2 marks)

19. What is a bank reconciliation statement?
- A. It is prepared by the bank to reconcile the overdrawn amount at the end of the period
  - B. It is prepared to reconcile cash book balance with the bank statement balance
  - C. It is prepared to reconcile the cash book balance at the end of the financial period
  - D. It is prepared by the bank in order to reconcile errors committed in the cash book
- (2 marks)
20. Which of the following is an error affecting the trial balance?
- A. Errors of omission
  - B. Errors of casting
  - C. Compensating errors
  - D. Error of principal
- (2 marks)

**Use the following information to answer questions 21 and 22.**

Antony, Benson and Charles formed a partnership by contributing capital amounting to Sh.1,500,000, Sh.1,000,000 and Sh.800,000 respectively. Benson was to earn a salary of Sh.35,000 per month. Interest on capital was agreed at the rate of 10% per year. During the year ended 30 September 2023, the partnership made a profit of Sh.1,200,000.

21. Calculate the total interest on capital paid.
- A. Sh.330,000
  - B. Sh.250,000
  - C. Sh.230,000
  - D. Sh.180,000
- (2 marks)
22. Calculate the total amount of profit or loss shared among partners.
- A. Sh.420,000
  - B. Sh.450,000
  - C. Sh.1,200,000
  - D. Sh.870,000
- (2 marks)
23. The following are internal users of accounting information **EXCEPT** \_\_\_\_\_.
- A. Managers
  - B. Directors
  - C. Employees
  - D. Government
- (2 marks)
24. Tom Kaindi, a debtor, paid Sh.40,000 in cash. The cashier debited Tom Kaindi's account and credited cash account. Pass the necessary journal entry to correct the error.
- A. Debit cashbook Sh.80,000 and credit Tom account Sh.80,000
  - B. Debit cashbook Sh.40,000 and credit Tom account Sh.40,000
  - C. Credit cashbook Sh.80,000 and debit Tom account Sh.80,000
  - D. Credit cashbook Sh.40,000 and debit Tom account Sh.40,000
- (2 marks)
25. Why is the going concern principle important in financial reporting?
- A. It allows companies to avoid paying taxes
  - B. It ensures that financial statements reflect the company's true financial position
  - C. It helps companies obtain loans from banks
  - D. It is required by law for all businesses
- (2 marks)
26. What is the primary purpose of the statement of changes in equity in financial reporting?
- A. To detail the company's cash flows
  - B. To provide a summary of the company's assets and liabilities
  - C. To show how the company's equity has changed over a specific period
  - D. To disclose information about a company's major customers
- (2 marks)
27. What is the primary purpose of a suspense account in accounting?
- A. To record revenue and expenses of the business in the year
  - B. To temporarily hold uncertain or mismatched transactions
  - C. To calculate depreciation on non-current assets held
  - D. To track non-current assets not recorded in the books
- (2 marks)

28. How does a cash book differ from a general ledger in accounting?
- A cash book is used for budgeting purposes, while a general ledger is used for financial reporting
  - A cash book records only cash transactions, while a general ledger records all financial transactions including cash and bank
  - A cash book is a subsidiary ledger, while a general ledger is the primary accounting record
  - A cash book is used exclusively by small businesses, while a general ledger is used by larger corporations
- (2 marks)
29. When partners contribute assets to a partnership, how is the value of these assets normally recorded in the partnership's books?
- At their fair market value
  - At their original cost
  - At their net book value
  - At the agreed value
- (2 marks)
30. Which one of the following is **NOT** an intangible asset?
- Patent
  - Software
  - Intellectual property
  - Production machinery
- (2 marks)

**Use the information below to answer questions 31, 32 and 33.**

The following information was extracted from the books of Moonlight Ltd. for the year ended 31 October 2023:

|                                               | Sh.       |
|-----------------------------------------------|-----------|
| Profit before tax and director's emolument    | 8,000,000 |
| 500,000 ordinary shares of Sh. 10 fully paid. | 5,000,000 |
| Retained profit as at 1 November 2023         | 240,000   |
| Directors emolument                           | 200,000   |
| Dividends for the year 20%                    |           |
| Corporation tax rate 30%                      |           |

31. Calculate total dividends.
- Sh.1,600,000
  - Sh.1,000,000
  - Sh.2,340,000
  - Sh.4,700,000
- (2 marks)
32. Calculate the corporation tax payable for the year.
- Sh.1,600,000
  - Sh.1,000,000
  - Sh.2,340,000
  - Sh.4,700,000
- (2 marks)
33. Calculate the retained profit as at 31 October 2023.
- Sh.1,600,000
  - Sh.1,000,000
  - Sh.2,340,000
  - Sh.4,460,000
- (2 marks)
34. Kawira Mainigi started a business on 1 June 2023 and at 30 September 2023 the business had the following:
- |                     | Sh.       |
|---------------------|-----------|
| • Machinery         | 2,000,000 |
| • Cash in hand      | 25,000    |
| • Land and Premises | 800,000   |
| • Bank loan         | 850,000   |
| • Trade payable     | 45,000    |
| • Accrued salaries  | 55,000    |

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Calculate Kawira Maingi's capital as at 30 September 2023.

- A. Sh.2,825,000
  - B. Sh.3,960,000
  - C. Sh.1,875,000
  - D. Sh.3,140,000
- (2 marks)

35. Which of the following statements describe double entry system of accounting?
- A. Every transaction posted in ledgers should have a debit and a corresponding credit entry
  - B. When assets increase the respective assets account should be credited with the increase
  - C. When liabilities decrease the respective liabilities account should be debited with the increase
  - D. Transaction posted in ledgers should only be on cash basis
- (2 marks)
36. Which of the following documents is **NOT** used for making payments?
- A. Bank deposit slip
  - B. Receipt
  - C. Invoice
  - D. Cheque
- (2 marks)
37. When the trial balance fails to balance, the balancing figure is called \_\_\_\_\_.
- A. Balance brought forward
  - B. Balance carried down
  - C. Suspense balance
  - D. Profit and loss
- (2 marks)
38. Which one of the following transactions describes the error of principle?
- 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 not recorded in the cash book and also in the asset account
- (2 marks)
39. Which of the following is an objective of financial accounting?
- A. To maintain accounts of a business
  - B. Systematic record the financial transactions of an organisation in the books of account
  - C. To provide transactions of the business
  - D. To prepare information for the auditors
- (2 marks)
40. Which of the following is a real account?
- A. Machinery accounts
  - B. Purchases account
  - C. Salaries account
  - D. Mr. Omondi account
- (2 marks)
41. The sales daybook is 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)
42. A credit balance of Sh.50,000 on bank columns of the cash book means \_\_\_\_\_.
- A. The bank is overdrawn by Sh.50,000
  - B. There is money amounting to Sh.50,000 in bank
  - C. There is an error in the cash book
  - D. Money was stolen in the business
- (2 marks)
43. A firm has purchased a motor vehicle for Sh.2,500,000. It is to be depreciated at a rate of 20% per annum on reducing balance method. What would be the net book value of the asset after 3 years?
- A. Sh.1,280,000
  - B. Sh.1,600,000
  - C. Sh.2,000,000
  - D. Sh.1,000,000
- (2 marks)

44. Why do organisations make provisions for bad and doubtful debts?  
A. To write off bad debts not recovered  
B. When debtors become untraceable  
C. To provide for possible bad debts  
D. When debtors become bankrupt (2 marks)
45. \_\_\_\_\_ is not recorded in the receipt and payment account.  
A. Depreciation  
B. Life membership fee  
C. Accrued subscription  
D. Outstanding salaries (2 marks)
46. The opening balance of the accounts receivable as at 1 January 2023 was Sh.2,500,000. Accounts receivable balance as at 31 December 2023 was Sh.4,000,000 while receipts from credit customers was Sh.14,000,000. Calculate credit sales for the year.  
A. Sh.16,500,000  
B. Sh.14,000,000  
C. Sh.15,500,000  
D. Sh.18,000,000 (2 marks)
47. Which of the following is **NOT** contained in the partnership deed?  
A. Profit sharing ratio  
B. Interest allowed on capital account balances  
C. Capital contributed by each partner  
D. Cash flow statement (2 marks)
48. Why do organisations prepare statements of profit or loss?  
A. To show financial position of the business  
B. To show the performance of the business  
C. To show cash coming in and out of the business  
D. To show liquidity position of the business (2 marks)
49. \_\_\_\_\_ is a cheque that a company has written, but the cheque has not yet been paid by the bank on which it is drawn.  
A. Direct banking by creditors  
B. An uncredited cheque  
C. A credit transfer by bank  
D. An un-presented cheque (2 marks)
50. During the year ended 31 December 2022, Omega Ltd.'s trade receivables amounted to Sh.3,450,000 and in the year ended 31 December 2023 trade receivable amounted to Sh.2,850,000. The firm to provide allowance for doubtful debt of 5% of the trade receivable of the year. Calculate the amount of allowance for doubtful debt to be charged in the income statement.  
A. Decrease of Sh.30,000  
B. Increase of Sh.30,000  
C. Increase of Sh.172,500  
D. Increase of Sh.142,500 (2 marks)
- .....

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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?
- Sh.720,000
  - Sh.684,000
  - Sh.680,000
  - Sh.800,000
- (2 marks)
8. Which of the following is a reason for providing accounting information to external users?
- Decision-making in the organisation according to the performance
  - Evaluating employee performance so that they can be motivated
  - Complying with tax and penalties regulations as per the laws
  - Assessing the company's financial health for investment decisions
- (2 marks)
9. Why are books of prime entry important?
- They are used to create financial statements
  - They simplify the recording of numerous transactions
  - They are only required for tax purposes.
  - They help with budgeting and forecasting
- (2 marks)
10. Which of the following statements is **TRUE** about a partnership?
- Partners have limited liability in the business
  - Partnerships are separate legal entities from business
  - Partners' personal assets are at risk for partnership debts
  - 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.
- Sh.4,800,000
  - Sh.3,600,000
  - Sh.2,400,000
  - 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.
- Sh.2,160,000
  - Sh.3,072,000
  - Sh.2,400,000
  - Sh.2,928,000
- (2 marks)
13. Calculate gain or loss on disposal if the machine was disposed on the 1<sup>st</sup> day of the third year for Sh. 3,000,000 and depreciation was provided at straight line method full year policy.
- Sh.600,000 profit
  - Sh.600,000 loss
  - Sh.2,400,000 profit
  - 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.
- Sh.277,800
  - Sh.236,800
  - Sh.213,200
  - Sh.252,300
- (2 marks)

15. The purpose of day books is to \_\_\_\_\_.  
 A. Speed up the location of errors  
 B. Provides a check on ledger postings  
 C. Summarise entries of a similar type  
 D. Provides totals for control accounts (2 marks)
16. 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 (2 marks)
17. The purpose of a bank reconciliation statement is to \_\_\_\_\_.  
 A. Ensures cash book (bank columns) and the bank Statement show the same balance  
 B. Explains the difference between the cash book balance and the bank statement  
 C. Ascertains the correct balance at the bank and in the cash book  
 D. 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?  
 A. Sh.20,000  
 B. Sh.80,000  
 C. Sh.100,000  
 D. 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  
 A. Dr. Motor vehicle expense Cr. Toy Automotive  
 B. Dr. Purchases account Cr. Toy Automotive Company  
 C. Dr. Motor vehicle Cr. Toy Automotive Company  
 D. 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?  
 A. Debit Sh.510,000  
 B. Debit Sh.370,000  
 C. Credit Sh.370,000  
 D. 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?  
 A. Debit side of trail balance will exceed by Sh.4,000  
 B. Debit side of trail balance will decrease by Sh.2,000  
 C. Credit side of trail balance will decrease by Sh.2,000  
 D. 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?  
 A. Sh.52,000  
 B. Sh.45,800  
 C. Sh.55,100  
 D. 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?
- Sh.1,430,000
  - Sh.1,250,000
  - Sh.1,220,000
  - 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?
- |                     | <b>DR</b>  |                   | <b>CR</b>  |
|---------------------|------------|-------------------|------------|
|                     | <b>Sh.</b> |                   | <b>Sh.</b> |
| 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.
- Items bought
  - Goods bought on time
  - Goods bought for resale
  - Goods paid for
- (2 marks)
35. Prepaid expenses are shown as an asset due to:
- Money measurement concept
  - Business entity concept
  - Going concern concept
  - Matching concept
- (2 marks)
36. What is the effect of recording purchases of motor vehicle for Sh.6,000,000 as motor vehicle expenses?
- Net profit only would be understated
  - Net profit only would be overstated
  - It would not affect the net profit
  - Both gross profit and net profit would be understated
- (2 marks)
37. Define the term revenue as used in accounting.
- Increase in value of assets
  - Money a company earns from the sale of its products and services
  - The total money received from the customers
  - 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.?
- Sh.1100,000
  - Sh.1,150,000
  - Sh.1,135,000
  - Sh.1,500,000
- (2 marks)
39. Shares which are held by the owners of the company are known as \_\_\_\_\_.
- Preference shares
  - Ordinary shares
  - Share premium
  - Issued shares
- (2 marks)
40. Credit sales are recorded in which book of original entry?
- Trading account
  - Credit sales
  - Sales account
  - Sales journal
- (2 marks)

41. Why would a person encourage a business to embrace technology in keeping accounts?
- A. There is excess money
  - B. There is competition
  - C. There is power supply
  - D. 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.
- A. Sh.777,200
  - B. Sh.613,340
  - C. Sh.619,590
  - D. Sh.652,200
- (2 marks)
44. Define the terms accounts payable.
- A. Money owed by a company to its creditor
  - B. These are those people who are owed money by the business
  - C. These are those people who buy goods from the business
  - D. 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.
- A. Sh.12,975
  - B. Sh.12,945
  - C. Sh.13,605
  - D. Sh.12,465
- (2 marks)
46. Calculate the balance as per the bank statement.
- A. Sh.14,025
  - B. Sh.13,185
  - C. Sh.13,605
  - D. 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.
- A. Sh.467,600
  - B. Sh.366,800
  - C. Sh.425,600
  - D. 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. Assets = Capital + Liabilities  
B. Assets = Capital – Liabilities  
C. Capital = Assets + Liabilities  
D. Assets = Liabilities – 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 of 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.  
 A. It is a book that records prime entries  
 B. It is a book that checks the arithmetic accuracy of accounts  
 C. It is a book that corrects errors  
 D. 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**?  
 A. Cheques from customers recorded in the cash book but not credited  
 B. The bank has paid as per the standing orders  
 C. Cheques recorded in the cash book but returned by the bank  
 D. Cheques paid to suppliers but not presented to the bank (2 marks)
9. Define the term reserve.  
 A. Appropriation of profit made for general or specific purpose  
 B. Appropriation of profit shared among owners  
 C. Appropriation to increase the dividends  
 D. Appropriation to replace non-current assets (2 marks)
10. Which of the following statement is **TRUE** about depreciation?  
 A. The method fails to take into consideration the efficiency of the asset which declines as it gets old  
 B. It does not reduce the non-current asset to its residual value  
 C. The combined effects of depreciation is most felt in later years  
 D. 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.  
 A. Salary to partners  
 B. Drawings  
 C. Interest on drawings  
 D. Commission to partners (2 marks)
12. Interest on partners' capital can be defined as:  
 A. Amount given to partners depending on the amount of money each has in the business  
 B. Amount given to partners equally  
 C. Amount given to partners to compensate them for using their money in business  
 D. 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?  
 A. To control petty cashier and petty cash  
 B. To record expenses  
 C. To show the totals of all business expenses  
 D. 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?  
 A. To close the account  
 B. To balance the account  
 C. To get the balancing figure  
 D. 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?
- A. They are cheap
  - B. They readily available
  - C. They are less risky
  - D. 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.
- A. Sh.8,400,000
  - B. Sh.12,000,000
  - C. Sh.3,600,000
  - D. 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.
- A. Sh.13,728
  - B. Sh.17,719
  - C. Sh.22,204
  - D. Sh.9,243
- (2 marks)
35. The source document issued by the supplier to a company for goods returned is referred to as \_\_\_\_\_.
- A. Invoice
  - B. Debit note
  - C. Credit note
  - D. 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:

1. Profit and loss sharing ratio 3:2:1
2. Baggy was entitled to a salary of Sh.5,000 per month
3. Interest on capital at the rate of 5%
4. 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
- A. Sh.120,660
  - B. Sh.114,660
  - C. Sh.144,660
  - D. Sh.54,660
- (2 marks)
37. Calculate the profit shared to each partner
- A. Ancestor Sh.72,330, Baggy Sh.48,220 and Chotara Sh.24,110
  - B. Ancestor Sh.27,330, Baggy Sh.18,220 and Chotara Sh.9,110
  - C. Ancestor Sh.60,330, Baggy Sh.40,220 and Chotara Sh.20,110
  - D. 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?
- A. Unrecorded trade payables
  - B. Cash paid to a creditor and its correctly entered in the cash book
  - C. A liability paid recorded in the credit side of the cash book and credited in the loan account.
  - D. 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)
- .....



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

|                                      | <b>DR</b>      | <b>CR</b>      |
|--------------------------------------|----------------|----------------|
|                                      | <b>Sh. 000</b> | <b>Sh. 000</b> |
| 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:**

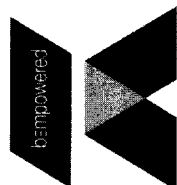
(a) Adjusted cash book balance. (12 marks)

(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**

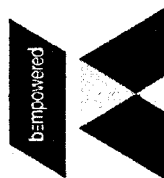
(a) Discuss five purposes that internal audit function serves in an organisation.

(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, Zuen 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)
- (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            | 116,000          |                  |
|                         | <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)**
- .....



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)**

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

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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**kasneb**

**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 Rogers 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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kasneb

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                   | 12,810         |                |
|                                      | <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                        |                         |                | Credit     |                 |                |
| March 2021                   |                         | Sh.            | March 2021 |                 | Sh.            |
| 1                            | Balance brought forward | 30,000         | 6          | Wages           | 15,000         |
| 4                            | M. Ngure                | 8,000          | 6          | A. Kubai        | 29,450         |
| 6                            | Nyungu Co. Ltd.         | 5,000          | 7          | Petty cash      | 2,000          |
| 6                            | Malinyingi Ltd.         | 10,500         | 11         | M. Mbaabu       | 17,000         |
| 10                           | Joyce Kamene            | 8,750          | 18         | Nazalia Njoki   | 24,000         |
| 18                           | Pamela Taibu            | 48,550         | 20         | Joseph Makinya  | 11,900         |
| 24                           | Jane Naitiri            | 21,400         | 23         | Kunguni Traders | 46,440         |
| 28                           | Sales                   | 50,000         | 29         | Purchases       | 25,000         |
| 30                           | Rent                    | 6,500          | 29         | P. Jahazi       | 42,100         |
| 31                           | Balance carried forward | 24,190         |            |                 |                |
|                              |                         | <u>212,890</u> |            |                 | <u>212,890</u> |

Bank statement for month of March 2021:

|    | Debit (Sh.)             | Credit (Sh.) | Balance (Sh.) |
|----|-------------------------|--------------|---------------|
| 1  | Balance carried forward |              | 17,250        |
| 4  | Cheque deposit          | 8,000        | 25,250        |
| 6  | Cheque deposit          | 5,000        | 30,250        |
| 6  | Cheque                  |              | 15,250        |
| 7  | Cash                    |              | 13,250        |
| 18 | Cheque deposit          | 48,550       | 61,800        |
| 19 | Cheque deposit          | 22,000       | 83,800        |
| 20 | Standing order          |              | 29,800        |
| 20 | Cheque                  |              | 17,900        |
| 25 | Charges                 |              | 8,480         |
| 27 | Dishonoured cheque      |              | 3,480         |
| 29 | Cheque                  |              | (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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