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CAMS LEVEL II

FOUNDATIONS OF ACCOUNTING AND AUDITING

MONDAY: 20 May 2019.

Time Allowed: 3 hours.

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

QUESTION ONE

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

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

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

Required:

Three column cash book.

(12 marks)

(Total: 20 marks)

QUESTION TWO

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

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

Required:

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

QUESTION THREE

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

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

Required:

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

QUESTION FOUR

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

Required:

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

QUESTION FIVE

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