

**KABARAK**



**UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2008/2009 ACADEMIC YEAR**

**FOR THE DEGREE OF BACHELOR OF EDUCATION**

**SCIENCE**

**COURSE CODE: ACCT 110**

**COURSE TITLE: FOUNDATION OF ACCOUNTING I**

**STREAM: SESSION I**

**DAY: MONDAY**

**TIME: 9.00 – 11.00 A.M.**

**DATE: 30/11/2009**

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**INSTRUCTIONS:**

- i.** The paper contains **FOUR** questions
- ii.** Answer **ALL** the questions
- iii.** All the contain **EQUAL** marks
- iv.** Marks are allocated at the end of each question

**PLEASE TURN OVER**

## **QUESTION ONE**

- a) The users of financial statements are those groups identified, as having reasonable right to the information and whose information needs should be recognized. Explain briefly why each of the following groups are interested in financial statements of a business enterprise:
- i. The shareholder (3 marks)
  - ii. The creditors (3 marks)
  - iii. The employees (3 marks)
  - iv. The government (3 marks)
  - v. The members of public (3 marks)
- b) Write explanatory notes on the following accounting concepts:
- i. Materiality (2 marks)
  - ii. Prudence (2 marks)
  - iii. Consistency (2 marks)
  - iv. Substance over form (2 marks)
- c) Explain clearly the difference between capital expenditure and revenue expenditure. (2 marks)

End of question one

**(Total: 25 marks)**

## **QUESTION TWO**

The following trial balance was extracted from the books of R. Nyandega on 30<sup>th</sup> April 2007

	Shs	Shs
Sales		128,200
Purchases	89,500	
Carriage inwards	1,600	
Carriage onwards	1,000	
Returns inwards	2,400	
Returns outwards		1,600
Wages and salaries	3,000	
Rent and rates	2,000	
Furniture and fittings	13,000	
Shop premises	50,000	
Debtors	10,500	
Creditors		12,800
Bank	10,400	
Cash	4,800	
Electricity and water	1,800	
Drawings	10,200	
Capital		43,100
Loan from Tom		23,000
Stock	6,000	
General expenses	2,500	
	208,700	208,700

**Additional information**

- (i) Stock on 30<sup>th</sup> April 2006 was Sh. 8,900
- (ii) Rent paid in advance amounted to Sh. 500
- (iii) Accrued electricity was Shs. 300
- (iv) Provide depreciation at the rate of 10% for furniture and fittings and shop premises

**Required**

Prepare the trading, profit and loss account for the year ended 30<sup>th</sup> April 2007 and Balance sheet as at that date.

End of question Two

(Total: 25 marks)

**QUESTION THREE**

Jane Mwihi opened a small business in Gikomba on 1<sup>st</sup> December 2007. Her transactions for the month of June were as follows;

- |          |    |   |
|----------|----|---|
| December | 2  | Opened bank account and deposited Sh.150, 000 and retained Sh.50, 000 in cash                               |
|          | 2  | paid rent in cash Sh.13,000   |
|          | 3  | Purchased goods for Sh.160,000 from Marwa and Co. on credit   |
|          | 4  | Sold goods for Sh.260,000 in cash   |
|          | 5  | Banked Sh.230,000   |
|          | 9  | Purchased some office furniture for Sh.150,000 and paid by cheque   |
|          | 11 | Purchased goods for Sh.130, 000 from Mwango Drapers and paid half the amount by cheque                      |
|          | 12 | Sold goods worth Sh.126,000 on credit to Mbaya Exporters<br>Hired transport for Sh.10, 000 and paid in cash |
|          | 13 | Mbaya Exporters returned goods worth Sh.16,000 and were given a credit note for the same                    |
|          | 15 | Received cheque of Sh.60,000 from Mbaya Exporters   |
|          | 19 | Purchased goods for Sh.19,000 on credit from S Omollo   |
|          | 21 | Sold goods of Sh.15, 000 on credit to BX Boutique   |
|          | 23 | Paid Marwa and Co. Sh.144, 000 in full settlement of the amount owed to them by cheque                      |
|          | 24 | Withdrew cash Sh.16,000 for personal use  |
|          | 26 | Bought goods for Sh.18, 000 and paid by cheque  |
|          | 27 | BX Boutique paid by cheque Sh.13,500 in full settlement   |
|          | 28 | Paid by cheque Mwango Drapers debt less 10% discount  |
|          | 29 | Paid salaries Sh.15,000 and water bill Sh.1,700 by cheque   |

**Required:**

Record the above transactions in a Three column cash book

End of question Three

(Total: 25 marks)

#### **QUESTION FOUR**

- a) Waverly products acquired a new mainframe computer system for \$ 50,000 on November 1 1991. The computer's estimated useful life is five years, at the end of which it is expected to have a scrap value of \$4,500. If the company's financial year ends on 31<sup>st</sup> March, and straight-line depreciation is applied on a time-apportioned basis, what is the depreciation charge on the computer in the profit and loss account for the year ended 31<sup>st</sup> March 1992?  
**(5marks)**
- b) What are journal entries in accounting? **(1mark)**
- c) State any three advantages of accounting journal entries **(3marks)**
- d) After planning for several months, Jackie decided to start her own hair cutting business called CUTLERY. During its first month (August 2008) of operation, the CUTLERY completed the following transactions:
- August:**
- 1: She put shs. 200,000 of her savings into bank account in the name of CUTLERY,
  - 2: She bought supplies for shs. 60,000 on cash,
  - 3: She paid shs. 15,000 rent for the month of August for a small store,
  - 5: She furnished the store installing new fixtures sold to her on credit by the supplier for shs. 120,000. This amount is to be repaid in 3 equal installments at the end of August, September and October,
  - 12: The CUTLERY was opened and in the first week of business ended August 16<sup>th</sup>, receipts from cash sales amounted to shs 8250,
  - 17: Jackie paid shs 2,500 to an assistant for working during the business grand opening,
  - 30: Receipts from cash sales during the two-week period ended August 30<sup>th</sup> amounted to shs 19,300,
  - 31: She paid the first installment on the fixtures,
  - 31: She withdrew shs 9,000 cash for her personal use.

#### **Required**

Record the above transaction in a general journal.

**(11marks)**

**End of question Four**

**(Total: 25 marks)**