

**KABARAK**



**UNIVERSITY**

**UNIVERSITY EXAMINATIONS  
2009/2010 ACADEMIC YEAR**

**FOR THE DEGREE OF BACHELOR OF  
COMMERCE**

**COURSE CODE: ACCT: 110**

**COURSE TITLE: FOUNDATIONS OF  
ACCOUNTING I**

**STREAM: Y1S1**

**DAY: WEDNESDAY**

**TIME: 2:00 – 14:00 P.M.**

**DATE: 24 /03/2010**

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**INSTRUCTIONS:**

1. This paper contains four questions. Answer **ALL** the Questions
2. Be clear and neat and show the necessary workings
3. Begin a new question on a new page

**PLEASE TURNOVER**

## **QUESTION ONE**

The following trial balance has been extracted from the books of Mawazo Nyingi, as at 31st December 2009:

	Dr	Cr
	Shs.	Shs.
Sales		2,000,000
Purchases	1,750,000	
Sales returns	25,000	
Purchases returns		31,000
Stock 01:01:2009	500,000	
Provision for bad debts		4,000
Wages and Salaries	150,000	
Rates	30,000	
Telephone	5,000	
Shop fittings at cost	200,000	
Van at cost	150,000	
Debtors and creditors	49,000	35,000
Bad debts	1,000	
Capital		895,000
Bank balance	15,000	
Drawings	90,000	
	<u>2,965,000</u>	<u>2,965,000</u>

Additional information:

- (i) Closing stock as at 31<sup>st</sup> December 2009 shs. 600,000
- (ii) Accrued wages shs. 25,000
- (iii) The provision for bad debts to be increased to 10% of debtors
- (iv) Telephone account outstanding shs. 1,100
- (v) Depreciate shop fittings at 10% per annum and van at 20% per annum on cost

### **Required:**

Prepare Mawazo Nyingi's trading profit and loss account for the year ended 31<sup>st</sup> December 2009 and a balance sheet as at that date. (20 marks)

## **QUESTION TWO**

- a) Citing relevant examples, differentiate between an error of original entry and error of omission (6 marks)
  
- b) The trial balance of King Joe as at 31 December 2008 showed a difference of shs 53,616 which was posted to the credit side of the suspense account.

On 30<sup>th</sup> January 2009, the following errors were subsequently discovered:

- (i) Sales of shs. 6,750 to M Mary had been debited to M Martha.
- (ii) A payment of shs. 4,125 for telephone charges had been entered on the debit side of the Telephone account as shs. 5,241.
- (iii) The sales journal had been under cast by shs. 30,000
- (iv) Repairs to a machine, amounting to shs. 5,850 had been charged to Machinery account.
- (v) A cheque for shs. 22,500, being rent received from ABC Ltd, had only been entered in the cash book.
- (vi) Purchases from Perfect Suppliers, amounting to shs. 11,475, had been received on 31 December 2008 and included in the closing stock at that date, but the invoice had not been entered in the purchases journal.

### **Required:**

- (i) Give the journal entries necessary to correct the above errors (6 marks)
- (ii) Draw up the suspense account after the errors described have been corrected (3 marks)
- (iii) If the draft final accounts for the year ended 31 December 2008 prepared showed a net profit of shs. 47,240, show the statement of the corrected net profit for the year ended 31<sup>st</sup> December 2008 (5 marks)

### **QUESTION THREE**

The following information has been obtained from books of a businessman operating in the outskirts of Nakuru for the month of May 2009

2009		
May 1	Balances brought down from April:	
	Cash balance	2,900
	Bank balance	6,540
	<b>Debtors accounts:</b>	
	Black	12,000
	Red	28,000
	White	4,000
	<b>Creditors accounts:</b>	
	Tall	6,000
	Short	44,000
	Fat	10,000
“ 2	Black pays his account by cheque, having deducted 2½ per cent cash discount	
“ 8	Fat is paid his account by cheque, deducting 5 per cent cash discount	
“ 11	The business withdrew shs. 10,000 cash from the bank for business use	
“ 16	Red pays his account by cheque, deducting 2½ per cent discount	
“ 25	Office expenses paid in cash shs. 9,200	
“ 28	White pays his account in cash after having deducted 2½ per cent cash discount	
“ 29	Tall is paid by cheque less 5 per cent cash discount	
“ 30	Short is paid by cheque less 2½ per cent cash discount	

#### **Required:**

- a) Write a three column cash book for the month of May to record the above transactions (13 marks)
- b) Show the entries in the discounts received and discounts allowed accounts for the month of May 2009 (2 marks)

#### **QUESTION FOUR**

- a) Explain the following accounting principles and concepts:
- (i) Going concern principle (2 marks)
  - (ii) Accruals concept (2 marks)
  - (iii) Objectivity concept (2 marks)
- b) With relevant examples, differentiate between
- (i) Capital expenditure and Revenue expenditure (4 marks)
  - (ii) Personal accounts and impersonal accounts (5 marks)