

MAIN EXAMINATION

APRIL 2004/2005

FACULTY OF COMMERCE

(PART TIME PROGRAMME)

DEPARTMENT OF ACCOUNTING AND FINANCE

CAC 111 : BASIC ACCOUNTING

Date : April 2005

Duration : 3 Hours

Instructions : Answer All Questions

Q1. Peat Small received the following bank statement from her bank for the month of June 2004.

Date	Particulars	Debit	Credit	Balance
June 1	Balance			3160 cr.
4	007496	50		3110 cr.
5	Sundries		510	3620 cr.
7	007499	130		3490 cr.
10	15 (Standing Order)	100		3390 cr.
12	007495	78		3312 cr.
15	Sundries		460	3772 cr.
18	07502	165		3607 cr.
20	T. Mann (Credit Transfer)		180	3787 cr.
24	007503	110		3677 cr.
26	007500	92		3547 cr.
29	007504	38		3547 cr.
30	Charges	50		3497 cr.

Required :

Set out briefly your answers to Peat Small, explaining the following points.

- a) She asks you to explain briefly the following entries which appear in the bank statement, but do not appear in the cash book.
- i) 10th June
 - ii) 20th June
 - iii) 30th June

(3 Marks)

- b) She wonders why her cashbook shows cheques, as listed below which do not appear on the statement.

007498	£ 62	
007501	£107	(2 Marks)

- c) On 30th June she paid £360 into her bank. Why did this not appear on the bank statement? (1 Mark)
- d) Explain three reasons why companies keep current accounts in the bank. (6 Marks)
- e) Describe four merits of bank reconciliation statement. (8 Marks)

Q2. Tom is in business as a wholesale supplier of motor equipment. The following is his trial balance as at 31st March 2005.

	Debit £	Credit £
Accumulated Depreciation for the Van (1/4/2004)		150,000
Premises	110,000	
Capital (1/4/2004)		84,000
Creditors		100,000
Cash at bank	2,000	
Drawings	167,000	
Opening stock	126,000	
Provision for doubtful debts (1/4/2004)		6,000
Purchases	620,000	
Rates and Insurance	15,000	
Sales		1,000,000
Vans, at cost	<u>250,000</u>	
	<u>1,340,000</u>	<u>1,340,000</u>

The following additional information is provided.

- 1) The value of closing stock at 31/3/2005 was £60,000
- 2) Debtors include certain bad debts of £5,000
- 3) The provision for doubtful debts is to be made equal to 5% of outstanding debtors as at 31/3/2005.
- 4) At 31st March 2005 Tom owed £3,000 for rates.
- 5) Insurance prepaid at 31st March 2005 amounted to £1,000.
- 6) Tom uses reducing balance method of depreciation at a rate of 60% per annum. There were no purchases or sales or vans during the year.
- 7) Stock withdrawn for personal use during the year was estimated to be worth £10,000.
- 8) No entry had been made in the books of account for a cheque of Sh. 2000 received from a debtor on 15th March 2005.

Required:

Prepare Tom's Trading and Profit and Loss Account for the year to 31st March 2005 and a Balance Sheet as at that date. **(20 Marks)**

- Q3. Manish Enterprises is an old-fashioned firm with a handwritten set of books. A trial balance is extracted at the end of each month, and a profit and loss account and balance sheet are prepared. This month, however, the trial balance will not balance, the credits exceeding debits by \$ 1,536.

You are asked to help and after inspection of the ledgers discover the following errors.

- i) A balance of \$87 on a debtor's account has been omitted from the schedule of debtors, the total of which was entered as debtors in the trial balance.
- ii) A small piece of machinery purchased for \$ 1,200 had been written off to repairs.
- iii) The receipts side of the cash book had been under cast by \$720.
- iv) The total of one page of the sales journal had been carried forward as \$8,154 whereas correct amount was \$8,514.
- v) A credit note for \$179 received from a supplier had been posted to the wrong side of his account.
- vi) An electricity bill in the sum of \$152, not yet accrued for, is discovered in a filling tray.
- vii) Mr. Smith, whose past debts to the company had been the subject of a provision, at last paid \$731 to clear his account. His personal account has been credited but the cheque has not yet passed through the cash book.

Required:

- a) Journal entries to correct the errors. **(7 Marks)**
- b) Eliminate the suspense account. **(10 Marks)**
- c) State six errors that do not affect the trial balance. **(3 Marks)**

- Q4. On 1st January 2005, the following were the ledger balances of Raja & Co.

Cash in hand \$900; Cash at bank \$21,000; Soni (Cr.) \$3,000; Zahir (Dr.) \$2,400; Stock \$12,000; Prasad (Cr.) \$6,000, Sharma (Dr.) \$4,500; Lull (Cr.) \$2,700; Capital 29,100.

Transactions during the month were:

2005		\$
Jan. 2	Bought goods from Prasad on credit	2,700

Jan. 3	Sold to Sharma on credit	3,000
Jan. 5	Bought goods form Lull paid by cheque	3,600
Jan. 7	Took goods for personal use	200
Jan. 13	Received form Zahir in full settlement	2,350
Jan. 17	Paid to Soni in full settlement by cheque	2,920
Jan. 22	Paid cash for stationery	50
Jan. 29	Paid Prasad by cheque	2,650
	Discount allowed by him	50
Jan. 30	Provided interest on capital	100
	Rent due to landlord	200

Journalize the above transactions and post to the ledger and prepare a Trial Balance.

Q5. The observance of the following concepts is presumed in financial statements unless otherwise stated.

- i) Going concern
- ii) Accrual
- iii) Consistency
- iv) Prudence
- v) Substance over form

Explain each of the above concepts giving examples of how each is observed in conventional financial statements. **(20 Marks)**

END