SOUTH EASTERN KENYA UNIVERSITY

UNIVERSITY EXAMINATIONS 2014/2015

FIRST YEAR MAY-AUGUST 2015 SEMESTER EXAMINATIONS FOR THE DEGREE OF BACHELOR OF COMMERCE

DAC 101: FINANCIAL ACCOUNTING I

DATE: 10TH AUGUST, 2015 **TIME: 8.30-10.30AM**

INSTRUCTIONS

Answer QUESTION ONE and any other TWO

QUESTION ONE

a) Distinguish between capital expenditure and revenue expenditure (4 marks)

b) Distinguish between capital reserves and revenue reserves (4 marks)

c) Mafuta Mazuri, the managing director of Riha Tayyiba Limited, a close friend who is aware that you are about to conclude taking the course Financial accounting, has appointed you to the financial statement review committee of Riha Tayyiba Limited in charge of reviewing financial statements prior to their presentation to the board of directors. Riha Tayiba Limited is a family business and was formed to manufacturer perfumes for the coast market. While reviewing the financial statements of the company for the period ended 31st August 2010, you discovered the following:

i. On 2nd January 2010, a new truck was purchased for Shs.4, 600,000 from Sayyara Rahis Enterprises. Riha Tayyhiba after seeking professional advice estimated that the useful life of the truck was five years and truck would have a residual value of Shs.400, 000. The depreciation amount for the year that was charged in the income statement, based on the fixed installment method, was Shs.140, 000. The accountant argued that it was necessary to allocate such an amount to avoid reporting a net operating loss. He further argued that he exercised his judgment since provision of depreciation was one of the many matters in accounting that require exercise of judgment.

ii. Riha Tayyiba purchased an expansive special purpose machine with an estimated useful life of 10 years. Proper installation of the machine required that it be set in the concrete floor of the factory. Once the machine was installed, the assistant factory manager argued that the machine had no resale value and thus directed that the entire cost of the machine should be written off in the current year. The same was affected in the income statement. The machine had cost Shs.5,000,000 and the installation as well as the start up costs amounted to Shs. 250,000. The enterprise was of the view they would benefit from the machine equally over its estimated useful life. The machine became operational on 1st May 2009.

iii. Again arising from change in value of building appeared on the income statement. Upon inquiry, you were informed that a building acquired by the company five years ago for Shs,9,000,000, including the land on which it stands, had an estimated realizable value as at 31st August 2009 of Shs.12,000,000. The finance manager had instructed that necessary entries be passed to restate the value of the building to its estimated realizable and that the same was effected by the accountant.

Required:
For each of the above items explain which of the accounting convention(s), if any, has been violated or observed. For any violation, indicate the correct treatment.

(each 4 marks, total = 12 marks)

d) The following is a summary of a cash book as presented by Rosa Ltd. for the month of October 2011.

Dr Cash book Cr

	Sh.		Sh.
Receipts	1,469	Balance b/d	761
Balance c/d	554	payments	1,262
	2,023		2,023
		Balance b/d	554

All receipts are banked and all payments are made by cheque.
O n investigation, you discover the following:

1. Bank charges of sh. 136 entered on the bank statement have not been entered in the cash book.
2. Cheques drawn amounting to sh. 267 had not been presented to the bank for payment.
3. Cheques received totaling to sh. 762 had been entered in the cash book and paid into the bank, but had not been credited by the bank unit Nov. 30th.
4. A cheque for sh. 22 for sundries had been entered in the cash book as receipt instead of payment.
5. A cheque received from K. Jones for sh. 80 had been returned by the bank and marked “NO FUNDS AVAILABLE”. No adjustment had been made in the cash book.
6. A standing order for a business rates installment of sh. 150 on 30th October had not been entered in the cash book.
7. All dividends received are credited directly to the bank account. During October, amounts totaling to sh. 62 were credited by the bank but no entries were made in the cash book.
8. Cheques drawn for sh. 66 for stationery had been incorrectly entered in the cash book as sh. 60.
9. The balance brought down in the cash book should have been sh. 711 and not sh. 761.

Required:

a) Adjusted cash book balance

(5 marks)

b) Bank reconciliation statement as at October 30th.

(5 marks)

(Total 30 marks)

QUESTION TWO

The Accounting entries of Goodall Delivery services show the following assets and liabilities as at the end of 2013 and 2014.

	December 31	
	2013	2014
cash	Ksh52,500	Ksh18,750
Accounts receivable	28,500	22,350
Office supplies	4,500	3,300
Trucks	54,000	54,000
Office equipment	138,000	147,000
Buildings	-	180,000
Land	-	45,000
Notes payable	-	105,000
Accounts payable	7,500	37,500

In late December 2014 (just before the amounts in the second column were calculated), Titus Masumbuko, the owner, purchased a small office building and moved the business form rented quarters to the building. The building and the land it occupies cost ksh 225,000. The business paid ksh 120,000 in cash and notes payable was signed for the balance. Masumbuko had to invest ksh 35,000 cash in the business to enable it to pay the ksh 120,000.

Required:

a. Prepare the balance sheet for the business as at the end of 2013 and 2014. **(10 marks)**
b. Prepare a balance sheet for the year ended 31st December, 2014. **(10 marks)**

QUESTION THREE

a) Express Printing Ltd operates its petty cash account on an imprest system. It is maintained at a figure of sh. 8000, with the balance being restored to that amount on the first day of each month. At 30th April 2010, petty cash box held shs 1, 937 in cash. During the month of may 2010,the following petty cash transactions arose:

May	shs	May	shs

1st	Cash reimbursement	xxxx	19th	Postage stamps	150
1st	Bus fare	41	20th	Drawing pins	238
2nd	Stationery	235	21st	Train fare	540
4th	Bus fare	30	22nd	Photocopier paper	563
7th	Postage stamps	170	23rd	Display decorations	807
7th	Trade Journals	95	23rd	Cash	1000
8th	Bus fare	64	25th	Wrapping paper	78
11th	Tippex Ltd	629	27t	String	61
12th	Typewriter ribbon	542	27th	Sellotape	75
1 4th	Parcel postage	345	27th	Biro pens	46
15th	Paper clips	42	28th	Typewriter repair	1366
15th	Newspaper	200	30th	Bus fare	209
16th	Photocopier repair	1680			

Required :

a) Prepare the company's petty cash book for the period of May 1st to June 1st 2010. Use the following descriptions in the analysis column: Repair and maintenance, Postage, stationery, Miscellaneous and travel. Balance the account as at 30th may 2010. Show the imprest reimbursement entry on June 1st.

(11 marks)

b) Highlight Four reasons why it is necessary to keep a petty cash book

(4 marks)

c) Explain circumstances that may cause the cash account and the bank statement not to agree despite the fact that they keep cash records of the same entity.

(5 marks)

QUESTION FOUR

The trial balance of Judy Mboya, a trader taken out on 30th September, 2014 failed to agree. To help locate the error, he prepared sales and purchases control accounts from the following information:

Sales ledger debit balances (1.10.2013)	227,200
Sales ledger credit balances (1.10.2013)	420
Purchases ledger debit balances (1.10.2013)	1,270
Purchases ledger credit balances (1.10.2013)	147,200
<u>Balances for the year to 30.9.2014</u>	
Credit sales ______________________________________	402,120
Credit purchases _________________________________	160,560
Sales returns _____________________________________	2,120
Purchases returns__________________________________	4,500
Cash payments to creditors ________________________	222,700
Bad Debts written off -____________________________	4,700
Cash received from debtors ________________________	411,000
Dishonoured cheques -_____________________________	9,000
Carriage charged to customers -____________________	3,600

Discounts allowed ________________________________	20,110
Discounts allowed on dishonoured cheques __________	450
Debit bal. in sales ledger transferred to purchase ledger	2,000

The list of balances extracted from the personal ledgers were as follows:

		Shs
Debtors:	Debit balances	206,160
	Credit balances	540
Creditors	Credit balances	83,115
	Debit balances	825

Required : Prepare

a) Sales ledger control account (9 marks)

b) Purchases ledger control accounts (9 marks)

c) State the amount of the error and in which ledger is occurred. (2 marks)

QUESTION FIVE

The following information relates to PAP Traders for the period ended 31/12/2014

PAP Traders, income statement for the period ended 31/12/2014

	SH	SH	SH
Sales		40,000	
Less: Cost of Sales			
Opening stock	3,000		
Add: Purchases	24,000		
Less: Closing stock	(4,000)	(23,000)	
Gross profit		17,000	
Less: operating expenses			
Electricity	1,000		
Telephone	1,000		
Bad debts	1,000	(3,000)	
Net profit		14,000	
	sh	sh	
Non current Assets			
Land	5,000		
Building	9,000		
Motor vehicle	8,000		
Fixtures	3,000	25,000	
Current Assets			
Stock	4,000		
Debtors	6,000		
Cash	2,000		
Current Liabilities: Creditors	(5,000)	7,000	32,000

Financed by: Capital		18,000	
Net profit		14,000	32,000

Additional information:

1. Bad debts are to be provided for at 16.67% of the outstanding debtors
2. Returns inwards amounted to sh 1,000
3. Unrecorded drawings amounted to shs 3,000
4. Depreciation is to be provided for at 5% of all non- current assets.
5. Provision for bad and doubtful debts is to be set at 20% of outstanding debts.

Required:

a) Draw Income Statement for the period ended 31/12/2014

(10 marks)

b) Draw balance sheet as at 31/12/2014

(10 marks)