

**W1-2-60-1-6**

**JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY**

**UNIVERSITY EXAMINATIONS 2014/2015**

**YEAR I SEMESTER I EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE/BUSINESS INFORMATION TECHNOLOGY/INFORMATION TECHNOLGOY**

**HBC 2103/HPS 2103: INTRODUCTION TO ACCOUNTING I/FINANCIAL ACCOUNTING II**

**DATE:AUGUST 2015 TIME: 2 HOURS:**

**INSTRUCTIONS: QUESTION ONE AND ANY OTHER TWO QUESTIONS.**

**QUESTION ONE**

a. Define the following financial accounting concepts and for each explain the implications in the preparation of final financial statements. (6 marks)

i. Accrual concept.

ii. Materiality concept.

iii. Substance ever form.

b. Discuss any eight users of financial accounting reports and their information needs.

(8 marks)

c. Discuss any five errors that do not affect the equality of a trial balance.(6 marks)

d. The following balances have been extracted from the books of accounts of Waiguur a sole trader on 31st December 2014.

|  |  |
| --- | --- |
| Sales | 47600000 |
| Purchases | 2285000 |
| Office expenses | 190000 |
| Insurance | 70000 |
| Wages | 790000 |
| Rates | 280000 |
| Heating and lighting | 120000 |
| Telephone | 95000 |
| Discount allowed | 115000 |
| Opening stock | 50000 |
| Returns inwards | 20000 |
| Return outwards | 15000 |
| Premises | 4000000 |
| Plant and machinery | 500000 |
| Motor vehicles | 1200000 |
| Debtors | 1250000 |
| Bank | 780000 |
| Creditors | 340000 |
| Longterm loan | 1000000 |
| Capital | 6000000 |
| Drawings | 40000 |
| Closing stock | 55000 |

Required

Construct a trial balance from the above list of balances. (10 marks)

**QUESTION TWO**

a. Explain the purpose for which control accounts are prepared in a business organization.

(3 marks)

b. Bidco limited maintain control of accounts in its business records. The balances and transactions relating to the company’s control accounts for the month of December 2014 are shown below.

|  |  |
| --- | --- |
| Balances at 1st December 2014 |  |
| Sales ledger | 6485000 (debit) |
|  | 52500 (credit) |
| Purchases ledger | 16500 debit |
|  | 4285000 credit |
| Transactions during the month |  |
| Sales on credit | 8452000 |
| Purchases’ on credit | 5687500 |
| Returns inwards | 203000 |
| Returns outwards | 284000 |
| Bills of exchange payable | 930000 |
| Bills of exchange receivable | 615000 |
| Cheques recievied from customers | 7985000 |
| Cheques paid to suppliers | 4732000 |
| Cash paid to suppliers | 88500 |
| Bills payable dishonoured | 400000 |
| Charges on bill payable dishonoured | 10000 |
| Cash received from credit customers | 153000 |
| Bad debts written off | 64500 |
| Cash discounts written off | 302000 |
| Bills receivable dishounored | 88500 |
| Balances at 31st December 2014 |  |
| Sales ledger | 44000(credit) |
| Purchase ledger | 23500(debit) |

Required

Prepare the sales ledger and the purchases ledger control accounts for the month of December 2014 and derive the respective debit and credit 2014 closing balances on 31st December 2014.

(17 marks)

**QUESTION THREE**

The following trial balance has been extracted from the books of accounts of Obama, a side trader for the year ended 31.12.14

Obama traders

Trial balance as at 31.12.14

|  |  |  |
| --- | --- | --- |
|  | Dr 000 | Cr 000 |
| Sales |  | 427726 |
| Purchases | 302419 |  |
| Carriage inwards | 476 |  |
| Carriage outwards | 829 |  |
| Wages and salaries | 64210 |  |
| Rent and rates | 12466 |  |
| Heat and light | 4757 |  |
| Stock (1.12014) | 15310 |  |
| Drawings | 21600 |  |
| Equipment (cost) | 102000 |  |
| Motor vehicle (cost) | 43270 |  |
| Provision for depreciation |  |  |
| Equipment |  | 22250 |
| Motor vehicles |  | 8920 |
| Debtors | 50633 |  |
| Creditors |  | 41792 |
| Bank |  | 3295 |
| Sundry expenses | 8426 |  |
| Case | 477 |  |
| Capital |  | 122890 |
|  | 626873 | 626873 |

Additional information

|  |  |
| --- | --- |
| 1. | Accrued heat and light as at 31.12.2014 was 350000 |
| 2. | Prepaid rent and rates was 620000 |
| 3. | Depreciation was provided at 10% and 20% for equipment and motor vehicle on cost respectively |
| 4. | Closing stock was valued 16480000 |

Required

a. Prepare Obama’s comprehensive income statement for the year ended 31.12.14.

(8 marks)

b. A comprehensive statement of the financial position as at 31.12.14. (6 marks)

c. Explain any two methods of charging depreciation on non current assets, outlining strengths and weaknesses for each. (6 marks)

**QUESTION FOUR**

a. The bank statement and cash book balances should agree, but sometimes these balances may not agree. Discuss this statement and explain only its important to prepare bank reconciliation statement. (5 marks)

b. Identify and explain items and leas to the disparity between the bank statement balance and cash book balance. (5 marks)

c. On 31.12.2014 the cash book Mwamba Enterprises ltd showed a debit balance of 1710000. This did not agree with the balance shown in the bank statement. Upon investigation the following errors were discovered.

|  |  |
| --- | --- |
| 1. | A cheque paid to Kiamba for 306,000 had been entered in the cash book as 387000 |
| 2. | Cash paid into the bank by a customer of 90000 had been entered in the cash book as 81000 |
| 3. | A receipt of 9000 shown in the bank statement had not been posted in the cash book |
| 4. | A transfer of 1110000 to wakenya savings Bank had not been posted to the cash book. |
| 5. | A cheque drawn in favour of Nyancha for 120000 had been entered on the debit side of the cash book. |
| 6. | Cheques banked had been totaled at 135000 instead of 153000 |
| 7. | A cheque for 45000 previously received and paid into the bank had been returned by the customer’s bank marked “ account closed”. |
| 8. | A standing order of 27000 had not been recorded in the cash book. |
| 9. | A receipt of 810000 paid into the bank on 31.10.2014 appeared in the bank statement on 1.11.2014 |
| 10 | Bank charges of 18000 do not appear in the cash book. |
| 11. | The cash book balance had been income incorrectly brought down on 1.11.2013 as a debit balance of 1080000 instead of a debit balance of 990000. |
| 12. | The bank received a direct debit of 90000 from an anonymous customer. |
| 13. | Cheques drawn amounting to 36000 had not been paid into the bank. |

Required

i. An adjusted cash book as at 31.10.14 (6 marks)

ii. A bank reconciliation statement as at 31.10.2014 (4 marks)