



## MERU UNIVERSITY COLLEGE OF SCIENCE & TECHNOLOGY

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### University Examinations 2011/2012

FIRST YEAR, FIRST SEMESTER EXAMINATIONS FOR THE DEGREE OF BACHELOR  
OF BUSINESS INFORMATION TECHNOLOGY/BACHELOR OF COMMERCE

#### HBC 2103: INTRODUCTION TO ACCOUNTING I

**DATE: AUGUST 2011**

**TIME: 2 HOURS**

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**INSTRUCTIONS:** *Answer all the Questions.*

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#### **QUESTION ONE – (30 MARKS)**

The Chief Accountant of Majani Ltd has balanced the cashbook of the company at the year-end which was 31 March 2004. At that date, the cashbook showed a credit balance of £4560 as opposed to a debit balance on the same date in the previous year. The company had made a profit for the year ended 31 March 2004. When the monthly statement for March was received, it did not agree with the balance in the cashbook, so an investigation was carried out to establish the reason for the difference.

The following matters were revealed:

- (i) The cheque paid for advertising on 10<sup>th</sup> March 2004 for £2,148 had been entered in the cashbook as £2148.
- (ii) On 20 March 2004 a debtor had informed the company that a direct transfer of £1330 had been remitted to Majani Ltd bank account. This was in settlement of a sales invoice for £1400. The entry made in the cashbook was £1400.
- (iii) A standing order to a trade association for £480 had been paid by the bank on 2 March 2004 but no entry appeared in the cashbook
- (iv) Cheque amounting to £12,444 had been sent to suppliers and entered in the cashbook during March 2004 but had not yet been presented to the bank.
- (v) Cheque received from customers amounting to £20,160 had been received by Majani Ltd on 31 March 2004 and entered in the cashbook but the bank had not credited these on March statement.

**REQUIRED**

- (a) Adjust Majani Ltd's cashbook and bring down to corrected balance as at 31 March 2004. (6 Marks)
- (b) Prepare a bank reconciliation statement as on 31 March 2004 which clearly shows the original balance on March bank statement. (5 Marks)
- (c) Explain why it is important to prepare a bank reconciliation statement. (4 Marks)
- (d) Explain why a bank balance may be reduced during a year in spite of a company having made a profit. (5 Marks)

**QUESTION TWO – (15 MARKS)**

- (a) Explain the advantages of using journals as a book of original entry. (3 Marks)
- (b) Prepare journal entries necessary to record the following items (12 Marks)
- |       |    |  |
|-------|----|--|
| 2007  | 1  | Sold old motor vehicle to Kiraithe for Sh300,000   |
| April | 1  | Bought motor van from Njoro Ksh500,000   |
|       | 4  | Owner took Ksh2000 cash from the business for own use  |
|       | 9  | Mr Deni owes us Ksh100,000. He is unable to pay his debt. We agree to take some office equipment from him at the value and so cancel the debt. |
|       | 12 | Some of the fixtures bought from Bao Ltd worth Ksh20,000 are found to be unsuitable and are returned to him for full allowance.                |
|       | 20 | Office equipment bought on credit from super glue for Ksh12,000  |
|       | 25 | Karama account a creditor account was erroneously credited to Kirimas account.   |
|       | 30 | A rent received of Ksh15,000.  |

**QUESTION THREE – (13 MARKS)**

- (a) What are the limitation of financial statements. (3 Marks)
- (b) The following is the trial balance of Galana on 31 March 2010

	Dr(Ksh)	Cr(Ksh)
Cash in hand	540	
Cash at bank	12630	
Purchases	140675	
Sales		258780
Returns inwards and outwards	2680	1500
Wages	20480	
Fuel and power	4730	
Carriage outwards	3200	
Carriage inwards	2040	
Stock, 1 <sup>st</sup> April 2009	25760	
Building	30,000	

Freehold land	20,000	
Machinery	27500	
Salaries	15000	
General expenses	13000	
Insurance	600	
Drawings	15245	
Capital		82000
Debtors	14500	
Creditors	<u>        </u>	<u>6300</u>
	<u>348580</u>	<u>348580</u>

**Additional Information**

- (i) Stock on hand on 31<sup>st</sup> March 2010 is Ksh26,800
- (ii) Machinery is to be depreciated at the rate of 10%.
- (iii) Salaries for the month of March 2010 amounting to Sh1,500 were unpaid
- (iv) Insurance includes a premium of Sh170 on a policy, expiring on 31 September 2010.
- (v) Wages includes a sum of Sh2000 spent on the erection of a cycle shed for employees and customers.
- (vi) A provision for bad and doubtful debts is to be created to the extent of 5% on debtors

Required:

Trading, profit and loss accounts for the year ended 31 March 2010 and a balance sheet as at that date. (10 Marks)

**QUESTION FOUR – (12 MARKS)**

- (a) Explain any four users of accounting information and their information needs. (2 Marks)
- (b) Explain the meaning of the following concepts as used in accounting:
  - (i) Books of prime entry (2½ Marks)
  - (ii) Errors of principles (2½ Marks)
  - (iii) Historical cost principles (2½ Marks)
  - (iv) Accounting as system (2½ Marks)