

BUST 121

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**FIRST YEAR EXAMINATION FOR THE AWARD OF DEGREE
OF BACHELOR OF EDUCATION ARTS**

BUST 121: FUNDAMENTALS OF ACCOUNTING

STREAMS: BED (ARTS) (Y1S2)

TIME: 2 HOURS

DAY/DATE: THURSDAY 14/7/2016

2.30 P.M. – 4.30 P.M.

INSTRUCTIONS: Answer question ONE and any other TWO questions

QUESTION ONE

- (a) Differentiate between
- (i) Capital expenditure and Revenue expenditure [2 marks]
 - (ii) Real accounts and Nominal accounts. [2 marks]
- (b) Explain the following accounting concepts:
- (i) Consistency [2 marks]
 - (ii) Accrual concept [2 marks]
- (c) Alan Muriuki owns a sportswear business. The following trial balance was drawn up from his books of account as at 30th September 2013.

	Dr. (sh)	Cr. (sh)
Capital		800,000
Premises	2,360,000	
Fixtures	900,000	
Motor vehicle at cost	840,000	
Provision for depreciation		
Fixtures		360,000
Motor vehicle		480,000
Trade Receivables and Payables		60,000
Allowance for doubtful debts		5,000
Stock 1/9/2012	940,000	
Bank		560,000
Sales		5,800,000
Purchases	2,200,000	
Wages	300,000	
General expenses	380,000	
Rent income		260,000
Discount received		20,000
Drawings	<u>325,000</u>	
	<u>8,345,00</u>	<u>8,345,00</u>

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Additional Information:

1. Closing stock of goods for resale sh. 510,000
2. Rent is still owed for accommodation above the business premises. The occupier owes Alan Muriukish 30,000 for the year ended 30th September 2013.
3. Depreciation is provided on fixtures at 20% per annum on cost. Motor vehicles are to be depreciated at 25% per annum on cost. Non-current assets were neither bought nor sold during the year.
4. The allowance for doubtful debts is to be maintained at 2 percent of outstanding receivables.
5. General expenses include prepaid electricity of sh. 6,000.
6. During the year Alan Muriuki paid sh. 20,000 for a personal holiday to Mombasa. This had been paid through business and entered as a general expense.
7. During the year, Alan Muriuki had withdrawn for his own personal use goods costing sh. 15,000.

Required

- (i) Statement of income for the year ended 30th September 2013. [12 marks]
- (ii) Statement of financial position as at 30th September 2013. [10 marks]

QUESTION TWO

- (a) Explain four types of bookkeeping errors which are not disclosed by a trial balance. [4 marks]
- (b) While preparing the annual accounts for Nobel Traders, Gregory Kariuki, the accountant, realized that the trial balance for the year ended 30 Sep 2012 had failed to agree. The debit totals exceeded the credit totals by sh 3,300,000. He therefore opened a suspense account where he recorded the difference and proceeded to prepare the final accounts.

On investigation by the internal auditor, the following errors were discovered;

1. The sales daybook had been under cast by sh. 1000,000
2. Purchases day book had been under cast by sh. 700,000
3. Sales of sh. 2,500,000 to S. Mohamed had been debited in error to P.Ahmed's account.
4. Discount received account had been under cast by sh. 3,000,000
5. A payment of sh.3,600,000 to a creditor had been credited in error to sales account.

Required:

- (i) Journal entries to correct the above errors. [8 marks]
- (ii) Suspense account duly balanced. [4 marks]
- (iii) A statement of corrected net profit given that the reported net profit was sh. 80,500 [4 marks]

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QUESTION THREE

- (a) You have recently been employed in a medium size company and deployed in the accounts departments. Your head of section has given you the following extract from the cash book for the month of April 2011.

	Sh.		Sh.
Receipts during the month	2,938,000	Balance b/f	1,522,000
Balance carried forward (30.4.2011)	1,108,000	Payments during the month	2,524,000
	<u>4,406,000</u>		<u>4,406,000</u>

The head of the section further informs you that all receipts are banked intact and all payments are made by cheque. On investigation, you discover the following:

- (i) Cheques totaling sh. 1,534,000 had been paid into the bank but were not credited by the bank until May 2011.
- (ii) A cheque for sh. 44,000 had been entered as a receipt in the cash book instead of a payment.
- (iii) A cheque of sh. 50,000 had been debited by the bank by mistake.
- (iv) A cheque received for sh 160,000 had been returned unpaid. No adjustment had been made in the cash book.
- (v) All dividends receivable are credited directly to the bank account. During the month of April 2011, dividends totaling sh 124,000 were credited by the bank and no entries had been made in the cash book.
- (vi) A cheque drawn for sh. 12000 had been incorrectly entered in the cash book as sh. 132,000
- (vii) The balance brought forward should have been sh 1,422,000
- (viii) The bank had charged a commission of sh, 272,000. No entry has been made in the cash book.
- (ix) Cheques totaling sh. 534,000 paid to supplier had not presented to the bank.
- (x) The bank statement as at 30.4.2011 showed an overdraft of sh. 2,324,000

Required:

- (i) Adjusted cash book as at 30.4.2011 [5 marks]
 - (ii) Bank Reconciliation statement as at 30.4.2011 [5 marks]
- (c) A business whose financial year ends on 31 December purchased two vans on 1 January 2010 No 1 for £8,000 and No 2 for £5,000. Another van, No 3, was purchased on 1 July 2010 for £9,000. The first two vans were sold, No 1 for £4,000 on 30 September 2011, and No 2 for £3,500 on 30 June 2012.

The depreciation policy includes the following:

- Depreciation is on the straight line basis, 20 per cent per annum.
- Depreciation is chargeable for a full year in the year of purchase and no depreciation is chargeable in the year of sale or any other mode of disposal.
- No depreciation is chargeable if an asset is bought and disposed within the same year.
- One ledger account is to be maintained for all Vans.

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Required:

Show the following extracts for the year ended 31 December 2010, 2011 and 2012

- (i) Motor Van account [2 marks]
- (ii) Motor Van disposal account [4 marks]
- (iii) Provision for depreciation on Motor van account. [4 marks]

QUESTION FOUR

- (a) Explain the purpose for preparing control accounts. [4 marks]
- (b) Maduako, a sole trader, keeps his books so that a sales ledger control account and a purchases ledger control account are shown in his general ledger and balanced at the end of the month.

At 1st December, 2014:	Sh.
Dr. balances in the sales ledger	13,500
Dr. balances in the purchases ledger	415
Cr. balances in the sales ledger	300
Cr. balances in the purchases ledger	12,000
For the month of December, 2014:	
Total credit purchases	17,500
Total credit sales	20,000
Sales returns and allowances	360,200
Purchase returns and allowances	7,500
Cash received from trade debtors	15,000
Discounts received from creditors	120
Payments made to trade creditors	16,400
Discounts allowed to trade debtors	360
Bad debts written-off	50
Provision for doubtful debts	200
Bills of exchange accepted by trade debtors of Maduako	4,300
Sales ledger credit balances transferred to Purchases ledger	80
Cash purchases	3,000
Dishonoured bills payable	130
Dishonoured bills receivable	150
At 31st December 2014:	
Cr. Balances in the sales ledger	195
Dr. balances in the purchases ledger	180

- (i) Sales ledger control account for the year ended 31 December 2014. [8 marks]
 - (ii) Purchase ledger control account for the year ended 31 December 2014. [8 marks]
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