

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**FIRST YEAR EXAMINATION FOR THE AWARD OF DEGREE
OF BACHELOR OF ARTS AND SOCIOLOGY**

AGBM 211: FINANCIAL ACCOUNTING I

STREAMS: AGBM (Y1S2)

TIME: 2 HOURS

DAY/DATE: TUESDAY 7/4/2015

8.30 A.M. – 10.30 A.M.

Instructions: Answer ALL questions

1. (a) Explain the following accounting concepts:
- (i) Substance over form [4 marks]
 - (ii) Accrual concept [4 marks]
- (b) The following information was extracted from the books of Fidel Orina sole trader at Kasarani Nairobi for the year ended 31st December 2014.

	Dr. (Sh)	Cr. (Sh)
Capital		1,200,000
Drawings	500,000	
Leasehold premises	700,000	
Creditors		1,500,000
Rent for 9 months to September 30 th	45,000	
Salaries	240,000	
General expenses	65,000	
Insurance	56,000	
Stock	1,725,000	
Fixtures & Fittings	120,000	
Debtors	1,808,000	
Bad debts written off	12,000	
Provisions for bad debts		75,000
Delivery van at cost	80,000	
Purchases and sales	3,160,000	6,090,000
Cash at hand	5000	
Cash at bank	349,000	
	<u>8,865,000</u>	<u>8,865,000</u>
	=====	=====

Additional information:

- (i) Depreciate leasehold premises by sh 50,000, fixtures & fitting at 10% on cost and delivery van at 30% on straight line.
- (ii) Rent for 3 months is due
- (iii) Insurance was paid for month of Jan to March 2015.
- (iv) Create provisions for bad debts at 5% on debtors
- (v) Stock on 31st December 2014 was valued at sh 1,600,000

Required

- (a) Income statement for the year ended 31st December 2014 [13 marks]
 - (b) Statement of financial position as at the same date. [14 marks]
2. (a) The book keeper of Kenya mechanical engineering company an S.M.E in Ndagani extracted a trial balance on 30th March 2015. The trial balance failed to balance with sh 330,000 shortage on the credit side. The suspense account was opened for the purposes. On strict checking of the entry the following issues were found.
- (i) Sales book has been under cast by sh 100,000
 - (ii) Sales of sh 250,000 to J. Carino had been wrongly debited to J. Corare account.
 - (iii) Rent account is under cast by sh 70,000
 - (iv) Discount received has been under cast by sh 300,000
 - (v) Sale of motor vehicle at book value has been credited in error to sales account sh 360,000

Required:

- (i) Show journal entry to collect the above errors. [6 marks]
- (ii) Suspense account after collecting the errors [4 marks]

- (b) The following information was extracted from the books of Kibabii – Mumias Company Ltd for the month of June 2014

	Sh.
Purchases ledger balances 1 June (Dr)	350
Purchases ledger balance (Cr)	18,460
Sales ledger balance (Dr)	47,600
Sales Ledger balance (Cr)	1,350
Credit purchases	39,400
Credit sales	68,940
Cash sales	20,600
Cash sales	4,400
Return inwards	2,500
Return outwards	890
Receipts from debtors	52,600
Payment to trade creditors	38,640
Discount received	4,750
Discount allowed	6,990
Bad debts written off	1,240
Interest charged on debtors	360
Debtors cheques dishonoured	870
Purchases ledger credit transferred to sales ledger	1,230
Purchases ledger balance 30 th June (Dr.)	480
Sales ledger balances (Cr)	1,690

Required:

Debtors control account for the Month of June 2014.

[10 marks]

3. Mt. Kenya Power Mills accountant had prepared the following statement of financial position of the company for the year ended 31st March 2015.

Particulars	Sh.	Sh.
<u>Fixed Assets:-</u>		
Land and buildings		700,000
Plant & Machinery		500,000
Motor vehicles		450,000
Fixtures & fittings		150,000
<u>Current liabilities</u>		
Debtors	250,000	
Cash at hand	300,000	
Cash at bank	150,000	
Stock	200,000	
<u>Current liabilities</u>		
Creditors	400,000	

Proposed dividends	250,000		
Provisions for tax	<u>50,000</u>	(700,000)	<u>200,000</u>
			<u>2000,000</u>
<u>Financed by:-</u>			
Share capital @ sh 10		1000,000	
10% KCB loan		500,000	
Profits current year		<u>500,000</u>	<u>=====</u>
			<u>2000,000</u>
			<u>=====</u>

Additional information

- (i) Annual sales sh 2000,000
- (ii) Stock on 1st April 2014 sh 200,000
- (iii) Annual purchases sh 1,000,000
- (iv) Operating expenses for the year sh 400,000

(a) Required to compute the following ratios

- (i) Net profit ratio [3 marks]
- (ii) Current ratio [3 marks]
- (iii) Liquid ratio [3 marks]
- (iv) Return on capital employed [3 marks]
- (v) Fixed assets turnover ratio [3 marks]

(b) Comment on the liquidity status of the company. [5 marks]
