

PWANI UNIVERSITY COLLEGE
A CONSTITUENT COLLEGE OF KENYATTA UNIVERSITY
UNIVERSITY EXAMINATIONS 2008/2009 ACADEMIC YEAR

1ST YEAR 1ST SEMESTER EXAMINATION FOR THE DEGREE OF
STREAM: BACHELOR OF COMMERCE, BACHELOR OF ARTS,
BACHELOR OF EDUCATION (ARTS)

CAC 100: FUNDAMENTALS OF ACCOUNTING I

END SEMESTER: I

TIME: 3 HOURS

DAY/TIME: NONDAY: 2.00 – 5.00 P.M. DATE: 1/12/2008

INSTRUCTIONS

- *Answer ALL question*
- *Show ALL your working*

QUESTION ONE

- a) Briefly explain why the following parties may be interested in the financial statements of an organization.
- | | | |
|------|----------------|---------|
| i) | The government | (2 mks) |
| ii) | The Public | (2 mks) |
| iii) | The creditors | (2 mks) |
| iv) | Investors | (2 mks) |
- b) Write up an accounting equation showing the balances at each end using the information provided below. Open the necessary ledger accounts

2007

JANUARY

- | | |
|---|--|
| 1 | Started business with sh.25,000 in bank |
| 2 | Bought office furniture by cheque sh.1,500 |
| 3 | Bought machinery from Planners ltd sh.7,500 on credit
Sh.7,500 on credit. |

- 5 Bought a van paying by cheque sh.6,000
- 8 Sold some of the office furniture to Waweru for sh.600 on credit
- 15 Paid the amount owing to Planners Ltd the amount owing to Planners Ltd by cheque.
- 20 Received from Waweru, the amount due.
- 31 Bought more machinery by cheque sh.2,800

(10 mks)

- c) Draw up a balance sheet using the last balances of the above accounting equation. (7 mks)

QUESTION TWO

- a) The accounts of Kilifi enterprises show Gross and net profits of sh.1095,000 and sh.438,600 respectively. But further scrutiny of the account reveals the following errors.
 - i) A payment of ksh.9,600 in respect of carriage outwards had been debited to sales returns account.
 - ii) A credit purchase of an office equipment worth ksh180,000 had been wrongly entered in the sales returns day book.
 - iii) The personal account of a debtor had been debited with Ksh.1,500 for a sales invoice of Ksh.15,00 which had also been erroneously recorded in the sales day book.
 - iv) The totals of the purchases day had been entered as Ksh.206,000 instead of Kshs 266,000.
 - iv) Discount received of Kshs. 26,880 had been entered in the cash book column but not posted to the letter account.
 - vi) A cheque of Ksh.16,680 received for interest on investments had been correctly entered in the cash book, but the amount had been debited in the rent receivables account.
 - vii) A cheque for kshs.21,540 paid to a creditor had been entered in the cash books Ksh21,450 and had subsequently been posted to the ledger account as Ksh.21,450.

- vii) A credit note for Ksh.11,160 issued to a debtor was appropriately recorded in she sales returns day book but was posted as Ksh.11,610 in the customer's

Required

- a) Journal Entries to correct the errors (10 mks)
- b) Write up and balance the suspense account (5 mks)
- b) State five potential users of company published financial statements, briefly explaining for each one their likely information needs from those statements (5 mks)
- Total (20 mks)

QUESTION THREE

An Incompetent accountant prepared the following trial balance for the year Ended 30th June 2007.

	DR	CR.
	Sh.'000'	'Sh.000'
Bank Over draft	1,854	
Capital		4,591
Creditors		1,637
Debtors	2,982	
Discount received	252	
Discounts Allowed		733
Drawings	1,200	
Office furniture	2,155	
General expenses		829
Purchases	10,923	
Returns Inwards		330
Rent and rates	314	
Salaries	2,520	
Sales		17,246
Stock	2,418	
	<u>24,619</u>	<u>25,366</u>

- a) Draw up a corrected trial balance and post any residual error to suspense A/C (6 mks)
- b) Further investigations of the suspense account ascertained above revealed the following errors.

1. Purchase from J. Jones of Sh.13,000 was posted to his account as Sh.33,000.
2. Cost of furniture sh.173,000 had been debited to general expenses account.
3. An invoice from supplier for Sh.370,000 had been omitted from purchases account.
4. Sales on credit to Hope Ltd, for Sh.450,000 had been posted to the sales account, but not to the debtors account.
5. The balance on capital account should have been brought forward at sh.4,291.000
6. An amount of 86,000 received from Plato, a debtor, in full settlement of his account had been treated as cash sale.
7. Discount allowed had been undercast by sh.35,000

Required

- | | | |
|-----|--|----------|
| i) | Journal Entries to Correct the identified errors | (14 mks) |
| ii) | Suspense Account | (5 mks) |