Pwani University College

A Constituent College of Kenyatta University

UNIVERSITY EXAMINATIONS 2012/2013 ACADEMIC YEAR

1ST YEAR EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE AND BACHELOR OF EDUCATION ARTS

COURSE CODE: BAC 100: FUNDAMENTALS OF ACCOUNTING I

END OF SEMESTER: I **DURATION: 3 HOURS**

DAY/TIME: THURSDAY 9.00AM TO 12.00N DATE: 7.12.2012 -LTW

INSRUCTIONS: ANSWER QUESTION ONE AND ANY TWO OTHER QUESTIONS

QUESTION ONE(A)

The accounting profession has for a long time relied on certain accounting conventions to guide accounting practice. Yet the application of the sane conventions has been the source of criticism of the quality and relevance of information contained in financial reports.

Some of these conventions include:

(a) The business entity principle.

(b) The historical cost principle.

(c) The monetary principle.

(d) The matching principle.

(e) The conservatism principle.

Required:

For each of the principles listed above:

(a) Explain its meaning.

(b) Justify its use.

(c) Explain any weaknesses associated with its use. **(Total: 10 marks)**

QUESTION 1 (B)

(a) Explain the term "bank reconciliation" and state the reasons for its preparation.

(b) Ssemakula, a sole trader received his bank statement for the month of June 2001. At that date the bank balance was Sh.706,500 whereas his cash book balance was Sh.2,366,500. His accountant investigated the matter and discovered the following discrepancies:

1. Bank charges of Sh.3, 000 had not been entered in the cashbook.
2. Cheques drawn by Ssemakula totaling Sh.22,500 had not yet been presented to the bank
3. He had not entered receipts of Sh.26,500 in his cashbook.
4. The bank had not credited Mr. Ssemakula with receipts of Sh.98, 500 paid into the bank on 30 June 2001.
5. Standing order payments amounting to Sh.62, 000 had not been entered into the cashbook.
6. In the cash book Ssemakula had entered a payment of Sh.74, 900 as Sh.79400.
7. A cheque for Sh. 15,000 from a debtor had been returned by the bank marked "refer to drawer" but had not been written back into the cashbook.
8. Ssemakula had brought forward the opening cash balance of Sh.329, 250 as a debit balance instead of a credit balance.
9. An old cheque payment amounting to Sh.44, 000 had been written back in the cashbook but the bank had already honoured it.
10. Some of Ssemakula's customers had agreed to settle their debts by paying directly into his bank account. Unfortunately, the bank had credited some deposits amounting to Sh.832, 500 to another customer's account. However, acting on information from his customers, Ssemakula had actually entered the expected receipts from the debtors in his cashbook.

Required:

(i) A statement showing Ssemakula's adjusted cash book balance as at 30 June 2001. (5 marks)

(ii) A bank reconciliation statement as at 30 June 2001. (5 marks)

QUESTION 1(C)

The following trial balance has been extracted from the ledger of Mr. Yousef, a sole trader.

Mr. Yousef

Trading and Profit and Loss Account for the year ended 31 May 2011.

	KSH.	KSH.
Sales		138,078
Purchases	82,350	
Carriage	5,144	
Drawings	7,800	
Rent, rates and insurance	6,622	
Postage and stationery	3,001	
Advertising	1,330	
Salaries and wages	26,420	
Bad debts	877	
Provision for bad debts		130
Debtors	12,120	
Creditors		6,471
Cash in hand	177	
Cash at bank	1,002	
Stock at at 1 June 2010	11,927	
Equipment		
At cost	58,000	
Accumulated depreciation		19,000
Capital		53,091
	216,770	216,770

The following additional information as at 31 May 2011 is available:

(a) Rent is accrued by KSH.210.

(b) Rates have been prepaid by KSH. 880.

(c) KSH.2,211 of carriage represents carriage inwards on purchases.

(d) Equipment is to be depreciated at 15% per annum using the straight line method.

(e) The provision for bad debts to be increased by KSH.40.

(f) Stock at the close of business has been valued at KSH. 13,551.

Required:

Prepare a statement of comprehensive income for the year ended 31 May 2011 and a statement of financial position as at that date. (10 marks)

QUESTION TWO

(a) State the reasons for maintaining control accounts. (4 marks)

(b) The following information has been extracted from the books of Mutero Traders Limited for the month of April 2002.

Balances as at I April 2002:

	Sh.
Sales ledger - Debit balances	838,000
- Credit balances	184,000
Purchases ledger -Debit balances	196,000
- Credit balances	598,000
Transactions during the month:	
Sales on credit	8,78,000
Purchases on credit	7,849,000
Returns inwards	248,000
Returns outwards	179,000
Cheques received from trade debtors	2,968,000
Cash paid to trade creditors	4,674,000
Cheques paid to trade creditors	1,393,000
Bad debts written-off	139,000
Discounts allowed to trade debtors	162,000
Discounts received from trade creditors	231,000
Credit sales off-set against credit purchases	356,000
Credit purchase of a motor vehicle posted in the purchases ledger	598,000
Dishonoured cheques from trade debtors	193,000
Cash received to replace dishonoured cheques from trade debtor	106,000
An invoice to trade debtors of Sh.174,000 posted as	147,000

Balances as at 30 April 2002:

Sales ledger credit balances	123,000
Purchases ledger debit balances	177,000

Required:

The sales ledger and purchases ledger control accounts for the month ended 30 April 2002.

(16 Marks).

QUESTION THREE

The following information relates to B Spikes manufacturer as at 31 December, 2002

B spikes

Trial Balance as on 31 December 2002

	Dr	**Cr**
Stock of raw materials 1.1.2002	21,000	
Stock of finished goods 1.1.2002	38,900	
Work in progress 1.1.2002	13,500	
Wages(direct ksh.180,000: factory indirectksh. 145,000)	325,000	
Royalties	7,000	
Carriage inwards (on raw materials)	3,500	
Purchases of raw materials	370,000	
Productive machinery (cost ksh. 280,000)	230,000	
Accounting machinery (cost ksh.20,000)	12,000	
General factory expenses	31,000	
Lighting	7,500	
Factory power	13,700	
Administrative salaries	44,000	
Sales representatives' salaries	30,000	
Commission on sales	11,500	

Rent	12,000	
Insurance	4,200	
General administration expenses	13,400	
Bank charges	2,300	
Discounts allowed	4,800	
Carriage outwards	5,900	
Sales		1000,000
Debtors and creditors	142,300	125,000
Bank	56,800	
Cash	1,500	
Drawings	20,000	
Capital as at 1.1.2002	______	29,680
	1,421,800	1,421,800

Notes at 31.12.2002

1. Stock of raw materials ksh. 24,000, stock of finished goods ksh. 40,000, work in progress £15,000.
2. Lighting, and rent and insurance are to be apportioned: factory 5/6ths, administration 1/6th.
3. Depreciation on productive and accounting machinery at 10 per cent per annum on cost.

Required:

Prepare a manufacturing, Trading Profit and Loss Account for the year ended 31 December 2002.

QUESTION FOUR

Mack and Spencer are in partnership sharing profits and losses equally. The following is the trial balance as at 30 June 2003.

	Dr.	Cr.
	KSH.	KSH.
Buildings (cost KSH.750,000)	500,000	
Fixtures at cost	110,000	
Provision for depreciation: Fixtures		33,000
Debtors	162,430	
Creditors		111,500
Cash at bank	6,770	
Stock at 30 June 2002	419,790	
Sales		1,236,500
Purchases	854,160	
Carriage outwards	12,880	
Discount allowed	1,150	
Loan interest: King	40,000	
Office expenses	24,160	
Salaries and wages	189,170	
Bad debts	5,030	
Provision for bad debts		4,000
Loan from J King		400,000
Capitals: Mack		350,000
Spencer		290,000
Current accounts: Mack		13,060
Spencer		2,890
Drawings: Mack	64,000	
Spencer	56,500	
	2,446,040	2,446,040

Required:

Prepare a trading and profit and loss appropriation account for the year ended 30 June 2003 and a balance sheet as at that date.

a) Stock, 30 June 2003, KSH.563,400
b) Expenses to be accrued: Office Expenses KSH.960; Wages KSH. 2,000
c) Depreciate fixtures 10 per cent on reducing balance basis, buildings KSH.10,000
d) Reduce provision for bad debts to KSH. 3,200.
e) Partnership salary: KSH.8,000 to Mack. Not yet entered
f) Interest on drawings: Mack KSH.1,800; Spencer KSH. 1,200.
g) Interest on capital account balances at 10 per cent.(20 marks).