



UNIVERSITY EXAMINATIONS 2013/2014 ACADEMIC YEAR

**1st YEAR SEMESTER EXAMINATIONS FOR THE DEGREE OF
BACHELOR OF COMMERCE**

**COURSE CODE/TITLE: BAC 100: FUNDAMENTALS OF
ACCOUNTING**

END OF SESSION III

DURATION: 3 HRS

DAY/TIME: FRIDAY 8.00–11.00AM

DATE 13.12.2013 (LTN)

INSTRUCTIONS

1. Answer question **ONE** and any other **three** questions
2. Marks allocated are shown at the end of the question
3. Be neat and orderly. Show all necessary workings

QUESTION ONE

Four brothers organized Kisima Entertainment Enterprises Limited (KEEL) on October 1, 2012. The following transactions occurred during the first month of operation.

- October 1: Received contribution of Sh.1,000,000 from each of the four brothers in exchange for ordinary shares in the company.
- October 2: Purchased the Phoenix Theatre for Sh. 12.5 million. The seller agreed to accept a down payment of Sh.1.25 million and a seven year promissory note for the balance. The Phoenix property consists of land valued at Sh.3.5 million, and a building valued at Sh.9 million.
- October 3: Purchased new seats for the theatre at a cost of Sh.500,000, paying Sh.250,000 down and agreeing to pay the remainder in 60 days.
- October 12: Purchased candy, popcorn, plastic cups and napkins for Sh.370,000 on an open account. The company has 30 days to pay for these concession supplies.
- October 13: Sold tickets for the opening night movie for cash of Sh.180,000, and took in Sh.240,000 at the concession stand (Tuck shop).
- October 17: Rented out the theatre space to a local community group for Sh.150,000. The community group is to pay one-half of the bill within five working days and has 30 days to pay the remainder.
- October 23: Received 50% of the amount billed to the community group.

- October 24: Sold movie tickets for cash of Sh.200,000, and took in Sh.280,000 at the concession stand.
- October 26: The four brothers , acting on behalf of KEEL paid a dividend of Sh.75,000 to each brother on their ordinary shares.
- October 27: Paid Sh.50,000 for utilities
- October 30: Paid wages and salaries of Sh.240,000 total to ushers, the projectionists, concession stand workers, and the maintenance crew.
- October 31: Sold movie tickets for cash of Sh.180,000 and took in Sh.250,000 at the concession stand.
- October 31: Counted the concession supplies at the end of the month amounting to Sh.170,000.

Required

- (a) Prepare an Income Statement for the month ended October 31, 2012. **(12 marks)**
- (b) Prepare a Statement of Changes in Equity for the month ended October 31, 2012 **(8 marks)**
- (c) Prepare a classified Statement of Financial Position as at October 31, 2012. **(12 marks)**
- (d) Prepare a Statement of Cash flows for the month ended October 31, 2012. **(8 marks)**

(Total: 40 marks)

QUESTION TWO

- (a) Highlight any four uses/objectives for preparing a bank reconciliation. **(6 marks)**

- (b) Mercantile Limited's cash account shows a balance of Sh.16,740 as at December 31, 2012. On December 31, Mercantile Limited received the following bank statement:

		Shs	Shs
Beginning balance			13,600
Deposits and other Credits			
Dec-01	EFT	300	
Dec-05		4,170	
Dec-10		510	
Dec-15		530	
Dec-18		2,180	
Dec-22	BC	1,400	9,090
Credits and other debits			
Dec-08	NSF	1,000	
Dec-11 (Cheque #1416)		860	
Dec 19	EFT	700	
Dec-22 (Cheque #1417)		130	
Dec-29(Cheque #1418)		650	
DEC-31(Cheque #1419)		1,940	
Dec-31	SC	60	(5240)
Ending Balance			17340

Explanations

- BC – Bank collection
 EFT – Electronic Fund Transfer
 NSF – Non-sufficient fund cheques

SC – Service charge

Additional data:

1. The EFT credit was a rent receipt. The EFT debit was an insurance payment.
2. The NSF cheque was received from a customer.
3. The Sh. 1,400 bank collection was for note receivable.
4. The correct amount of Cheque #1419 for rent expense is Sh.1,940. Mercantile Limited's accountant mistakenly recorded the cheque for Sh.1,490.

Required

- (i) Prepare the bank reconciliation of Mercantile Limited as at December 31, 2012.
(6 marks)
 - (ii) Prepare the necessary journal entries for the bank reconciliation. (4 marks)
 - (iii) Indicate the cash balance that will be reported on the company's balance sheet as at December 31, 2012.
(4 marks)
- (Total 20 marks)**

QUESTION THREE

The following is the unadjusted trial balance for Kilifi Trucking Company Limited as at December 31, 2012.

	Dr -Sh. '000'	Cr -Sh. "000"
Cash	27,340	
Accounts Receivable	41,500	
Prepaid insurance	18,000	
Warehouse	40,000	
Acc. Depreciation: Warehouse		21,600
Truck fleet	240,000	
Acc. Depreciation: Truck fleet		112,500
Land	20,000	
Accounts Payable		32,880
Notes Payable		50,000
Interest payable		4,500
Customer deposits		6,000
Share capital- Ordinary		100,000
Retained Earnings		40,470
Transport Revenue		165,670
Gas and oil expense	57,330	
Maintenance expense	26,400	
Wages and Salaries	43,050	
Dividends	<u>20,000</u>	
Totals	<u>533,620</u>	<u>533,620</u>

Additional Information

- (i) Prepaid insurance represents the cost of a 24-month policy purchased on December 1, 2012.
- (ii) The warehouse has an estimated useful life of 20 years and an estimated salvage value of Sh. 4 million. Assume straightline depreciation policy is employed in accounting for this asset.
- (iii) The truck fleet has an estimated useful life of six years and an estimated salvage value of Sh.15 million. Assume straightline depreciation policy is employed in accounting for this asset the truck fleet.

- (iv) The promissory note was signed on December 1, 2011. Interest at an annual rate of 19% and the principal of Sh.50,000,000 are due on November 30, 2013.
- (v) The customer deposits represent amounts paid in advance by new customers. A total of Sh.4.5 million of the balance in the customer deposits was earned during year ended December 31, 2012
- (vi) Wages and salaries earned by employees at the end of December 2012 but not yet paid amount to Sh.8.2 million.
- (vii) Income taxes are estimated to be Sh.3 million for the year ended December 31, 2012.

Required

- (a) Identify each of the adjusting entries required as either (i) Deferred revenue, (ii) Accrued revenue, (iii) Prepaid/deferred expense, or (iv) Accrued expense. **(4 marks)**
- (b) Explain the impact of each adjustment (if any) on:
- (i) Income statement
 - (ii) Statement of cash flows
 - (iii) statement of financial position
 - (iv) Statement of changes in equity **(4 marks)**
- (c) Prepare general journal entries to record the adjusting entries as at December 31, 2012. **(4 marks)**
- (d) Prepare Kilifi's adjusted trial balance as at December 31, 2012. **(8 marks)**
- (Total: 20 marks)**

QUESTION FOUR

The accountant of Pwani Enterprises Limited (PEL) submitted to you the following trial balance December 31, 2012.

Account	Dr. Sh "000"	Cr. Sh. "000"
Stock on January 1, 2012	5,750	
Debtors	3,250	
Purchases less returns	16,500	
Wages	6,000	
Travelling expenses	775	
Salaries	3,195	
Insurance and commission	475	
Rent	600	
Utility expenses	300	
Cash in hand	1,750	
Mortgage interest	205	
Fixed assets	6,000	
Bills receivable	1,000	
Sales less returns		35,000
Capital		6,700
Creditors		1,100
Mortgage with interest up to date		3,005
Rent outstanding		<u>100</u>
	<u>45,905</u>	<u>45,905</u>

Adjustments

QUESTION FIVE

- (a) Identify and discuss **four** types of errors that do not cause a disagreement in the Trial balance totals. **(4marks)**
- (b) Indicate the effect of the following errors on each of the following financial statement elements .Use the following symbols:

O = Overstated

U = Understated

NE = No effect

In answerinthe question draw a table similar to the one below.

(16 marks)

ERROR	Total Revenue	Total Expenses	Net Income	Total assets	Total liabilities	Owners Equity
a)Recorded dividend as an expense eported in the income statement						
b)Recorded a payment of an accounts payable as a debit to accounts payable and a credit to an expense account						
c) Failed to record depreciation expense						
d) Recorded issue of share capital as debit to cash and credit to retained earnings						
e) recorded the receipt of a customer deposit as a debit to cash and a credit to fees earned						
f) Failed to record expired portion of an insurance policy						
g) Failed to record interest earned on an outstanding Note Receivable						

(Total: 20 marks)