



MUEO

MOI UNIVERSITY

OFFICE OF THE DEPUTY VICE CHANCELLOR (A/R&E)

UNIVERSITY EXAMINATIONS **2017/2018 ACADEMIC YEAR** **FIRST YEAR FIRST SEMESTER EXAMINATION**

FOR THE DEGREE OF **BACHELOR OF ARTS IN ECONOMICS**

COURSE CODE: ECO 101

COURSE TITLE: INTRODUCTION TO ACCOUNTING

DATE: 12TH FEBRUARY, 2018 **TIME: 11:40 A.M - 2:40 P.M**

INSTRUCTION TO CANDIDATES

SEE INSIDE

ECO 101: INTRODUCTION TO ACCOUNTING 1

Year of Study: Second

Semester: One

Academic Year: 2017/18

Time: 3 hours

Date: February 2018

Instructions: Answer Question One any Other Three Questions

QUESTION ONE

The following trial balance was extracted from the books of Gladwell, a sole trader, at 31st December 2017:

	Shs	Shs.
Drawings/Capital	2,148	20,271
Debtors/Creditors	7,689	5,462
Purchases/Sales	62,101	81,742
Rent and Rates	880	
Light and heat	246	
Salaries and wages	8,268	
Bad debts	247	
Provision for bad debts		326
Stock in trade 31 st Dec 2016	9,274	
Insurance	172	
General Expenses	933	
Bank balances	1,582	
Motor van at cost/Provision for depreciation	8,000	3,6000
Proceeds on sale of van		250
Motor expenses	861	
Freehold premises at cost	15,000	
Rent received		750
Provision for depreciation on buildings		5,000
	<u>117,401</u>	<u>117,401</u>

van
1000 - 250
= 750

Rates
880
+ 40
= 920

Rent recd
750 + 250 = 1000
Light & heat
85 + 246 = 331

The following matters are to be taken in to account:

1. Stock in trade at 31st December 2017 was Shs.9,884
2. Rates paid in advance at 31st December 2017, Shs.40
3. Rent receivable due at 31st December 2017, Shs.250
4. Lighting and heating due at 31st December 2017, sh.85
5. Provision for doubtful debts to be increased to Shs.388
6. Included in the amount for insurance Shs.172, is an item for Shs82 for motor insurance and this amount should be transferred to motor expenses.
7. Depreciation has been and is to be charged on vans at an annual rate of 20% on cost.
8. Depreciate buildings Shs.500.
9. On 1st January 2017 a van which had been purchased for Shs,1, 000 on 1st January 2014 was sold for Shs250. The only record of matter is the credit of Shs.250 to "Proceeds of sale on van" account.

Prov for doubtful debts
326 + 388
= 714

In advance

Required:

- a) A profit and loss account for the year ended 31 December 2017
- b) A balance sheet as at that date.

(15 marks)
(Total: 25 marks)

QUESTION TWO

a) Define the following accounting concepts and for each explain their implication in the preparation of financial statements.

- i) The Going concern concept 2 marks
- ii) Business entity concept 2 marks
- iii) Materiality 2 marks

b) Tony opened a small business at Moi University Bus Stage on 1st April, 2017. His transactions for the month of April were as follows:

April 1: Opened bank account and deposited sh. 150,000 and retained sh. 50,000 in cash.

2: Paid rent in cash sh. 13,000.

3: Purchased goods for sh. 160,000 from John on credit.

4: Sold goods for sh. 260,000 in cash.

5: Banked sh. 230,000.

9: Purchased some office furniture for sh. 150,000 and paid by cheque

11: Purchased goods for sh. 130,000 from Ever Fashions and paid half the amount by cheque.

12: Sold goods worth sh. 126,000 on credit to Frida. Hired transport for sh. 10,000 and paid

cash

13: Frida returned goods worth sh. 16,000 and she was given a credit note for the same.

16: Received a cheque of sh. 60,000 from Frida.

19: Purchased goods for sh. 19,000 on credit from Monica.

21: Sold goods of sh. 15,000 on credit to Classic Joint.

23: Paid John sh. 144,000 in full settlement of the amount owed to him by cheque

24: Withdrew cash sh. 16,000 for personal use.

26: Bought goods for sh. 18,000 and paid by cheque.

27: Classic Joint paid by cheque sh. 13,500 in full settlement of their debt.

28: Paid by cheque Ever Fashion's debt less 10% discount.

30: Paid salaries sh. 15,000 and water bill sh. 1700 by cheque.

$\frac{10}{100} \times 150000 = 15000$
 $\frac{90}{100} \times 150000 = 135000$

Required :

Three column cash book. (9 marks)

(Total: 15 marks)

342 000
398 000
298 000
94 000

QUESTION THREE

a) Briefly explain the following types of errors:

(2 marks)

- i) Error of commission
- ii) Error of principle

(2 marks)

b) Ssemakula, a sole trader received his bank statement for the month of June 2017. 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 Ssemakula with receipts of Sh.98, 500 paid into the bank on 30 June 2017.
5. Standing order payments amounting to Sh.62, 000 had not been entered into the cashbook.
6. In the cashbook Ssemakula had entered a payment of Sh.74, 900 as Sh.79, 400.
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 honored 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 cashbook balance as at 30 June 2017. (8 marks)
- ii. A bank reconciliation statement as at 30 June 2017. (3marks)

(Total: 15 marks)

QUESTION FOUR

- a) Identify any four users of accounting information and the information required by each of them. (6 marks)
- b) Kelvin Enterprises had the following assets on 1st January 2017

	Sh
Buildings at cost	2500,000
Equipment (Cost Sh 1800, 000)	1350,000
Loose tools at valuation	280,000

732 020
174 000
609 000

Additional information;

- i) Bought equipment for Sh. 3,400,000. Depreciation is charged at 25% p.a on the existing equipment at the end of the year
- ii) Bought loose tools Sh 1600,000
- iii) Bought equipment for Sh 650,000, paying Sh 400,000 by part exchange of equipment which had cost sh. 530,000 and had a book value of sh. 210,000.
- iv) Sold equipment which had cost Sh 420000 and had accumulated depreciation of Sh 208,000 for Sh 250,000.
- v) Loose tools were valued at Sh 390,000 on 31st December 2017
- vi) The buildings were revalued 31st December 2009 to Sh 3000,000 for the year ended 31st December 2017

Prepare;

- i) Equipment account
- ii) Provision on depreciation on equipment account
- iii) Buildings account
- Loose tools account

(9 marks)

(Total: 15 marks)

QUESTION FIVE

- ✓ a) What do you understand by the term 'control accounts'? Explain the purposes for which control accounts are prepared. (5 marks)
- b) Nancy opened a shop in Eldoret on 1st July 2017. The following transactions took place during the month of July 2017.

- July 1; Introduced Sh 200000 in cash into the business from her private bank account.
2; Opened a business bank account by transferring Sh 180000 of business cash into account.
5; Paid Sh 5000 in cash being rent for the month
6; Bought second hand shop equipment at Sh 3000 and paid by cheque.
9; Purchased goods for resale at Sh 10,000 paying them in cash.
11; Purchased goods for resale on credit worth Sh 20000 from Cliff.
20; Returned goods worth Sh 2000 to Cliff.
23; Made cash sales of Sh 15000.
25; Paid Cliff Sh 16200 by cheque.
26; Sold on credit goods worth Sh 10000 to Abraham.
27; Abraham returned goods worth Sh 5000
28; Abraham settled his account.
30; Nancy made a cash withdrawal of Sh 1500 for her private use.

Required:

- a) Ledger accounts (including the two-column cash book) to record the above transactions.
- b) Trial balance as at 31 July 2017. (10 marks)