



TECHNICAL UNIVERSITY OF MOMBASA

Faculty of Business & Social Studies

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN
BACHELOR OF SCIENCE IN INFORMATION TECHNOLOGY

BACHELOR OF BUSINESS ADMINISTRATION

BACHELOR OF COMMERCE

HBC 2101, BAC 4150: INTRODUCTION TO ACCOUNTING I

END OF SEMESTER EXAMINATIONS

SERIES: APRIL 2013

TIME: 2 HOURS

INSTRUCTIONS:

– Answer Question **ONE (Compulsory)** and any other **TWO** questions.

This paper consists of Four printed pages

QUESTION 1 (Compulsory)

- a) Explain the nature of accounting and the accounting equation. **(8 marks)**
- b) Mr Chai has been trading for some years as a wine merchant. The following list of balances has been extracted from his ledger as at 30th April, 207, the end of his most recent financial year

	£
Capital	83,887
Sales	259,870
Trade accounts payable	19,840
Returns outwards	13,407
Allowance for doubtful debts	512
Discounts allowed	2,306
Discounts received	1,750

Purchases	135,680
Return inwards	5,624
Carriage outwards	4,562
Drawings	18,440
Carriage inwards	11,830
Rent, rates and insurance	25,973
Heating and lighting	11,010
Postage, stationery and telephone	2,410
Advertising	5,980
Salaries and wages	38,521
Bad debts	2,008
Cash in hand	534
Cash at bank	4,440
Inventory as at 1 st May 2006	15,654
Trade accounts receivable	24,500
Fixtures and fittings – at cost	120,740
Provision for depreciation fixtures & fittings – as at 30 th April 2007	63,020
Depreciation	12,074

The following additional information as at 30th April 2007 is available:

- i) Inventory at the close of business was valued at £ 17,750
- ii) Insurances have been prepaid by £1,120
- iii) Heating and lighting is accrued by £1,360
- iv) Rates have been prepaid by £5,435
- v) The allowance for doubtful debts is to be adjusted so that it is 3% of trade accounts receivable.

Required;

Prepare Mr Chai's income statement for the year ending 30th April, 2007 and a balance sheet as at that date. **(22 marks)**

QUESTION 2

- a) Explain the term “bank reconciliation” and state the reasons for its preparation. (6 marks)
- b) Semakula, a sole trader received his bank statement for the month of June 2001. At that date the bank balance was sh. 706,500 where 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 Semakula 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 credit Mr. Semakula with receipts of sh. 98,500 paid into the bank on 30th June 2011.
 5. Standing order payments amounting to sh. 62,000 had not been entered into the cashbook.
 6. In the cashbook Semakula had entered a payment of sh. 74,900 as sh. 79,400
 7. A cheque for sh. 15,000 from debtor had been returned by the bank marked ‘refer to drawer’ but had not been written back into the cashbook.

8. Semakula 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 cash book but the bank had already honoured it.
10. Some of Semakula's customers had agreed to settle their debts by paying directly into his 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 Semakula had actually entered the expected receipts from the debtors in his cashbook.

Required:

- i) A statement showing Semakula's adjusted cashbook balance as at 30th June 2001. **(9 marks)**
- ii) A bank reconciliation statement as at 30th June 2001. **(5 marks)**

QUESTION 3

If the information in financial statements is to be useful, regard must be made to the following:

- a) Materiality
- b) Comparability
- c) Prudence
- d) Reliability
- e) Relevance

Required

Explain the meaning of each of these factors as they apply to financial accounting including in your explanations one example of the application of each of them. **(20 marks)**

QUESTION 4

A bookkeeper extracted a trial balance on 31st December 2002 that failed to agree by £3,300, a short on the credit side at the trial balance. A suspense account was opened for the difference. In January 2003 the following errors made in 203 were found:

- i) Sales daybook had been undercast by £1,000
- ii) Sales of £2,500 to J Church had been debited in error to J Chane account
- iii) Rent account had been undercast by £700
- iv) Discounts received account had been undercast by £3,000
- v) The sale of a motor vehicle at book value had been credited in error to sales account £3,600

You are required to:

- a) Show the journal entries necessary to correct the errors. **(10 marks)**
- b) Draw up the suspense account after the errors described have been corrected. **(5 marks)**
- c) If the net profit had previously been calculated at £79,000 for the year ended 31st December 2002, show the calculations of the corrected net profit. **(5 marks)**

QUESTION 5

- a) Distinguish between discount allowed and discount received. **(2 marks)**

b) Mr Kariuki has given you the following information concerning his cash transaction the month of

July 2011:

- July 1 Balance b/f cash sh. 2,500
Bank sh. 7,400
- 2 Bought goods by cheque sh. 2,000
- 3 Cash sales sh. 1,800
- 5 Banked sh. 2,000
- 6 Paid by cheque, in each case sh. Discount received 3%
A. John sh. 1,500, H Hofman sh. 3,000, D. Jackson sh. 1,400
- 7 Received by cheque, in each case, discount allowed 5%
B. Shawn sh. 4,000, B. Berhim sh. 3,000, J Mathius sh. 3,200
- 10 Bought office furniture by cheque sh. 3,000
- 15 Cash drawings sh. 500
- 20 Paid to A. Adleman sh. 800 cash less 3%
- 22 Received cash from A. Smith sh. 1,500 less 4%
- 30th Paid wages in cash sh. 1,000

Required:

Write up three-column cash book for Mr. Kariuki from the above details, then balance off his cashbook at the end of the month and show the discount accounts in the general ledger. **(18 marks)**