



**MASENO UNIVERSITY**  
**UNIVERSITY EXAMINATIONS 2016/2017**

**FIRST YEAR SECOND SEMESTER EXAMINATION FOR THE  
DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION  
WITH INFORMATION TECHNOLOGY**

**CITY CAMPUS – EVENING**

**ABA 103: INTRODUCTION TO ACCOUNTING I**

Date: 13<sup>th</sup> June, 2017

Time: 5.30 - 8.30pm

---

**INSTRUCTIONS:**

- Answer Question ONE and any other THREE.



QUESTION ONE

- (a) The International Accounting Standards Board has published a framework for the preparation of financial statements.  
Required:

State the users of financial information and explain their information needs as per the framework (10 marks)

- (b) The following trial balance was extracted from the books of Mohamed Kagame, a sole trader as at 31 October 2015:

Capital	Sh.	Sh.
Drawings		1216260
Sales	128880	
Purchases		4904520
Debtors and Creditors	3726060	
Rent and rates	476160	327720
Electricity	52800	
Salaries and wages	14760	
Provision for doubtful debts (1 November 2014)	496080	
Stock in trade (1 November 2014)		19560
insurance	556440	
General expenses	10320	
Bank balance	55980	
Cash in hand	90000	
Motor vehicles at Cost	4920	
Provision for depreciation on motor vehicles (1 November 2014)	580000	
proceeds from sale of motor vehicle		216000
Motor vehicle expenses		115000
Premises (at Cost)	51660	
Rent received	600000	
		45000
	<b>6844060</b>	<b>6844060</b>

Additional information:

1. Stock in trade as at 31 October 2015 was valued at Sh.593040.
2. Rates and insurance were prepaid to the extent of sh.2400 and Sh.2820 respectively, as at 31 October 2015.

3. Electricity due as at 31 October 2015 amounted to Sh.6000.
4. The provision for doubtful debts is to be adjusted to 5% of the debtors remaining after taking into account that sh.20160 of the debtors were to be regarded as bad.
5. Rent received as at 31 October 2015 was Sh.15000.
6. Depreciation has been and is to be charged on motor vehicles at the rate of 20% per annum on the straight line basis. No depreciation is to be charged on premises.
7. In November 2014, a motor vehicle which had been purchased for Sh.160000 on 1 November 2012 was sold for Sh.115000. The only record of this disposal is the entry in the proceeds from sales of motor vehicle account.

**Required:**

- (i) Income statement for the year ended 31 October 2015. (8 marks)
- (ii) Statement of financial position for the year ended 31 October 2015. (7 marks)

**QUESTION TWO**

Demka Ltd., a juice distributor has several customers and suppliers. The following information was extracted from the books of the company for the month ended 30 June 2015:

	Sh.
Credit purchase	14750000
Allowance for doubtful debts as at 30 June 2015	3200000
Credit sales	19000000
Claims by Demka Ltd. for price reductions on defective goods as agreed with suppliers	539000
Return inwards	600000
Discount received	378000
Return outwards	450000
Interest charged to credit customers	1002500
Discount allowed	504500
Receipts from credit customers	16532000
Payments to credit suppliers	15302500
Bad debts written off	403500
Customers cheques dishonored	4825500

Payables ledger credits transferred to receivable ledger	1073000
Receivable ledger balance as at 1 June 2015	10500000
Payable balance as at 1 June 2015	4000000

**Additional information:**

- As at 30 June 2015, customers' account with credit balance totaled to sh.2250000 while suppliers account with debit balances totaled to sh.1067000.
- An amount of Sh.143000 of the receivables was written off in April 2015. However, the amount was later received in the month of June 2015 and credited to the suspense account.
- An invoice of Sh.300000 had not been posted to the receivables control account as at 30 June 2015. The invoice had been correctly posted in the receivables ledger.

**Required;**

- Receivable control account (8 marks)
- Payables control account. (7 marks)

**QUESTION THREE**

- Discuss the purposes of journal entries in the accounting process. (5 marks)
- Walter Muita, a sole trader, presented the following balance sheet of his business as at 30 June 2015. He asked you to investigate the causes of errors giving rise to the amount in the suspense account.

	Sh.		Sh	Sh
Capital	225000	Fixed assets:		
Profit for the year	200000	Fixtures and Fittings	60000	
	450000	Less: Depreciation	25000	35000
Less: Drawings	150000	Machinery	75000	
	275000	Less: Depreciation	20000	55000
Current Liabilities		Current assets		
Creditors	74500	Stock	150000	
Suspense account	500	Debtors	85000	
		Bank balance	25000	260000

350000

350000

You subsequently discovered the following errors:

1. The purchases day book was under cast by Sh.4000.
2. A telephone head costing Sh.3000 was bought and the amount was debited to the repairs account.
3. The telephone head is to be depreciated at the rate of 15% per annum as part of fixtures and fittings.
4. An amount of Sh.2000 was omitted from total debtors.
5. Returns outwards of Sh.500 were erroneously entered in the sales book.
6. A payment of Sh.1250 to a creditor was correctly entered in the cash book but credited to his account.
7. Goods valued at Sh.10000 were taken by Walter Muita for his own use and no entry has been made to this effect.
8. A bad debt of Sh.1250 had been written off.
9. A discount received of Sh.4500 had been correctly recorded in the cash book but had been posted to the wrong side of the discount received account.

**Required:**

- (i) Show the necessary journal entries to correct the errors listed above.  
(5 marks)
- (ii) Statement of adjusted profit (or loss) for the year ended 30 June 2015.  
(5 marks)

**QUESTION FOUR**

The following is a summary of the cash book of Azimio Ltd for the year ended 31 May 2014.

Balance b/f	Sh000		Sh.000
	805	Payments	146203
Receipts	145720	Balance c/f	322
	146525		146525

Subsequent investigations reveal that:

1. A page of the receipt side of the cash book has been undercast by Sh.200000.



2. The following transactions appearing on the bank statement have not yet been entered in the cash book:
- Dividend received on trade investment sh. 1147000.
  - Hire purchase repayments for 12 months at Sh.55000 per month.
  - Interest for the half year to 30 November 2014 on a loan of Sh.20000000 at 11% per annum.
3. Bank charges of Sh.143000 shown on the bank statement have not yet been entered in the cash book.
4. A cheque received from a customer for Sh.180000 was returned by the bank unpaid and no entry has been made in the cash book for this transaction.
5. The company owes Sh.430000 for electricity consumed in the month of May 2014.
6. A cheque drawn for Sh.82000 has been debited to the company's account in error by the bank.
7. A cheque for sh.98000 has been entered in the cash book as Sh.89000 and another one drawn for Sh.230000 has been entered as a receipt.
8. A transposition error occurred in the opening balance of the cash book. The opening balance should have been brought down as Sh.850000 instead of Sh.805000.
9. Cheques paid to suppliers totaling Sh.630000 have not yet been presented at the bank, while deposits totaling Sh.580000 made on 31 May 2014 have not yet been credited to the company's account.
10. The balance as per the bank statement is an overdraft of Sh.870000.

**Required:**

- (a) Adjusted cash book balance (8 marks)
- (b) Bank reconciliation statement as at 31 May 2014. (7 marks)

**QUESTION FIVE**

- (a) Define the following accounting concepts and for each explain their implication in the preparation of financial Statements.
- i) The Going concern concept. (3 marks)
  - ii) Business entity concept. (3 marks)
  - iii) Materiality. (3 marks)

iv) Realisation.

(3 marks)

- (b) Two accounting concepts or conventions could clash or there could be inconsistency between them. Give two examples of such situations and explain how the inconsistency should be resolved. (3 marks)

### QUESTION SIX

Kimeu commenced his business of making furniture on 1 April 2014. Due to his limited accounting knowledge he has not maintained proper books of account. You have been engaged to examine his records and prepare appropriate accounts there from. You perform an examination of the records and from interviews with Kimeu you ascertain the following information.

1. At the commencement of business on 1 April 2014, he deposited Sh 1,200,000 into business bank account. On the same day he brought into the firm his pickup and estimated that it was worth Sh 660,000 and then that from 1 April 2014 it will have useful life of three years.
2. To increase his working capital he borrowed Sh 400,000 at 15% interest per annum on 1 July 2014 from his sister but no interest has yet been paid.
3. On 1 April 2014, Sally was employed as a clerk at a salary of Sh. 720,000 per annum.
4. He had drawn Sh 18,000 per week from the business account for private use during the year.
5. He purchased timber worth Sh 1,960,000 out of which Sh 158,000 worth of stock was retained in the workshop on 31 March 2015. He also spent Sh 960,000 on the purchase of some equipment at the commencement of the business which he estimates will last him five years.
5. Electricity bills received up to 31 January 2015 were Sh 240,000. Bills for the remaining two months were estimated to be Sh 48,000. Motor vehicle expenses were Sh 182,000 while general expenses amounted to Sh 270,000 for the year. Insurance premium for the year to 30 June 2015 was Sh 160,000. All these expenses have been paid by cheque.
7. Rates for the year to June 2015 were Sh 36,000 but these had not been paid.
3. Sally sent out invoices to customers for Sh 6,178,000 but only Sh 5,080,000 had been received by 31 March 2015. Debt totaling to Sh 17,000 were abandoned during the year as bad. Other customers for jobs too small to invoice have paid Sh 726,000 in cash for work done of which Sh 560,000 was banked. Kimeu used Sh 75,000 of the difference to pay for his family's

foodstuff, bought Kenya Charity Sweepstake tickets worth 24,000 and Sally used the rest on general expenses except for Sh 30,100 which was left in the office on 31 March 2015.

9. You agree with Kimeu that he will pay you Sh 55,000 for accountancy fee.
- 

**Required:**

- (a) Income statement for the year ended 31 March 2015. (8 marks)
- (b) Statement of financial position as at 31 March 2015. (7 marks)
-