



**UNIVERSITY EXAMINATIONS: 2016/2017**

**ORDINARY EXAMINATION FOR THE BACHELOR OF COMMERCE**

**CAA 100 INTRODUCTION TO ACCOUNTING 1**

**DATE: APRIL, 2017**

**TIME: 2 HOUR**

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**INSTRUCTIONS: Answer ALL Questions**

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**QUESTION ONE**

Doris Wama commenced business on 1 January 2014 and prepares her financial statements to 31 December every year. For the year ended 31 December 2014, bad debts written off amounted to Kshs. 28,000. It was found necessary to create an allowance for doubtful of Kshs. 52,000.

In 2015, debts amounting to Kshs. 44,000 proved to be bad and were written-off. J Nekesa, whose debt of Kshs. 4,200 was written off as bad in 2006, settled her account in full on 30 November 2015. As at 31 December 2015 total debts outstanding were Kshs. 1,840,000. It was decided to bring the provision up to 4% of this figure on that date.

In 2016, Kshs. 76,000 of debts were written-off during the year, and another recovery of Kshs. 6,400 was made in respect of debts written-off in 2006. As at 31 December 2016, total debts outstanding were Kshs. 1,440,000. The allowance for doubtful debts is to be charged to 5% of this figure.

**You are required to show for the years 2014, 2015 and 2016, the**

- (a) Bad Debts Account (3 Marks)
  - (b) Bad Debts Recovered Account (3 Marks)
  - (c) Allowance for Doubtful Debts Account (6 Marks)
  - (d) Extracts from the Income Statement and Statement of financial positions (8Marks)
- (20 Marks)**

## QUESTION TWO

The following trial balance was extracted from the books of Rachael Khasandi, a sole trader as at 31 August 2016.

	Kshs. '000'	Kshs. '000'
Plant and machinery at cost	11,350	
Provision for depreciation on plant and machinery		4,150
Motor vehicles	13,290	
Provision for depreciation on motor vehicles		2,790
Goodwill	5,000	
Quoted investments	6,470	
Freehold premises at cost	32,000	
Mortgage on premises		10,000
Interest paid/received	1,000	460
Inventory 1 September, 2015	4,670	
Bank and cash	2,850	
Capital		60,000
Drawings	5,600	
Purchases/sales	34,260	58,640
Returns inwards/outwards	3,260	2,140
Carriage inwards	730	
Carriage outwards	420	
Discount allowed/received	1,480	1,970
Wages	7,180	
Rent and rates	4,300	
Allowance for bad and doubtful debts		530
Trade receivables/payables	8,070	4,340
Electricity	2,640	
Stationery	450	
	<b>145,020</b>	<b>145,020</b>

### Additional information

1. Inventory as at 31 August 2016 was valued at Kshs. 3,690,000
2. Allowance for bad debts is to be adjusted to 10% of debtors
3. Bad debts of Kshs. 370,000 have not been posted to the ledger.
4. Goods which cost Kshs. 300,000 had erroneously been invoiced to a customer for Kshs. 400,000 and had been accounted for as sales.
5. Electricity accrued as at 31 August 2016 was Kshs. 130,000 and prepaid rates amounted to Kshs. 210,000.
6. Inventory of stationery as at 31 August 2016 was Kshs. 230,000

### Required:

- (a) Income statement for the year ended 31 August 2016 (12 Marks)
- (b) Statement of financial position as at 31 August 2016 (8 Marks)
- (Total: 20 Marks)**

### QUESTION THREE

- (a) Briefly explain the purpose of a suspense account (2 Marks)
- (b) Benjamin Mina is an accountant at Royal Services Ltd. During the year ended 30 June 2009, he prepared a trial balance which did not balance. He posted the difference to the suspense account. He then prepared the financial statements for the year ended 30 June 2009. The net profit for the company was Kshs. 483,840. Upon investigation, the following errors were later discovered:
1. The total of purchases day book had been undercast by Kshs. 11,200,000
  2. The total of the discount column, on the debit side of the cashbook amounting to Kshs. 2,240,000 had been posted to the credit of discount received account.
  3. Motor vehicles repairs amounting to Kshs. 8,512,000 had been posted to the motor vehicle account.
  4. A cheque for Kshs. 4,368,000 received from Barnabas Bundi, a debtor, had been debited in the cashbook but no other entry had been made.
  5. The returns outward book had been overcast by Kshs. 5,600,000.

#### Required:

- (i) Journal entries to correct the errors (9 Marks)
- (ii) Suspense account (3 Marks)
- (iii) Statement of corrected net profit (3 Marks)
- (Total: 15 Marks)**

### QUESTION FOUR

- (a) Briefly explain the qualitative characteristics of accounting information. (6 Marks)
- (b) Identify six users of accounting information and explain the importance of information to each user. (9 Marks)
- (Total: 15 Marks)**