

W1-2-60-1-6

**JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY**

**University Examinations 2016/2017**

 **FIRST YEAR FIRST SEMESTER EXAMINATION FOR THE POST GRADUATE DIPLOMA IN TAX ADMINISTRATION**

**BRT 3101: FINANCIAL ACCOUNTING 1**

**DATE: AUGUST 2017 TIME: 3 HOURS**

**Instructions: Answer Question One (Compulsory) and any other Two Questions**

**QUESTION ONE**

1. Explain Four reasons why users of financial statements may be interested in accounting information ( 8 marks)
2. Highlight four reasons why business entities carry out bank reconciliation ( 4 marks)
3. The following trial balance has been extracted from the ledger of Hopa, a sole trader, as at 31 May 2016

Hopa traders

Trial Balance as at 31 May 2016

|  |  |  |
| --- | --- | --- |
|  | Dr  | Cr |
|  | sh | sh |
| Property at cost | 90,000 |  |
| Equipment at cost | 57,500 |  |
| Provision for depreciation as at 1 June 2015: |  |  |
| * Property
 |  | 12,500 |
| * Equipment
 |  | 32,500 |
| Stock as at 1 June 2015 | 27,400 |  |
| Purchases | 259,600 |  |
| Sales |  | 405,000 |
| Discounts allowed | 3,370 |  |
| Discounts received |  | 4,420 |
| Wages and salaries | 52,360 |  |
| Bad debts | 1,720 |  |
| Loan interest | 1,560 |  |
| Carriage out | 5,310 |  |
| Other operating expenses | 38,800 |  |
| Trade debtors | 46,200 |  |
| Trade creditors |  | 33,600 |
| Provision for bad debts |  | 280 |
| Cash on hand | 151 |  |
| Bank overdraft |  | 14,500 |
| Drawings | 28,930 |  |
| 13% loan |  | 12,000 |
| Capital, as at 1 June 2015 | \_\_\_\_\_\_ | 98,101 |
|  | 612,901 | 612,901 |

The following additional information as at 31 May 2016 is available:

1. Stock as at the close of business was valued at sh25,900.
2. Depreciation for the year ended 31 May 2016 has yet to be provided as follows:

Property 1% using the straight-line method

Equipment 15% on reducing method

1. Wages and salaries are accrued by sh140.
2. Other operating expenses include sh 4800 used by the proprietor in repairing family residence
3. The provision for bad debts is to be adjusted so that it is 0.5% of trade debtors as at 31 May 2016.
4. Purchases include goods valued at sh1,040, which were withdrawn by Mr Howell for his own personal use.

Required:

1. Prepare a statement of profit or loss and other comprehensive income for the year ended 31 May 2016

(10 marks)

1. a statement of financial position at 31 May 2016 (8 marks) **(Total 30 marks)**

**QUESTION TWO**

(a) Explain the significance of any two source documents to a business. (4 marks)

(b) Posha Limited keeps sales and purchases control accounts in the General Ledger. The transactions for the month ended 30 April 2016 were as follows:

|  |  |  |
| --- | --- | --- |
|  |  |  Sh |
| Credit balances on 1 April 2016  | -Sales ledger | 154,000 |
|  | -Purchases ledger | 569,000 |
| Debit balances on 1 April 2016  | -Sales ledger | 956,000 |
|  | -Purchases ledger | 196,000 |
| Credit balances on 30 April 2016 | -Sales ledger | 178,000 |
| Debit balances on 30 April 2016 | Purchases ledger | 189,000 |
| Credit purchases |  | 2,450,000 |
| Credit sales |  | 4,563,000 |
| Cheques received from debtors |  | 3,140,000 |
| Cash received from debtors |  | 1,367,000 |
| Cheque payments to creditors |  | 1,994,000 |
| Cash payments to creditors |  | 352,000 |
| Bad debts written off |  | 68,000 |
| Discounts received |  | 104,000 |
| Discounts allowed |  | 169,000 |
| Contra entry to sales ledger from purchases ledger |  | 234,000 |
| Refunds to debtors |  | 62,000 |
| Returns outwards |  | 138,000 |
| Returns inwards |  | 231,000 |

**Required:**

Sales ledger and purchases ledger control accounts for the month ended 30 April 2016.

**(11 marks)**

**(Total 15 marks)**

**QUESTION THREE**

A cashbook of KESRA Enterprises showed a debit balance of Sh.1,710,000 on 31 October 2016,. This did not agree with the balance shown in the bank statement. Upon investigation, the following errors were discovered:

* 1. A cheque paid to Kindaruma for Sh.306,000 had been entered in the cashbook as Sh.387,000
	2. Cash paid into the bank by a customer for Sh.90,000 had been entered in the cashbook as Sh.81,000
	3. A transfer of Sh.1,110,000 to Central Savings Bank had not been posted to the cash book.
	4. A receipt of Sh.9,000 shown in the bank statement had not been posted in the cashbook.
	5. Cheques drawn amounting to Sh.36,000 had not been paid into the bank.
	6. The cash book balance had been incorrectly brought down at 1 November 2015 as a debit balance of Sh.1,080,000 instead of a debit balance of Sh.990,000
	7. Bank charges of Sh.18,000 do not appear in the cash book.
	8. A receipt of Sh.810,000 paid into the bank on 31 October 2016 appeared in the bank statement on 1 November 2016.
	9. A standing order of Sh.27,000 had not been recorded in the cash book.
	10. A cheque for Sh.45,000 previously received and paid into the bank had been returned by the customer’s bank marked “account closed”.
	11. The bank received a direct debit of Sh.90,000 from an anonymous customer.
	12. Cheques banked had been totaled at Sh.135,000 instead of Sh.153,000.
	13. A cheque drawn in favour of Nyaga for Sh.120,000 had been entered on the debit side of the cashbook.

**Required;**

(I) Adjusted cash book as at 31 October 2016(9marks)

(II) A bank reconciliation statement as at 31 October 2016. (6 marks)

**(Total: 15 marks)**

**QUESTION FOUR**

(a) Explain the meaning of the term materiality in relation to financial statements and state two factors affecting the assessment of materiality. (4 Marks)

(b) Thika Ltd has the following balances on its accounts in respect of machinery and its depreci­ation: as at 31 December 2011: Machinery sh. 2 10,000, Provision for depreciation of the machinery sh.86,000. The firm then makes the following purchases of machinery:

|  |  |  |
| --- | --- | --- |
|  2012 Jan 1 | 1 | Sh.100,000 |
| “ |  | Sh.120,000 |
| “ |  | Sh.160,000 |
|  2014 Jan 1 |  | Sh.200,000 |

Machinery is depreciated using the reducing balance method at a rate of 20% and is provided on an annual basis. On 1 Jan 2015, machinery purchased for sh 60,000 on 1 Jan 2011 is sold for sh.3000.

For the years ended 31st December, 2012, 2013, 2014, and 2015; prepare:

1. Machinery at cost account
2. Provision for depreciation of machinery account
3. Machinery disposal account.

 (11 mark)

**(Total: 15 marks)**

**QUESTION FIVE**

A bookkeeper extracted a trial balance on 31 December 2016 that failed to agree by sh 3,300; a shortage on the credit side of the trial balance. A suspense account was opened for the difference.

In January 2016, the following errors made in 2016 were found:

1. Sales daybook had been under cast by sh1,000.
2. Sales of sh2,500 to J Church had been debited in error to J Chane account.
3. Rent account had been under cast by sh700.
4. Discounts received account had been under cast by sh3,000.
5. The sale of a motor vehicle at book value had been credited in error to Sales account sh3,600.

Required:

1. Record journal entries to correct the errors.
2. Suspense account duly balanced.
3. If the net profit had previously been calculated at sh79,000 for the year ended 31 December 2016, show the calculations of the corrected net profit.

**(Total: 15 marks)**