

KABARAK



UNIVERSITY

UNIVERSITY EXAMINATIONS

2013/2014 ACADEMIC YEAR

FOR THE DEGREE OF BACHELOR OF EDUCATION ARTS

ACCT 110: FOUNDATIONS OF ACCOUNTING I

DAY: SATURDAY

DATE: 19/04/2014

TIME: 12.00 – 2.00 P.M.

STREAM: SESSION I

INSTRUCTIONS

- i.** The paper contains **FOUR** questions
 - ii.** Answer **QUESTION ONE** and **ANY other TWO** questions
 - iii.** Marks are allocated at the end of each question
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QUESTION ONE

(30 marks)

- (a)** “Qualitative characteristics are the attributes that make information provided in financial statements useful to users”. Briefly explain the four main qualitative characteristics of financial statements with reference to shareholders of a company. **(10 marks)**
- (b)** Several widely used financial accounting and reporting practices are listed below.
- (i)** The costs of assets are initially capitalized and then debited to expense over the periods benefited.
 - (ii)** Revenues are recorded when earned and expenses are recorded when incurred.
 - (iii)** The exchange price established in a transaction actually entered into by the accounting entity is the proper basis for initially recording assets.
 - (iv)** Revenue is recorded in the accounting records and reported in the financial statements.
 - (v)** Revenue normally is reported in the income statement in the period of sale.
 - (vi)** Inventories and marketable equity securities are valued on the basis of lower of cost or market.
 - (vii)** The assets and liabilities of stockholders are not included with the assets and liabilities of the corporation whose stock they hold.
 - (viii)** Income occurs when the number of dollars of revenue earned exceeds the number of dollars of expenses incurred. (Do not use the matching principle.)

Required

Identify the environmental assumption, qualitative characteristic, or recognition and measurement principle that best supports each of the above accounting and reporting practices.

(10 marks)

(c) Explain why it is necessary to continue to study manual bookkeeping systems when computerized bookkeeping packages are readily available? **(5 marks)**

(d) Briefly state the reasons why a company would not wish to distribute all its profits to its shareholders. **(5 marks)**

(10 marks)**QUESTION TWO****(20 Marks)**

a) What are some of the importance of journal entries? **(6 marks)**

b) The following Trial Balance is taken from the books of John Masumbuko after the preparation of the Trading Profit and Loss Account for the year ended 30th April 2010.

John Masumbuko
Trial Balance
As at 30th April 2010

	Debit (Ksh)	Credit (Ksh)
Gross profit		32400
Capital	8400	
Drawings	1600	
Discount allowed	1600	
Discount received		1800
Bad debts	210	
Provision for bad debts		280
Debtors	6200	
Creditors		8400
Stock at 30 th April 2010	16200	
Rent	10500	
Wages	21600	
General expenses	4120	
Fixtures and equipment at cost	29000	
Provision for depreciation of fixtures and equipment		8700
Bank		2000
Long-term loan		5000
Loan interest	350	
	<u>98180</u>	<u>98180</u>

Additional information:**Ksh**

- i. At 30th April 2010

Rent prepaid amounts to	500
General expenses accrued	150
- ii. The provision for doubtful debt is to be maintained at 5% of the debtors

- iii. Fixtures and equipment are to be depreciated at 10% per annum using the straight line method.

Required:

Prepare the Profit and Loss Account of John Masumbuko for the year ended 30th April 2010. **(14 marks)**

QUESTION THREE **(20 Marks)**

After planning for several months, Jackie decided to start her own hair cutting business called NDUMBUINI. During its first month (August 2013) of operation, the NDUMBUINI completed the following transactions:

August:

- 1: She put shs. 200,000 of her savings into bank account in the name of NDUMBUINI,
- 2: She bought supplies for shs. 60,000 on cash,
- 3: She paid shs. 15,000 rent for the month of August for a small store,
- 5: She furnished the store installing new fixtures sold to her on credit by the supplier for shs. 120,000. This amount is to be repaid in 3 equal installments at the end of August, September and October,
- 12: The NDUMBUINI was opened and in the first week of business ended August 16th, receipts from cash sales amounted to shs 8250,
- 17: Jackie paid shs 2,500 to an assistant for working during the business grand opening,
- 30: Receipts from cash sales during the two-week period ended August 30th amounted to shs 19,300,
- 31: She paid the first installment on the fixtures,
- 31: She withdrew shs 9,000 cash for her personal use.

Required

- (i) Explain how accruals and prepayments are recorded in financial reports **(6marks)**
- (ii) Record the above transaction in a general journal. **(14 marks)**

QUESTION FOUR **(20 Marks)**

- (a) Prepare a Cash Book with discount column of Shri Shyam from the following transaction. Enter the following in Shri Shyam's Cash Book and show the Balance:

2009

March 1	Balance of cash in Hand Ksh. 25,000	
March 3	Rent paid Ksh. 2,000	
March 5	Purchased goods for cash Ksh. 10,000	
March 10	Stationery purchased Ksh. 2,500	
March 12	Sold Goods for Cash for Ksh. 8,000	
March 15	Cash received from Ram Ksh. 980 and discount allowed Ksh.20	
March 18	Cash paid to Shyam Ksh.950 and discount Received Ksh.50	
March 25	Wages Paid Ksh. 2,000	(10marks)

(b) From the following information, draw up a Trial Balance in the books of Shri Subhash Chand as on 31st March,2009:

Transactions	Ksh.	Transactions	Ksh.
Capital	1,50,000	Sales	1,05,400
Purchases	40,000	Sundry Creditor	5,000
Cash in Hand	7,000	Rent	2,000
Cash at Bank	8,500	Furniture	16,000
Electricity exp.	4,800	Bank Loan	10,000
Stationery	500	Investment	6,000
Office Equipment	2,400	Commission paid	1,050
Sundry Debtors	8,000	Opening Stock	3,200
Machinery	1,60,000	Commission Received	1,200
Salaries	11,400	Postage & Telegram	750

(10marks)