



**KABARAK**

**UNIVERSITY**

**UNIVERSITY EXAMINATIONS  
2011/2012 ACADEMIC YEAR  
FOR THE DEGREE OF BACHELOR OF COMMERCE  
AND BACHELOR OF BUSINESS MANAGEMENT AND  
INFORMATION TECHNOLOGY AND BACHELOR OF  
EDUCATION ARTS**

**ACCT 110 – FOUNDATIONS OF ACCOUNTING 1**

**DAY: THURSDAY**

**DATE: 29/03/2012**

**TIME: 9.00 A.M – 11.00 A.M.**

**STREAM: Y1S1**

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**INSTRUCTIONS**

This paper contains four questions:

1. Answer ALL Questions
2. Be clear and neat and show the necessary workings
3. Begin a new question on a new page

**TIME ALLOWED – 2 HOURS**

**PLEASE TURNOVER**

### QUESTION ONE

a) Using relevant examples, explain clearly the following accounting principles and concepts:

- (i) Duality concept (3 marks)
- (ii) Matching principle (3 marks)

b) The following trial balance has been extracted from the books of Chipolopolo, a sole trader, as at 31st December 2011.

	Dr	Cr
	Shs.	Shs.
Van at cost	300,000	
Purchases and Sales	3,500,000	4,000,000
Sales returns	50,000	
Purchases returns		62,000
Stock at 1 <sup>st</sup> January 2011	1,000,000	
Provision for bad debts		8,000
Salaries and Wages	300,000	
Rates	60,000	
Telephone	10,000	
Shop fittings at cost	400,000	
Debtors and creditors	98,000	70,000
Bad debts	2,000	
Capital		1,790,000
Bank balance	30,000	
Drawings	180,000	
	<u>5,930,000</u>	<u>5,930,000</u>

Additional information:

- (i) Closing stock as at 31<sup>st</sup> December 2011 shs. 1,200,000
- (ii) Accrued wages shs. 50,000 while prepaid rates is shs. 5,000
- (iii) The provision for bad debts to be increased to 10% of debtors
- (iv) Telephone account outstanding shs. 2,200
- (v) Depreciate shop fittings at 10% per annum and van at 20% per annum on cost

Required:

Prepare Mr Chipolopolo's statement of comprehensive income for the year ended 31<sup>st</sup> December 2011 and a statement of financial position as at that date. (19 marks)

## **QUESTION TWO**

- a) Explain any 5 causes of the difference between the cashbook balance and the bank statement balance (5 marks).
- b) On 31<sup>st</sup> December 2010, the Bank column of Joe & Sons' current account cash book showed a debit balance of shs. 22,500. The monthly bank statement written up to 31<sup>st</sup> December 2010 showed a credit balance of shs. 44,250.

On checking the cashbook with the bank statement, it was discovered that the following transactions had not been entered in the cashbook:

- Dividends of shs. 3,600 had been paid directly to the bank
- A credit transfer –customs and excise VAT refund of shs. 3,900 had been collected by the bank.
- Bank charges shs. 450
- A direct debit of shs. 1,050 for the Business Club subscription had been paid by the bank
- Joe & Sons' fixed deposit account balance of shs. 21,000 was transferred into his bank current account
- The bank had paid a standing charge of shs. 3,000 as loan on behalf of Joe & Sons

A further check revealed the following items:

- Two checks drawn in favour of B Graham shs. 3,750 and R Bonke shs. 4,350 had been entered in the cashbook but had not been presented for payment.
- Cash and cheques amounting to shs. 10,350 had been paid into the bank on 31<sup>st</sup> December 2010 but were not credited by the bank until 4 January 2011

### **Required:**

- (i) Starting with the debit balance of shs. 22,500 bring the cashbook (bank columns) upto date and then balance the bank account (5 marks)
- (ii) Prepare a bank reconciliation statement as at 31<sup>st</sup> December 2010 (5 marks)

### **QUESTION THREE**

- a) State any three errors that affect the trial balance (3 marks)
- b) You extracted a trial balance on 31<sup>st</sup> December 2011 which failed to agree by shs. 31,500, a shortage on the credit side of the trial balance. A suspense account was opened for the difference.

In January 2012 the following errors made in 2011 were found.

- (i) Sales daybook had been undercast by shs. 30,000
- (ii) Sales of shs. 93,000 to L Martha had been debited in error to L Mark's account
- (iii) Rent account had been undercast by shs. 13,500
- (iv) Discounts allowed account had been overcast by shs. 15,000
- (v) The sale of a computer at net book value had been credited in error to the sales account shs. 34,500

#### **Required**

- a) Show the journal entries necessary to correct the above errors (5 marks)
- b) Draw up the suspense account after the errors described have been corrected (3 marks)
- c) If the net profit had been previously calculated at shs. 471,000 for the year ending 31<sup>st</sup> December 2011, show the calculations of the corrected net profit (4marks)

### **QUESTION FOUR**

Accounting can be defined as “the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by **users of the information.**” (AAA – American Accounting association – 1966)

#### **Required:**

Discuss the main users of accounting information stating clearly why they need this information (15 marks)