## FOR THE DEGREE OF BACHELOR OF COMMERCE

## ACCT 110: FOUNDATIONS OF ACCOUNTING

## DAY: WEDNESDAY

DATE: 10/12/2014

## TIME: 11.00 - 1.00 P.M.

STREAM: Y1S1

## INSTRUCTIONS:

## 1. Answer All Questions

2. Show All Your Workings
3. Be Neat: Untidy Work Will Be Penalized

## QUESTION ONE:

a. Highlight 5 users of accounting information and their information of interest
(5 Marks)
b. The trial balance of penguin, a company as at 31December 2013 was as follows:

|  | Dr \$ | Cr \$ |
| :--- | ---: | :--- |
|  |  |  |
| Sales and purchase | 20,000 | 50,000 |
| Inventory | 8,000 |  |
| Distribution cost | 8,000 |  |
| Administration expenses | 15,550 |  |
| Receivable and payables | 10,000 | 20,000 |
| Fundamental reorganization costs | 8,400 |  |
| Cash at bank |  | 8,000 |
| Ordinary shares 50c |  | 9,000 |
| $10 \%$ irredeemable preference shares \$1 | 35,000 | 8,000 |
| $10 \%$ loan notes |  | 3,000 |
| None-current assets at net book value |  | 3,000 |
| Share premium | 400 |  |
| Accumulated profit at 1 January 2013 |  |  |


| Preference dividend | 450 |  |
| :--- | :---: | :---: |
| Interim ordinary dividend | 1,600 |  |
| Income tax |  | 500 |
| Suspense | $\overline{109,500}$ | $\underline{8,000}$ |
|  | 109,500 |  |

The following is to be taken into account.

1. A building whose net book value is currently $\$ 5,000$ is to be valued to $\$ 11,000$.
2. Closing inventory is $\$ 12,000$.

Prepare the following statements for the year ended $31^{\text {st }}$ December 20*5:
1 Income statement
2 Balance sheet.

## QUESTION TWO

a) Explain any 5 causes of the difference between the cashbook balance and the bank statement balance (5 marks).
b) On $31^{\text {st }}$ December 2008, 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 $31^{\text {st }}$ December 2008 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 $31^{\text {st }}$ December 2008 but were not credited by the bank until 4 January 2009


## Required:

(i) Starting with the debit balance of shs. 22,500 bring the cashbook (bank columns) upto date and then balance the bank account

## QUESTION THREE:

The following balances as at 31 December 2008 have been extracted from the books of Williams Speed, a small manufacturer:

Stocks at 1 January 2008: Finished goods 18,900
Purchases 38,000
Direct labor 28,000
Factory overheads: Variable 16,000
Fixed $\quad 9,000$
Administrative expenses: Rent and rates 19,000
$\begin{array}{ll}\text { Heat and light } & 6,000\end{array}$
Stationery and postage's $\quad 2,000$
Staff salaries 19,380
Sales 192,000
Plant and machinery: At cost 46,000
Provision for depreciation 12,000
Motor vehicles: At cost 16,000
Provision for depreciation $\quad 4,000$
Creditors 5,500
Debtors 28,000
Drawings 11,500
Balance at Bank $\quad 16,600$
Capital at 1 January 2008 48,000
Provision for unrealized profit at 1 January $2008 \quad 1,380$
$\begin{array}{ll}\text { Motor vehicle running costs } & 4,500\end{array}$

## Additional information:

1. Stocks at 31 December 2008 were as follows Sh. 30,000
2. Depreciation is provided annually at the following percentages of the original cost of fixed assets held at the end of each financial year: Plant and machinery $10 \%$ Motor vehicles $25 \%$.
3. Amounts accrued due at 31 December 2008 for direct labor amounted to Ksh. 3,000, and rent and rates prepaid at 31 December 2008 to Ksh. 2,000.

## Required:

Prepare adjusted Trial Balance as at 31/12/2013
(15 Marks)

## QUESTION FOUR:

a) Identify 6 errors that a trial balance can detect

The trial balance of J Williams, a sole trader, prepared on $31^{\text {st }}$ December 2008 had a shortage of shs. 8,000 on the debit side. A suspense account was opened for the difference.
The Trading and Profit and loss account prepared on $31^{\text {st }}$ December 2008 showed a net profit of shs. 52,030. An examination into the ledger accounts of J Williams on $31^{\text {st }}$ March 2009 revealed the following errors:
(i) Sales overcast by Shs. 9,000
(ii) Insurance undercast by shs. 4,000
(iii) Cash received from a debtor entered in the cash book only as shs 5,000
(iv) A purchase of shs. 5,900 is entered in the books, debit and credit entries as shs. 9,500

## Required:

(i) Prepare journal entries to correct the above errors
(3 marks)
(ii) Show the entries in the suspense account (3 marks)
(iii) Calculate the corrected net profit for the year ended $31^{\text {st }}$ December 2008 for J Williams
(3 marks)
Total 15 Marks

