

# **KABARAK**

# **UNIVERSITY**

# UNIVERSITY EXAMINATIONS

# **2014/2015 ACADEMIC YEAR**

## 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	2,400	
Cash at bank	8,100	
Ordinary shares 50c		8,000
10% irredeemable preference shares \$1		9,000
10% loan notes		8,000
None-current assets at net book value	35,000	
Share premium		3,000
Accumulated profit at 1 January 2013		3,000
Loan notes interest	400	

Preference dividend	450	
Interim ordinary dividend	1,600	
Income tax		500
Suspense		8,000
	109.500	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<sup>st</sup> December 20\*5:

1 Income statement (10 marks)
2 Balance sheet. (10 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 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<sup>st</sup> 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<sup>st</sup> 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 (5 marks)

(ii) Prepare a bank reconciliation statement as at 31<sup>st</sup> December 2008 (5 marks)

### **QUESTION THREE:**

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

	Kshs
Stocks at 1 January 2008: Finished goods	18,900
Purchases	38,000
Direct labor	28,000
Factory overheads: Variable	16,000
Fixed	9,000
Administrative expenses: Rent and rates	19,000
Heat and light	6,000
Stationery and postage's	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	4,000
Creditors	5,500
Debtors	28,000
Drawings	11,500
Balance at Bank	16, 600
Capital at 1 January 2008	48,000
Provision for unrealized profit at 1 January 2008	1,380
Motor vehicle running costs	4,500

#### **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

(6 marks)

The trial balance of J Williams, a sole trader, prepared on 31<sup>st</sup> 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<sup>st</sup> December 2008 showed a net profit of shs. 52,030. An examination into the ledger accounts of J Williams on 31<sup>st</sup> 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 31st December 2008 for J Williams

(3 marks)

**Total 15 Marks**