



MACHAKOS UNIVERSITY

University Examinations for 2017/2018 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

THIRD YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF EDUCATION (ARTS)

BACHELOR OF ECONOMICS

BACHELOR COMMERCE

BAC 100: FUNDAMENTALS OF ACCOUNTING 1

DATE: 5/12/2017

TIME: 11:00 – 1:00 PM

INSTRUCTIONS:

Answer question one and any other question

QUESTION ONE (COMPULSORY)

- a) Name the four basic accounting assumptions and describe how they underlie the preparation of financial statements. (8 marks)
- b) Explain the difference between:
- i) carriage inwards and carriage outwards
 - ii) Revenue expenditure and capital expenditure (4 marks)
- c) Identify four external users of accounting information stating clearly the type of information required by each. (6 marks)
- d) Identify two examples of each of the following stating the purpose of each:

source documents.

Purpose

- | | |
|-----|-----|
| i) | i) |
| ii) | ii) |

QUESTION TWO (20 MARKS)

- (a) Write up a three – column cash book from the following details, balance it off and show the relevant discount accounts. (12 marks)

2010 March

1. Balance brought forward: cash sh. 230 bank sh. 4756
 2. The following paid their accounts by cheque, in each case debiting 5% discounts: Richard sh. 140, Eileen sh. 220, Harrison sh. 3,000
 4. Paid rent by cheque sh. 120
 6. John lend us sh 1000 paying by cheque.
 8. We paid the following accounts by cheque in each case deducting a 2 1/2% cash discount. Nicholas sh. 360, peter sh. 480, Catherine sh. 8.00.
 10. Paid motor expenses in cash sh 44
 12. Humphrey pays his account of sh. 77, by cheque sh. 74 deducting sh. 3 as cash discount
 15. Paid wages in cash sh. 160.
 18. The following paid their accounts by cheque, in each case deducting 5% cash discount. Wilfred sh. 260, Wilson and son sh. 340, Charles sh. 460
 21. Cash withdrawn from bank for business use sh. 350
 24. Cash drawings sh. 120
 25. Paid tariton his account of sh. 140 by cash sh. 133, having deducted sh. 7 cash discount.
 29. Bought fixtures paying by cheque sh. 650
 31. Received commission by cheque sh. 88
- b) In classification of accounts, explain the two categories of impersonal accounts (4 marks)
- c) What is the difference between a two column and a three column cashbook (2 marks)
- d) Explain the process of accounting cycle (2 marks)

QUESTION THREE (20 MARKS)

The following trial balance was extracted from the accounting records of CM. Ochola as on 31/12/2004

| | Dr | Cr |
|---|----------------|-----------------------------|
| | Shs | shs |
| Capital | | 250,000 |
| Inventory (1/1/2004) | 25,000 | |
| Plant and machinery at cost | 250,000 | |
| Motor vehicles at cost | 80,000 | |
| Provision for depreciation: plant/machinery | | 20,000 |
| Motor vehicles | | 16,000 |
| Purchases | 360,000 | |
| Sales | | 600,000 |
| Sales returns | 40,000 | |
| Purchases returns | | 20,000 |
| Wages and salaries | 60,000 | |
| Discounts | 5,000 | 4000 |
| Carriage inwards | 2,500 | |
| Carriage outwards | 3,000 | |
| Postage and telephone | 7,500 | |
| Water and electricity | 8,600 | |
| Bad debts written off | 1,500 | |
| Provision for bad debts | | 1000 |
| General expenses | 8,500 | |
| Rent and rates | 5,000 | |
| Accounts receivable | 55,000 | |
| Accounts payable | | 46,600 |
| Cash in hand | 6,000 | |
| Cash at bank | <u>30,000</u> | <u> </u> |
| | <u>957,600</u> | <u>957,600</u> |

Additional information

- a) Closing inventory on 31/12/2004 was valued at sh 22,500
- b) Depreciation is to be charged at 10% of cost of plant and machinery and 20% of cost of motor vehicles.
- c) Accrued rent is sh. 3,000 and prepaid rates are sh. 1,000.
- d) Outstanding electricity expenses is sh. 600
- e) Provision for bad debts is to be increased by sh. 300

Required

4. Prepare a comprehensive income statement for the year ended 31/12/2004 and a statement of financial position as at that date. (20 marks)
- (a) Describe what is an accounting equation (4 marks)
- (b) The balances and transactions of Jipambe Traders for the month of July are as follows;

| Balances on 1 July 2013 | Sh. '000' |
|--------------------------------|------------------|
| Sales ledger | 82,107 (debit) |
| | 1,899 (credit) |
| Purchase ledger | 40,410 (credit) |
| | 792 (debit) |

Transactions during July 2013

| | Sh. '000' |
|--------------------------------------|------------------|
| Purchase on credit | 163,215 |
| Allowances from suppliers | 5,661 |
| Discounts allowed | 6,588 |
| Refund to customers for overpayments | 477 |
| Receipts from customers by cheques | 246,330 |
| Sales on credit | 330,795 |
| Cash received from credit customers | 37,809 |

| | |
|----------------------------------|------------------|
| Customer's cheque dishonoured | 4,401 |
| Discounts received | 9,945 |
| Payments to creditors by cheques | 138,717 |
| Allowances to customers | 15,480 |
| Bill of exchange receivable | 58,554 |
| Contra settlement | 27,414 |
| Balances on 31 July 2013 | Sh. '000' |
| Sales ledger | 1,224(credit) |
| Purchase ledger | 603(debit) |

Required:

- i. Sales ledger control account as at July 2013. (10 marks)
- ii. Purchase ledger control account as at 31 July 2013 (6 marks)

QUESTION FIVE (20 MARKS)

- a) Explain the difference between capital expenditure and revenue expenditure (2 marks)
- b) Classify the following transactions as capital expenditure or revenue expenditure
- i) Cost of building a factory extension (1 mark)
 - ii) Hiring cost of a new vehicle (1 mark)
 - iii) Repainting of an old factory building (1 mark)
 - iv) Carriage cost of an new machinery (1 mark)
 - v) Motor vehicle bought for resale by a car dealer (1 mark)
 - Cost of repositioning machinery for greater operational efficiency (1 mark)
- c) The trial balance of S Juma, a sole trader, did not balance on 30 April 2015. The difference was put in the suspense account. The final accounts which were then prepared showed a net profit of Sh. 64,000. During audit, the following errors were noted:
- A loan from ABD Bank of Sh 10,000 was entered correctly in cash book but was not posted to the ledger.
 - A cheque of Sh. 4,000 for rent was not entered in the books.
 - Closing stock was overvalued by Sh 1,500.
 - Discount allowed of Sh 500 was entered in the discount-received account.
 - The opening stock was understated by Sh 3,200.
 - Prepaid insurance of Sh 220 had been included in the profit and loss account.
 - Goods destroyed by fire amounting to Sh 12,000 were written off in the profit and loss account. However, the insurance company has agreed to compensate the full amount.

Required:

1. Journal entries to correct the errors. (8 marks)
2. Statement of corrected profit. (2 marks)
3. Suspense account. (2 marks)