



# MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR  
BACHELOR OF EDUCATION

**BAC 100: FUNDAMENTALS OF ACCOUNTING 1**

DATE: 2/8/2017

TIME: 8:30 – 10:30 AM

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## INSTRUCTIONS:

Answer Question One and Any Other Two Questions

### QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Explain the following concepts
- i) Going concern
  - ii) Accruals
  - iii) Prudence
  - iv) Materiality
- (8 marks)
- b) State five users of accounting information, indicating the accounting reports that they normally use. (10 marks)
- c) Kwisha Ltd. manufactures one product which it sells to the wholesale trade. The following trial balance was extracted from the books of the company at 30 April 2001:

	Sh.	Sh.
Stocks at 1 May 2000		
Raw materials, at cost	350,000	
Work- in-progress, at factory cost	1,800,000	
Finished goods (3,500 units) at factory cost	3,500,000	
Raw materials purchased	3,950,000	

Sales (12,000 units)		18,000,000
Manufacturing wages	3,000,000	
Factory rent and rates	1,400,000	
Factory light, heat and power	655,000	
Plant at cost		6,000,000
Plant depreciation at 1 May 2000		2,800,000
Works manager's salary	245,000	
Plant repairs		400,000
Administrative overheads	1,800,000	
Factory lease at cost (20 years duration)	4,000,000	
Amortisation at 1 May 2000		1,200,000
Share capital		7,500,000
Debtors	3,050,000	
Bank balance	1,600,000	
Creditors		2,450,000
Carriage inwards	<u>200,000</u>	<u>          </u>
	<u>31,950,000</u>	<u>31,950,000</u>

The following additional information is available:

1. Plant depreciation is to be provided at 10% on the cost of plant owned at the year end.
2. Raw materials costing Sh.500,000 were in stock on 30 April 2001.
3. Finished goods are transferred to the warehouse as soon as they are completed. During the year, 10,000 units were completed and transferred to the warehouse. Work-in-progress at the end of the financial year (at factory cost) amounted to Sh.2,300,000.
4. There was no wastage or pilferage during the current year.

**Required:**

Manufacturing, trading and profit and loss account for the year ended 30 April 2001.  
(12 marks)

**QUESTION TWO (20 MARKS)**

- a) Explain the term "bank reconciliation" and state the reasons for its preparation.  
(6 marks)
- b) Jambo, a sole trader received his bank statement for the month of April 2017. At that date the bank balance was Sh.706,500 whereas his cash book balance was Sh.2,366,500. His accountant investigated the matter and discovered the following discrepancies:
  1. Bank charges of Sh.3, 000 had not been entered in the cashbook.
  2. Cheques drawn by Jambo totaling Sh.22,500 had not yet been presented to the bank
  3. He had not entered receipts of Sh.26,500 in his cashbook.
  4. The bank had not credited Mr. Jambo with receipts of Sh.98, 500 paid into the bank on 30 April,2017.
  5. Standing order payments amounting to Sh.62, 000 had not been entered into the cashbook.
  6. In the cash book Jambo had entered a payment of Sh.74, 900 Sh.79400.

7. A cheque for Sh. 15,000 from a debtor had been returned by the bank marked "refer to drawer" but had not been written back into the cashbook.
8. Jambo had brought forward the opening cash balance of Sh.329, 250 as a debit balance instead of a credit balance.
9. An old cheque payment amounting to Sh.44, 000 had been written back in the cashbook but the bank had already honoured it.
10. Some of Jambo's customers had agreed to settle their debts by paying directly into his bank account. Unfortunately, the bank had credited some deposits amounting to Sh.832, 500 to another customer's account. However, acting on information from his customers, Jambo had actually entered the expected receipts from the debtors in his cashbook.

**Required:**

- (i) A statement showing Jambo's adjusted cash book balance as at 30 April, 2017. (9 marks)
- (ii) A bank reconciliation statement as at 30 April, 2017. (5 marks)

**QUESTION THREE (20 MARKS)**

- a) Define a Trial balance and explain the main purposes of a Trial balance. (8 marks)
- b) Explain six types of trial balance errors. (12 marks)

**QUESTION FOUR (20 MARKS)**

- (a) Explain three different books of original entry, indicating their contents (6 marks)
- (b) Maneno had the following balances as at 31<sup>st</sup> Dec 2015

	<b>Shs</b>
Land	200,000
Stock	450,000
Equipment	750,000
Debtors	270,000
Creditors	35,000
Motor vehicle	500,000
Bank loan	600,000
Cash at hand	50,000
Cash in bank	250,000

**Required**

- i) Calculate the capital of Maneno business. (2 marks)
- ii) Prepare Maneno balance sheet clearly showing fixed assets, current assets, capital and liabilities as at 31<sup>st</sup> Dec 2015. (12 marks)

### QUESTION FIVE (20 MARKS)

Write up a two-column cashbook from the following details, and balance off as at the end of the month:

2016

October 1 Started business with capital in cash sh. 1,000

” 2 Paid rent by cash sh. 100

” 3 F Meza lent us sh. 5,000, paid by cheque

” 4 We paid B Kimakwa by cheque sh 650

” 5 Cash sales sh 980

” 7 N Mailu paid us by cheque sh 620

” 9 We paid B Boy in cash sh 220

” 11 Cash sales paid direct into the bank sh 530

” 15 H Moon paid us in cash sh 650

” 16 We took sh 500 out of the cash till and paid it into the bank account

” 19 We repaid F Meza sh 1,000 by cheque

” 22 Cash sales paid direct into the bank sh 660

” 26 Paid motor expenses by cheque sh 120

” 30 Withdrew sh 1,000 cash from the bank for business use

” 31 Paid wages in cash sh 970

(20 marks)