MACHAKOS UNIVERSITY COLLEGE

(A Constituent College of Kenyatta University)
University Examinations for 2015/2016 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES

FIRST SEMESTER EXAMINATION FOR MASTERS OF BUSINESS ADMINISTRATION

BAC 813: FINANCIAL ACCOUNTING

Date: SCHOOLBASED **Time:**

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

QUESTION ONE

a) Define the following accounting concepts and for each explain their implication in the preparation of financial Statements.
   i) The Going concern concept. (5 marks)
   ii) Business entity concept. (5 marks)

b) Identify and explain the purpose of books of original entry. (5 marks)

c) Discuss the importance of accounting regulatory bodies in Kenya. (10 marks)

d) Identify and explain five broad types of accounting. (5 marks)

e) The trial balance of Zach Ltd. as at 3I December 2014 was as follows

	Sh.	Sh.
Share capital (10,000 Sh.20 Ordinary shares)		200,000
Purchases and Sales	1,220,000	2,000,000
Debtors and Creditors	400,000	140,000
Profit and loss 1 January 2014		380,000
Sales returns	40,000	

Buildings at cost	800,000	
Plant at cost	1,000,000	
Provision for depreciation:		
Plant		400,000
Buildings		40,000
Purchases returns		80,000
Selling expenses	140,000	
Bank		160,000
10% Debentures		600,000
Stock 1 January 2014	300,000	
Provision for bad debts		20,000
Operating expenses	180,000	
Administrative expenses	140,000	
Suspense account	_______	200,000
	4,220,000	4,220,000

Additional information:

1. Stock at 31 December 2014 was Sh.360,000.
2. Sales returns of Sh.20,000 have been entered in the sales day book as if they were sales. When this error was discovered, the debtors account had been corrected but the sales figure was not rectified.
3. A debtor of Sh.20,000 has been declared bankrupt. A general provision is required at 5% of debtors.
4. Rates of Sh.30,000 paid in December covering half year to 31 March 2015 have not been entered in the books.
5. Debenture interest has not been paid.
6. Depreciation on plant is at 10% on cost and buildings at 2% on cost.

Required:

(a) Income statement for the year ended 31December2014. (5 marks)

(b) Statement of financial position as at 3 1 December 2014. (5 marks)

QUESTIONTWO

(a) Differentiate between a petty cashbook and a three-column cashbook. (5 marks)

(b) Briefly explain why it is important for a business entity to prepare a bank reconciliation statement. (3 marks)

(c) You have recently been employed in a medium size company and deployed in the accounts department. Your head of section has given you the following extract from the cashbook for the month of April 2014:

	Sh.		Sh.
Receipts during the month	2,938,000	Balance brought forward (1.4.2014)	1,522,000
Balance carried forward (30.4.2014)	1,108,000	Payments during the month	2,524,000
	4,046,000		4,046,000

The head of section further informs you that all receipts are banked intact and all payments are made by cheque. On investigation, you discover the following:

1. Bank charges and commissions amounting to Sh. 272,000 entered on the bank statement had not been entered in the cashbook.
2. Cheques drawn amounting to Sh. 534,000 had not been presented to the bank for payment.
3. Cheques received totaling Sh. 1,524,000 had been entered in the cashbook and paid into the bank, but had not been credited by the bank until May 2014.
4. A cheque for Sh. 44,000 had been entered as a receipt in the cashbook instead of a payment.
5. A cheque for Sh. 50,000 had been debited by the bank by mistake.
6. A cheque received for Sh. 160,000 had been returned unpaid. No adjustment had been made in the cashbook.
7. All dividends receivable are credited direct to the bank account. During the month of April 2014. Dividends totaling Sh. 124,000 were credited by the bank and no entries had been made in the cashbook.
8. A cheque drawn for Sh. 12,000 had been incorrectly entered in the cash book as Sh. 132,000.
9. The balance brought forward should have been Sh. 1,422,000.
10. The bank statement as at 30 April 2014 showed on overdraft of Sh. 2,324,000.

Required:

(i) The adjusted cashbook as at 30 April 2014. (6 marks)

(ii) Bank reconciliation statement as at 30 April 2014. (6 marks)

QUESTTION THREE

(a) Briefly explain the following types of errors:

i.	Error of commission	(2 marks)
ii.	Error of principle	(2 marks)
iii.	Complete reversal of entries	(2 marks)
iv.	Compensating errors	(2 marks)

(b) The trial balance of Amanda Ltd as at 30 April 2014 did not balance. On investigation, the following errors were discovered:

1. A loan of Sh.2,000,000 from one of the directors has been correctly entered in the cashbook but posted to the wrong side of the loan account.
2. The purchase of a motor vehicle on credit fro Sh.2,860,000 had been recorded by debiting the supplier's account and crediting the motor expenses account.
3. A cheque for Sh.80,000 from Ogola, a customer to whom goods are regularly supplied on credit, was correctly entered in the cashbook but was posted to the credit of bad debts recovered account in the mistaken belief that it was a receipt from Agola, a customer whose debt had been written off three years earlier.
4. In reconciling the company's cash book with the bank statement, it was found that bank charges of Sh.38,000 had not been entered in the company's records.
5. The totals of the cash discount columns in the cashbook for the month of April 2014 had not been posted to the respective discount accounts.

   The figures were:

	Sh.
Discounts allowed	184,000
Discounts received	397,000

6. The company had purchased some plant on 1 March 2013 for Sh.1,600,000. The payment was correctly entered in the cashbook but was debited to the plant repairs account. Depreciation on such plant is provided for at the rate of 20% per annum on cost.

Required:

i.	Journal entries with narrations to correct the above errors.	(10 marks)
ii.	Suspense accounts showing the original difference	(2 marks)

QUESTION FOUR

Araka Ltd., a company dealing in retail products, extracted from the following trial balance as at 30 September 2014:

	Shs. '000'	**Shs. '000'**
Freehold land: Cost	121,500	
Buildings: Cost	431,000	
Accumulate depreciation		68,960
Plant and machinery: Cost	64,172	
Accumulated depreciation		16,074
Sales		1,312,567
Purchases	839,004	
Cash in hand	1,268	
Creditors ledger control account		21,172
Electricity	6,917	
Ordinary share capital		50,000
Cash at bank	1,210	
Debtors ledger control account	61,074	
Suspense account	4,300	
Inventory as at 1 October 2013	41,912	
Retained profits		296,057
Motor vehicle expenses	4,174	
Sundry expenses	2,002	
Salaries and wages	121,600	
Directors remuneration	48,999	
Bank charges	1,621	
Motor vehicles: Cost	28,900	
Accumulated depreciation		14,712
	1,779,542	1,779,542

Additional information:

1. Provision for doubtful debts should be made at 2% of the debtors ledger balances after writing of bad debts amounting to Shs. 1,370,000.

2. The suspense account was analysed as follows:

	Shs. '000'	**Shs. '000'**
Bad debts written off during the year		512
Motor vehicle purchased on 1 April 2014		7,400
		7,912
Less: motor vehicle sold on 1 April 2014	3,000	
Amounts received in respect of a bad debt recovered	612	(3,612)
		4,300

3. The motor vehicle sold during the year had been purchased on 1 February 2011 for Sh.6,500,000.
4. Bank statement as at 30 September 2014 showed bank charges of Sh.533,000. This had not been recorded in the cash book.
5. The debtors ledger control account did not agree with the list of balances in personal accounts. You ascertain that some invoices for October 2014 had been posted in the personal accounts as at September 2014. The list of balances was overstated by Sh.4,300,000.
6. Estimated corporation tax for the year ended 30 September 2014 was Sh.131,700,000.
7. The value of inventory as at 30 September 2014 was amounted to Sh.62,047,000.
8. The directors proposed to pay ordinary dividend of 10%.
9. The following petty cash expenditure had not been recorded:

	Shs. '000'
Motor vehicle expenses	412
Sundry expenses	91
Casual workers wages	36

10. Depreciation is provided at the following rates:

    Buildings- 2% per annum on cost

    Plant and machinery – 20% per annum on reducing balance basis.

    Motor vehicle – 25% per annum on cost

    Full year's depreciation is provided in the year of purchase and none in the year of disposal.

Required:

a) Income statement for the year ended 30 September 2014. (12 marks)

b) Statement of financial position as at 30 September 2014 (8 marks)

QUESTION FIVE

a) Muthusi is a businessman operating a retail business in a small town. Due to the size of his business, he is not able to employ a qualified accountant on a permanent basis.

The following information was extracted from the books of the business as at 31 October 2012:

	Shs.
Freehold property (cost)	600,000
Motor vehicles (NBV)	750,000
Furniture and fixtures (NBV)	240,000
Stock	390,000
Trade debtors	500,000
Bank overdraft	60,000
Trade creditors	380,000
Accruals	15,000
10% loan	600,000
Provision for doubtful debts	25,000

The following transactions took place during the financial year ended 31 October 2013:

1. Sales and purchases on credit amounted to Sh.2,080,000 and Sh.1,900,000 respectively.
2. The following transactions were carried out through the bank account:

	Shs.
Sales – Cash	720,000
Purchases – Cash	240,000
Payments to trade creditors	1,940,000
Purchase of furniture	200,000
Salaries and wages	160,000
Lighting	65,000
General expenses	35,000
Interest on loan	30,000
Drawings	60,000

Repayment of loan on 30 April 2013	100,000
Collections from trade debtors	1,890,000
Proceeds from sale of motor vehicle	120,000

3. The business depreciates motor vehicles at 20% per annum on a reducing balance basis. A full year's depreciation is provided on a motor vehicle acquired in the course of the year and no depreciation is provided on a motor vehicle disposed of in the course of the year.

   The motor vehicle sold in the year had been purchased at Sh.250,000 and an accumulated depreciation of Sh.122,000 had been provided on it at the time of disposal.
4. Furniture is depreciated at 10% per annum on cost and in proportion to the period used in the year. The additional furniture was purchased on 1 May 20903 while the cost of furniture held on 31 October 2012 was Sh.400,000
5. Loan interest paid was for one-half year up to 30 April 2013
6. The business received discounts of Sh.40,000 and allowed discounts of Sh.70,000 during the year.
7. Bad debts of Sh.20,000 were written off. Provision for doubtful debts is to be maintained at 5% of the debtor's balance at the end of the year.
8. Accruals are in respect of lighting and on 31 October 2013, the amount accrued was Sh.19,000
9. Muthusi's business obtains a normal gross profit rate of 25% on selling price.

Required:

i. Income Statement for the year ended 31 October 2013 (10 marks)

ii. Statement of Financial Position as at 31 October 2013. (10 marks)