MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ADMINISTRATION

APRIL SESSION EXAMINATION FOR BACHELOR OF EDUCATION

BAC 100: FUNDAMENTALS OF ACCOUNTING I

DATE: SCHOOL BASED **TIME:**

INSTRUCTIONS: answer question one and any other two question

Question one:

a) Accounting process is usually based on agreed upon concepts and conventions. Describe the meaning of the following concepts and state their implication when preparing accounting information.

i. Double entry

ii. Going concern

iii. business entity concept (6 marks)

b) Accountants make mistakes when preparing and processing financial information. Identify four errors which do not affect the trial balance totals stating how each is corrected. (6 marks)

c) Explain the difference between the following:

i. Bad debts and provision for bad debts

ii. Revenue expenditure and capital expenditure

iii. Carriage outwards and carriage inwards (6 marks)

d) Identify four users of accounting information contained in the financial statements. State the kind of information required by each. (6 marks)

e) State and identify the use of any four source documents used by accountants in their initial capture of transactions. (6 marks)

QUESTION TWO

Mercy operates a boutique in Eldoret . The following is her trial balance for the year ended 31st December 2018

	Dr	Cr
	Shillings '000	Shillings '000
Premises	8000	
Furniture	4000	
Purchase and Sales	28000	52700
Stock (1.1.18)	3200	
Return Outwards		1000
Return Inwards	2000	
Rent	200	
Motor vehicles	6000	
Discounts	1500	2800
Debtors and Creditors	5000	4000
Bad Debts	2000	
Telephone	300	
Provision for doubtful debts		300
Electricity	300	
General Expenses	3000	
Carriage Inwards	200	
Carriage Outwards	300	
Wages	4000	
Drawings	1000	
Capital		8000
	68,800	**68 800**

Additional Information:

1 Outstanding expenses at the end of the year were:

- General expenses shillings 200 000
- Rent shillings 150 000

2 Stock (31.12.18) amounted to shillings 2000 000

3 Wages Shillings 160 000 paid relate to year 2019

4 Telephone and Electricity bills for the year 2018 were Shillingss 150 000 and 250 000 respectively.

5 Provision for doubtful debts is to be increased by 5%.

6 Depreciation is provided on motor vehicle and furniture at 15% on cost.

Prepare:-

a) The income statement for the year ended 31st December 2018 (12 marks)

b) Statement of financial position as at 31st December 2018 (8 marks)

QUESTION THREE

a) Musa started his business on 1st July 2017 with sh. 5000 cash and sh. 20000 in the bank. He also carried a chair valued sh.1000 and a table worth sh.2000 from his home. During the month few transactions took place:

02.7.2017 Purchased stock on credit from Jambo suppliers sh 4000

03.7.2017 returned some goods to Jambo suppliers sh. 500

09.7.2017 sold goods on credit to sh. 1000

14.7.2017 sold goods in cash sh. 2000

19.7.2017 Paid Jambo suppliers by cheque sh. 3000

24.7.2017 Received sh. 800 cash from debtors.

30.5.2017 deposited all the cash in the bank except sh 500

Record the above transactions in relevant ledger accounts . (8 marks)

b) On 1st June 2014, James had cash at hand Shillings 7,800 and a bank overdraft of Shillings 23,400. During the month, the following transactions took place:-

June 2	Cash sales Shillings 6,500 paid direct into the bank
June 5	Purchase of goods Shillings 15000 and paid by cheque
June 6	Received a cheque for shillings 18000 from a debtor Ann
June 7	Cash sales 50000
June 12	Paid insurance premium shillings 16000 in cash
June 15	Paid Keli by cheque shillings 9700 in full settlement of his account less 3% cash discount
June 19	Withdrew shillings 30000 from the bank for office use.
June 22	Received a cheque of shillings 23 750 from Rael in full settlement of her account less 5% cash discount
June 23	Cheque received from Ann was dishonoured
June 27	Paid salaries shillings 20,000 in cash

June 30 Bank all cash except shillings 2000

Prepare a three column cashbook duly balanced. (12 marks)

QUESTION FOUR

Boniface runs a shop but does not keep his accounts following the double entry system.

He availed the following information:

	1.1.2018	**31.12.2018**
	Shs	shs.
Creditors	1600	2 600
Debtors	5 500	6 600
Stock	6 360	6 800
Furniture	3 300	2 970
Bank	5 650	17 940
Cash	320	420
Outstanding rent	-	350

Additional information

1. cheques paid to suppliers amounted to shs.316 000 for the whole year
2. Boniface used shs.13 000 cash from the business for his family expenses
3. Boniface never used to keep proper records of goods sold on credit to customers .However he has the following amounts as total amounts received from credit customers; cheques sh. 48 000 and cash 13500
4. The following expenses were paid during the year by cheque: general expenses sh.310 and rent shs.4 200.

Prepare

a) Relevant ledger accounts and make necessary adjustments. (10 marks)

b) Income statement for the year ended 2018. (5 marks)

c) Statement of financial position as at 31.12.2018 (5 marks)

QUESTION FIVE

a) State and justify the accounting equation. (5 marks)

b) The books of Stella, a sole trader were prepared by an inexperienced clerk. When the trial balance was drawn, it was discovered the credits exceeded the debits by shillings 90 270. The amount was entered in the suspense account. The following errors were discovered:-

1. Cash drawn by Stella shillings 8000 were completely omitted from the books of accounts.
2. Purchase of a new computer shillings 50000 were charged to office expenses account
3. Goods bought from creditor Temah shillings 23000 were only recorded in the cash book.
4. Sales journal was under cast by shillings 4000 while the purchase journal was over cast by shillings 20 000
5. A sale of goods to maina sh 40 000 was credited to his account
6. Mwende's account was credited by shillings 2740 instead of 2470.
7. The balance in the petty cash book shillings 7000 was not included in the trial balance.
8. A cash discount of shillings 2000 allowed to debtor peter was correctly entered in his account but entered as discount received in the business account.

Prepare:

i. Journal entries to correct the above errors (10 marks)

ii. Suspense account duly balanced (5 marks)