



MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

**FIRST YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR
BACHELOR OF COMMERCE**

BAC 100: FUNDAMENTALS OF ACCOUNTING I

DATE: 25/7/2019

TIME: 2.00-4.00 PM

INSTRUCTIONS:

Attempt Question One and any other Two Questions

Show your working where necessary.

QUESTION ONE: COMPULSORY (30 MARKS)

- a) When preparing financial information, accountants are supposed to guarantee quality by ensuring the following characteristics;
- i) objectivity ii) relevance iii) consistency
 - iv) prudence
- Explain the meaning of each quality stating its importance (8 marks)
- b) Financial information should be prepared to meet the needs of users. Identify any three users and state the kind of information required by each. (6 marks)
- c) The balance sheet of Mambo boutique as at 31st December, 2018 is as follows:

MAMBO BOUTIQUE
BALANCE SHEET
AS AT 31ST DECEMBER 2018

	Ksh.		Ksh.
Capital	130 000	Equipment	200 000
Trade creditors	24 000	Bank	60 000
Bank loan	150 000	Cash	40 000
		Debtors	<u>4 000</u>
	<u>304 000</u>		<u>304 000</u>

The following transactions took place during the first week of 2019:

- i. The proprietor brought in additional cash Ksh.18 000 for business use
- ii. Paid a creditor Ksh.4 000 cash
- iii. Rreceived a cheque ksh. 1 500 from a debtor
- iv. Paid bank loan Ksh 20000 by cheque

Required:

Prepare the balance sheet after the above tractions (6 marks)

d) Explain the meaning of the following accounting terms:

- i. Capital expenditure. (1 mark)
- ii. Working capital (1 mark)
- iii. Owners' equity (1 mark)
- iv. Capital employed (1 mark)

e) The Trial balance of Marble traders prepared on 30th June 2013 balanced but the following errors were subsequently discovered.

- i. Repairs to vehicles sh. 4 000 had been debited to vehicles account

- ii. Sales on credit to Limo limited sh. 15,000 had been entered into an account of Lemo limited.
- iii. Cash drawings of sh.20, 000 had not been recorded in the books of accounts
- iv. Transport expenses sh.6, 000 had been debited into the telephone expense account
- v. A cheque received sh. 7,500 from Jane was debited in her account and credited in the cashbook
- vi. Purchases from Fiona stores sh. 4,500 was entered in the books as shillings 5,400.

Prepare journal entries to correct the above errors

(6 marks)

QUESTION TWO (20 MARKS)

Mary operates a hardware business in Meru town. The following is her trial balance for the year ended 31st December 2018

	Dr	Cr
	Sh. '000	Sh. '000
Land and buildings	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	5 200	
Capital		12 200
	73 000	73 000

Additional Information:

- 1 Outstanding expenses at the end of the year were:

- General expenses sh. 200 000
 - Rent sh. 150 000
- 2 Stock (31.12.15) amounted to sh. 2000 000
 - 3 Wages sh. 160 000 paid relate to year 2016
 - 4 Telephone and Electricity bills for the year 2015 were Sh. 150 000 and 250 000 respectively.
 - 5 Provision for doubtful debts is to be increased by 3%.
 - 6 Depreciation is provided on motor vehicle and furniture at 12% 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 (20 MARKS)

- a) Indicate the Accounting principle(s) if any that is violated.
 - i. The owner of a sole proprietorship included his personal medical expenses on the profit and loss account.
 - ii. No mention was made of a major lawsuit filed against the company even though the legal advisor believes there is a high probability of losing the suit.
 - iii. The straight line method of providing for depreciation was used in year one, sum of digits method in year two and double declining method in year three
 - iv. Motor vehicle on hire purchase was not presented in the balance sheet (8 marks)
- b) On 1st June 20118, Ben stores had cash at hand Sh. 7,800 and a bank overdraft of Sh. 23,400. During the month, the following transactions took place:-

- June 2 Cash sales Sh. 6500 paid direct into the bank
- June 5 Purchase of goods Sh.10, 000 and paid by cheque .
- June 6 Received a cheque for sh. 18000 from a debtor John
- June 7 Cash sales sh.50000
- June 12 Paid insurance premium sh.16000 in cash

June 15 Paid Kemoli by cheque sh 9700 in full settlement of his account less 3% cash discount

June 19 Withdrew sh 30 000 from the bank for office use.

June 22 Received a cheque of sh 23,750 from Rehema in full settlement of her account less 5% cash discount

June 23 Cheque received from John was dishonored

June 27 Paid salaries sh. 20,000 in cash

June 30 Banked all cash except sh. 2000

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

QUESTION FOUR (20 MARKS)

- a) Source documents are used to record business events as they happen on a daily basis. State and identify the use of any four source documents. (8 marks)
- b) Xhamela Limited keeps sales and purchases control accounts in the general ledger. The transactions for the month ended 30th November 2018 were as follows:

	Sh.
Credit Balance on 1 st November 2018	
Sales Ledger	154 000
Purchase Ledger	569 000
Debit balance on 1 st November 2018	
Sales ledger	956 000
Purchase Ledger	196 000
Debit balance on 30 th November 2018	
Purchases ledger	189,000
Credit balance on 30 th November 2018	
Sales ledger	178 000
 Credit Sales	 4 563 000
Credit Purchases	2 450 000
Cash received from debtors	1 367 000
Cheque received from debtors	3 140 000
Cheque paid to creditors	1 994 000
Cash paid to creditors	352 000
Discount allowed	169 000

Discount received	104 000
Bad debts written off	68 000
Return outwards	138 000
Return inwards	231 000
Inter-settlement to sales ledger From purchases ledger	234 000
Refund to debtors	62 000

Prepare:-

- (i) Sales ledger control account (7 marks)
- (ii) Purchases ledger control account (5 marks)

QUESTION FIVE (20 MARKS)

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

1. Cash drawn by Omondi sh. 8000 was completely omitted from the books of account.
2. Purchase of a sale of goods to Mambo sh 40,000 was credited to new machine sh. 50,000 was charged to office expenses account.
3. Goods bought from creditor Timothy sh. 23,000 were only recorded in the cash book.
4. Sales journal was under cast by sh. 4,000 while the purchases journal was over cast by sh 20, 000 his account.
5. Moraa's account was credited by sh.5740 instead of 5470.
6. The balance in the cash book sh. 7,000 was not included in the trial balance.
7. A cash discount of sh. 2,000 allowed to Kamau 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)

- b) Accountants keep different ledgers to enable them record transactions affecting a particular item. Identify five types of ledgers stating the purpose of each. (5 marks)