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)

Subsidiary ledgers

i) i)
ii) ii)

Nominal accounts

i) i)
ii) ii)

(6 marks)

d) Rosa works for Dhola manufacturers as petty cashier. She operates the petty cashbook on the imprest system with an imprest amount of sh 10 000.The following were transactions for the month of June 2017:

June 1 Balance on b/f 2017

1 Petty cash restored to imprest amount
2 Purchased receipt books and different coloured pens sh 800
3 Paid for internal transport sh 300

6 purchased airtime for internal communication sh 1200

10 bought sugar, milk sh. Sh. 700and paid weakly cleaners sh.300

16.Bought photocopying papers sh. 1000

30.Petty cash restored to imprest amount

Prepare Dhola manufacturers petty cashbook for the month of June 2017 using the following analysis columns: cleaning, stationery, transport, communication and staff tea. (6 marks)

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 debiing 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	30,000	
	957,600	957,600

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)