KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2014/2015

DIGITAL SCHOOL OF VIRTUAL AND OPEN LEARNING

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BAC 100: FUNDAMENTALS OF ACCOUNTING I

DATE: Wednesday, 29th April 2015 **TIME:** 11.00 a.m. – 1.00 p.m.

INSTRUCTIONS:

i. Answer ALL the questions
ii. All the relevant workings must be shown
iii. Ensure your work is neat and tidy

QUESTION ONE

a. Explain three uses of a trial balance. **3 marks**

b. The trial balance extracted from the books of Mong'o on 31st December 2014 showed a debit total of sh.543,200 and credit total of sh. 492,200. The income statement drawn up on the basis of this trial balance revealed a gross profit of sh. 162,000 and a net profit of sh.48,000. A careful examination of his books revealed the following errors:

i. Sales day book was overcast by sh.12,000
ii. Cash discount amounting to sh.6,500 allowed by a creditor was debited discount allowed account
iii. Goods costing sh.8,000 had been taken by Mong'o for her personal use. No record was made to this fact.
iv. Payment of sh.5,000 for carriage on sales was debited to carriage inwards account
v. A balance of sh.1,100 in the personal account of M Keli, a debtor, was not included in the list of total debtors on the trial balance.
vi. During the year Mong'o sold her private farm for sh.52,000 and –paid in the proceeds to the firm's bank account. This fact was only recorded in the cash book.
vii. A new building was built at a total cost of sh.50,000, including material costing sh.35,000 and labour sh.15,000. Materials used were journalized through purchases book and wages paid were debited to ordinary wages account.

Required:

a) Journal entries to record correction of the above errors **7 marks**
b) Suspense account fully balanced **5 marks**
c) Compute the correct gross and net profit figures **8 marks**

QUESTION TWO

The following trial balance relates to the books of Evaton Ventures, a whole sale business, as at 31st October 2014

	Sh.	Sh.
Capital		4,104,100
Trade payables		330,000
Sales		4,691,280
Sales return	79,420	
Allowance for doubtful debts		44,000
Trade receivables	990,000	
Purchases	2,303,840	
15% bank loan		220,000
Salaries and wages	1,034,000	
Discount allowed	54,560	
Bank balance	568,260	
Drawings	660,000	
Purchase returns		120,340
Discount received		93,720
Cash in hand	26,400	
Electricity expenses	103,840	
Rent and rates	54,560	
Free hold premises at cost	1,569,700	
Fixtures and fittings at cost	334,400	
Motor vehicles at cost	462,000	
Provision for depreciation: Motor vehicle		176,000
Fixtures and Fittings		63,800
Stationery	34,320	
Postage and telephone expenses	44,000	
Insurance premiums	13,200	
Bad debts written off	15,840	
Motor vehicle expenses	84,920	
Inventory – 1/11/2013	1,393,480	
Interest on bank loan	16,500	
	9,843,240	**9,843,240**

Additional Information:

1. The following were the values provided on inventory as at 31st October 2014:
   - Replacement cost sh. 1,036,400
   - Net realizable value sh.1,366,200
2. Sales include sh.300,000 worth of goods sold by Big Deal Enterprise agents', who are allowed 15% commission on such sales. The transaction has not been recorded in the books.

3. Depreciation is to be provided as follows:
   - Fixtures and fittings- 10% per annum on reducing balance basis
   - Motor vehicles - 15% per annum on straight line basis
4. Annual insurance premium amounted to sh.12,000.
5. As at 31st October 2014, there was a balance of sh.65,000 received from a customer in cash.
6. Salaries and wages were in arrears of sh35,000.
7. The electricity bill for the month of October of sh. 14,500 was received on November 2014.
8. Stationery stock amounted to sh.8,750
9. An allowance of 5% is to be maintained for doubtful debts.
10. Goods worth sh. 48,840 had been distributed to potential customers as free samples

Required:

a. Statement of comprehensive income for the year ended 31st October 2014 **15 marks**

b. Statement of financial position as at 31st October 2014 **10 marks**

QUESTION THREE

a. Describe two advantages of maintaining control accounts. **2 marks**

b. Mueni Enterprises keeps sales and purchase control accounts in the General Ledger. The transactions for the month ended 31st March 2015 were as follows:

	Sh.
Debit balances on 1st March 2015 -Sales ledger	77,800
Credit balances on 1st March 2015 - Purchase ledger	7,352
Cheques received from debtors	72,400
Purchases journal	84,514
Return inwards during the month	1,900
Return outwards journal	2,196
Cheques paid to suppliers	77,530
Credit sales during the month	98,720
Discount received from suppliers	1,774
Sales ledger debit balance as at 31st March 2015	103,020
Purchase ledger credit balance as at 31st March 2015	10,366

Required:

i. Sales ledger control account for the month ended 31st March 2015 **3 marks**

ii. Purchases ledger control account for the month ended 31st March 2015 **3 marks**

iii. Explain your observations from (i) and (ii) above and the option available to accounts supervisor of Mueni Enterprises. **2 marks**

QUESTION FOUR

a. SquireOne retail shop does not keep proper records of its business transactions but provides the following information as at 30st December 2014

	Sh
Balance at bank	2,475
Debtors	12,960
Creditors	8,865
Motor vehicle	15,750
Accrued expenses	675
Prepayments	405

Required:

Prepare the statement of affairs to find his capital as at 1st October 2014. **4 marks**

b. Miss Di, is an upcoming business lady and has the following concerns when preparing financial accounts of her business:

i. She thinks that the assets of her business should be recorded at their market value every time she prepares the statement of financial statement.

ii. The total amount paid for salaries and wages for the current financial year is sh.540,000. Out of this amount, sh.30,000 was paid in advance to one of the employee. She insist the salary expense for the period is sh.540,000.

iii. Miss Di is expecting a very profitable contract in the following financial year and has started expanding her business based on this anticipated profit.

iv. All the three business motor vehicles are depreciated using straight line method. Miss Di has recently bought a new Toyota Isis for business. She insists that reducing balance method should be used to calculate the wear and tear expense.

Required:

For each of the above concerns, advise Miss Di the basic accounting concepts that should be applied to prepare her business accounts. Explain the concepts

8 marks