The Co-operative University of Kenya

END OF SEMESTER EXAMINATION DECEMBER-2016

EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE AND COMMUNITY DEVELOPMENT
(BSC FINANCE YR 1 SEM 1)

UNIT CODE: CMBC 2104

UNIT TITLE: FINANCIAL ACCOUNTING I

DATE: 7TH DECEMBER, 2016 **TIME: 2:00 PM – 4:00 PM**

INSTRUCTIONS:

- Answer question **ONE (compulsory)** and any other **TWO** questions

QUESTION ONE

(a) Bella has been trading for some years as a motor vehicle components transporter. The following list of balances has been extracted from her ledger as at 30 April 2016.

	£
Capital	83,887
Sales	259,870
Trade Payables	19,840
Purchases returns	13,407
Provision for doubtful debts	512
Discount allowed	2,306
Discount Received	1,750
Purchases	135,680
Sales returns	5,624
Carriage outwards	4,562
Drawings	18,440
Carriage Inwards	11,830
Rent, rates and insurance	25,973
Heating and Lighting	11,010
Postage, Stationery and telephone	2,410
Advertising	5,980
Salaries and wages	38,521
Bad debts	2,008
Cash in hand	534
Cash at Bank	4,440
Stock as at 1 May 2015	15,654
Trade receivables	24,500
Fixtures and fittings at cost	120,740
Provision for depreciation –Fixtures and Fittings as at 30 April 2015	63,020
Depreciation expense – Fixture and fittings	12,074

The following additional information as at 30 April 2012 is available:

(i) Stock at the close of business was valued at £ 17,750
(ii) Insurances have been prepaid by £ 1,120
(iii) Heating and lighting is accrued by £ 1,360
(iv) Rates have been prepaid by £ 5,435
(v) The provision for doubtful debts is to be adjusted so that it is 3% of trade receivables.

Required:

(i) Prepare Bella's Income Statement for the year ended 30 April 2016. (12 Marks)
(ii) Prepare Bella's Statement of Financial Position as at 30 April 2016. (8 Marks)

(b) Discuss the basic purpose of financial accounting and financial statements. (6 Marks)
(c) Explain the following terms:
   (i) The materiality principles (2 Marks)
   (ii) The matching principle (2 Marks)

QUESTION TWO

(a) Discuss the qualities of good accounting information. (10 Marks)
(b) The following is a summary of a cash book as presented by Milka enterprise for the month of October 2016.

CASHBOOK

Details	**Amounts Shs.**	**Detail**	**Amounts Sh.**
Receipts	1,469	Balances B/d	761
Balance c/d	554	Payments	1,262
	2,023		2,023

All receipts are banked and all payments are made by cheques.
On investigation you discover;

(i) The bank statement showed a debit balance of sh. 1,353
(ii) Bank charges of shs. 136 entered on the bank statement have not been entered in the cash book.
(iii) Cheques drawn amounting to shs. 267 had not been presented to the bank for payment.
(iv) Cheques received totaling shs. 762 had been entered in the cashbook and paid into the bank but had not been credited by the bank until 3 November.
(v) A cheque for shs. 22 for sundries had been entered in the cash book as a receipt instead of as a payment.
(vi) A cheque received from K. Kinoti for shs. 80 had been returned by the bank and marked" No funds available". No adjustment has been made in the cash book.
(vii) A standing order for a business rates installment of shs 150 on 30th October had not been entered in the cash book.
(viii) All dividends received are credited directly to the bank account. During October amounts totaling shs. 62 were credited by the bank but no entries were made in the cash book.
(ix) A cheque drawn for shs. 66 for stationery had been incorrectly entered in the cashbook as shs. 60
(x) The balance brought forward in the cash book should have been shs. 711 and not shs. 761

Required:

(i) Prepare an adjusted cashbook (5 Marks)

(ii) Prepare a bank reconciliation statement as at 31 October 2010. (5 Marks)

QUESTION THREE

(a) Discuss the importance of a petty cash book. (10 Marks)

(b) Enter the following transaction in the three-column cash book of an office supply shop. Balance off the cash book at the end of the month and show the discount accounts in the general ledger.

2015

June 1 Balances brought forward: Cash £ 4,940

2 The following paid us by cheque, in each case deducting a 5 per cent cash discount; S Braga £ 820; L Pine £ 320; G Hodd £ 440; M Rae £ 1,040.

3 Cash sales paid direct into the bank £ 740.

5 Paid rent by cash £ 340

6 We paid the following accounts by cheque, in each case deducting 2 ½ per cent cash discount: M Peters £ 360; G Graham £ 960; F Bell £ 400

8 Withdrew cash from the bank for business use £ 400

10 Cash sales £ 1,260

12 B Age paid us their account of £ 280 by cheque less £ 4 cash discount.

14 Paid wages by cash £ 540

16 We paid the following accounts by cheque: R Todd £ 310 less cash discount £ 15; F Dury £ 412 less cash discount £ 12

20 Bought fixtures by cheque £ 4,320

24 Bought lorry paying by cheque £ 14,300

29 Received £ 324 cheque from A line.

30 Bought stationery paying by cash £ 56

Required:

Prepare a three column cashbook duly balanced. (10 Marks)

QUESTION FOUR

(a) Patrick runs a business enterprise and the following transactions occurred for the month of May 2016.

Date	
1 May	Patrick puts in £ 50,000 cash to start a new business of his own called Patrick's products.
1 May	Borrows a loan of £ 15,000 from the bank of walls and deposit the money in his bank account.
3 May	Buys a small Business premise for £ 30,000 in cash
6 May	Buys equipment for £ 10,000 on credit from Betty Electronics
8 May	Buys goods for resale for £ 8,000 on credit from Josh Suppliers
10 May	Buys further goods for £ 5,000 in cash
12 May	Cash sales £ 2,500
15 May	Credit sales 2,700 to Mary Wells
18 May	Payment of £ 6,600 to a Josh Suppliers by Cheque
20 May	Cash of £ 1,200 received from Mary Wells
22 May	Credit sales £ 12,000 to Mike
22 May	Patrick withdraws £ 800 in cash from the business bank account for his private use.
24 May	Cash sales £ 1,800

25 May	Bought goods for resale on credit for £ 1,000
26 May	Wages of £ 700 are paid in cash
28 May	Paid sundry expenses in cash £ 50
28 May	Cash sales £ 3,000
29 May	Received £ 1,000 from Mary Wells by Cheque.

Required:

(i) Open ledger entries to record the above transactions (12 Marks)

(ii) Prepare a trial balance for Patrick's Products business for the month of May 2016. (8 Marks)

QUESTION FIVE

(a) Explain the following terms and give clear illustrations in each

(i) Purchases Day Book (3 Marks)

(ii) Accrued Expenses (3 Marks)

(iii) Bad debts (3 Marks)

(b) Identify and explain with examples the types of errors not affecting trial balance. (6 Marks)

(c) The owners capital as at 31st December 2015 was shs. 25,000.
Net loss for the year was shs 6,000 and drawings during the year amounted to shs 10,000.
Determine the owners capital as at 1st January 2015. (5 Marks)