

THE CO-OPERATIVE UNIVERSITY OF KENYA

END OF SEMESTER EXAMINATION-DEC, 2019

FINANCIAL ACCOUNTING

QUESTION ONE

a) Given examples, distinguish the following types of errors:

- i. Error of commission and error of principle (2mks)
- ii. Compensating error and error of complete reversal of entries (2mks)

b) In the context of accounting for not-for-profit organizations, explain three differences between receipts and payment account and an income and expenditure account

c) Highlight any FOUR source documents stating functions for each (2mks)

d) The following trial balance was extracted from the books of Account of Makori Ltd as at 31st Dec, 2018

| | DR | CR |
|--------------------------|--------|---------|
| | Shs | Shs |
| Drawings | 3,000 | |
| Capital | | 66,000 |
| Returns outwards | | 7,000 |
| Stationary expenses | 13,000 | |
| Electricity expenses | 11,000 | |
| Discount allowed | 3,700 | |
| Dividend income | | 6,000 |
| Carriage inwards | 4,300 | |
| Returns inwards | 5,500 | |
| Purchases | 76,500 | |
| Discount received | | 2,600 |
| Telephone expenses | 12,000 | |
| Long term loan | | 24,000 |
| Debtors | 40,000 | |
| Carriage outwards | 5,000 | |
| Sales | | 162,000 |
| Office equipment | 8,000 | |
| Motor vehicle | 32,000 | |
| Bank overdraft | | 16,000 |
| Inventory as at 1/1/2018 | 28,600 | |
| Cash in hand | 16,000 | |
| Creditors | | 27,000 |

| | | |
|----------|---------|---------|
| Premises | 52,000 | |
| Total | 310,600 | 310,600 |

Additional information

- I. The value of the inventory as at 31/12/2019 was shs 9,500
- II. Dividend income receivable shs 4,000
- III. Prepaid telephone expenses shs 3,000
- IV. 20% of the electricity expenses relate to Makoris residence
- V. Accrued stationary expenses Shs 2,500
- VI. Makori had withdrawn shs 2,500 cash from the business for personal use. This event had not been recorded in the ledger accounts.
- VII. Receivable rent income shs 5,000
- VIII. Bad debts to be written off shs 2,000
- IX. Depreciation of fixed assets at 15% on cost

Required

- i. Trading and profit and loss account for the year ended 31/12/2018
- ii. Statement of Financial Position as at 31st Dec,2018

QUESTION TWO

- a) Describe the process of enacting accounting standards, merits and demerits of accounting standards. (6 marks)
- b) State any FOUR characteristics of a good accounting information (2mks)
- c) Identify FOUR users of accounting information and explain how they would use the information in the financial statements (4mks)
- d) On 31st dec, 2018, the balance at bank as shown by the cash book was shs25370,whereas the bank statement showed a credit balance of shs.25670.comparison of the cash book with the bank statement showed the following discrepancies:
 - i. cheques not presented for payments sh12340
 - ii. cheques paid into bank but not credited by the bank sh12160
 - iii. items shown in the bank statement but not yet entered in the cash book

Bank charges 240

Standing order 460

Dividends collected by bank 820

Required

Adjust the cash book to show correct cashbook balance and the prepare a bank reconciliation statement

QUESTION THREE

The following balances were obtained from the ledger accounts of Patel business as at 31/12/00

| | Shs |
|----------------------|---------|
| Land | 016,000 |
| Discount allowed | 3,400 |
| Insurance expenses | 5,800 |
| Telephone expenses | 2,400 |
| Returns inwards | 5,200 |
| Creditors | 26,000 |
| Cash in hand | 8,000 |
| Drawings | 3,000 |
| 3 years bank loan | 25,000 |
| Rent income | 4,000 |
| Purchases | 16,800 |
| Discount received | 2,000 |
| Returns outwards | 3,600 |
| Debtors | 32,000 |
| Bank overdraft | 3,500 |
| Premises | 53,000 |
| Opening Stock 1/1/00 | 12,400 |
| Sales | 76,000 |
| Motor vehicle | 20,000 |

Required

- a) Prepare a trial balance as at 31/12/00
- b) The following additional information was provided for you in respect of Patel's business.
 - I. Value of the closing stock as at 31/12/00 shs 3,800
 - II. Rent income received in advance shs 1,400
 - III. Insurance expenses paid covered the period from 1/1/00 to 31/8/00. Insurance premiums are payable throughout the year at a monthly rate of shs 725
 - IV. ½ of the telephone expenses paid relate to the private bills of the business owner
 - V. Bad debts to be written off shs 1,780

Required

Using the vertical format, prepare:

- I. Trading and profit and loss account for the year ended 31/12/00
- II. Balance sheet as at 31/12/00

QUESTION FOUR

- a) ABC Ltd manufactures a range of paints and prepares accounts to 31st Dec, annually. Finished goods are transferred between the manufacturing and trading accounts at a production cost plus 25%

The following information relates to the year ended 31st Dec, 2018

| | |
|--|--------|
| Stocks as at 1 st January, 2018 | shs |
| Raw materials | 10,500 |
| Work in progress | 15,900 |
| Finished goods | 5,600 |
| Stocks as at 31 st Dec, 2018 | |
| Raw materials | 12700 |
| Work in progress | 14600 |
| Finished goods | 7000 |
| Expenditure | |
| Carriage inwards | 400 |
| Carriage outwards | 800 |
| Raw materials | 290600 |
| Manufacturing royalties | 4750 |
| Heating and lighting | 15700 |
| Rent and rates | 12200 |
| Office salaries | 9800 |
| Office postages | 620 |
| Insurance | 11000 |
| Advertising | 2500 |
| Factory supervision | 14500 |
| Factory salaries and wages | 175000 |
| Factory power | 900 |
| Sales | 400000 |

Notes:

- i. Depreciation is yet to be provided on plant for the year to 31st Dec 2001. The plant was purchased for 1,000000 four years ago. The plant is depreciated on a straight line basis over 25 years
- ii. Heating and lighting ,rent & rates and insurance are each to be apportioned to factory and office expenditure in the ratio 60:40

- iii. As at 31st Dec,2018 there was an accrual for wages and salaries of 12500,40% of the accrual related to factory wages and 60% to office salaries
- iv. At the 31st Dec,2018 there was also a prepayment of 750 for rent and rates
- v. None of the above items has been included in the expenditure information

Required

- i. Prepare the manufacturing account for the year ended 31st,dec 2018
- ii. Statement of comprehensive income and financial position

QUESTION FIVE

The following trial balance comes from the accounting records of a partnership black,white and green

| Trial balance as at 31 st march, 2002 | | |
|--|------------------|--------|
| | Sh | sh |
| Sales | | 227238 |
| Purchases | 129,876 | |
| Selling expenses | 23987 | |
| Distribution expenses | 19888 | |
| Administration expenses | 16780 | |
| Debtors and prepayments | 36270 | |
| Creditors and accruals | | 23750 |
| Cash in hand | 1460 | |
| Cash at bank | 3458 | |
| Opening stock | 17773 | |
| Equipment-cost | 100500 | |
| | -accumulated dep | 24100 |
| Partner's current accounts | | |
| | -black | 214 |
| | -white | 114 |
| | -green | 212 |
| Partner's drawings | | |

| | |
|--------|-------|
| -black | 12785 |
| -white | 11444 |
| -green | 7007 |

Partners capital

| | | |
|--------|--------|--------------|
| -black | | 38000 |
| -white | | 34850 |
| -green | _____ | <u>32750</u> |
| | 381228 | 381228 |

The stock at 31st march2002 was valued at cost of 21782

The partnership agreement provides that interest on partners' capital accounts should be allowed at the rate of 10% per annum.Black, white and green are to be appropriated annual salaries out of profits of 3000, 2000 and 1000 respectively. The balance of profits is to be shared in the ratio Black 40%, white 40% and green 20%

Required

Prepare the trading profit and loss account and appropriation account for the year ended 21st march 2002.show how the current account balance are determined (11mks)

Prepare the balance sheet as at 31st march, 2002(12mks)