



The Co-operative University of Kenya

END OF SEMESTER EXAMINATION DECEMBER -2018

**EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE
BUSINESS / BACHELOR OF COMMERCE
(YR I SEM II)**

UNIT CODE: CMBC 2101

UNIT TITLE: FINANCIAL ACCOUNTING I

DATE: 17TH DECEMBER, 2018

TIME: 9:00 AM – 11:00 AM

INSTRUCTIONS:

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

QUESTION ONE

Example

The following trial balance was extracted from the books of Olivia Enterprise, a sole proprietorship as at 31 August, 2018.

| | Shs. '000' | Shs '000' |
|---|------------|-----------|
| Plant and machinery at cost | 105,280 | |
| Provision for depreciation on plant and machinery | | 29,050 |
| Motor vehicles | 93,030 | |
| Provision for depreciation on motor vehicles | | 19,530 |
| Goodwill | 80,290 | |
| Freehold premises at cost | 224,000 | |
| 5% 3 year Bank Loan | | 70,000 |
| Interest paid/Interest received | 7,000 | 3,220 |
| Inventory as at 1 st September 2017 | 32,690 | |
| Bank and cash | | |
| Capital | | 420,000 |
| Drawings | 39,200 | |
| Purchases/Sales | 239,820 | 410,480 |

| | | |
|--------------------------------------|-------------------------|-------------------------|
| Sales Returns/ Purchases Returns | 22,820 | 14,980 |
| Carriage inwards | 5,110 | |
| Carriage outwards | | 2,940 |
| Discount allowed/ Discount received | 10,360 | 13,790 |
| Wages | 50,260 | |
| Rent and rates | 30,100 | |
| Allowance for bad and doubtful debts | | 3,710 |
| Trade receivables/ Trade payables | 56,490 | 30,380 |
| Electricity | 18,480 | |
| Stationery | 3,150 | |
| | <u>1,018,080</u> | <u>1,018,080</u> |

Additional information

- i) Inventory as at 31 August 2018 was valued at £ 25,830,000
- ii) Allowance for bad debts is to be adjusted to 10% of debtors
- iii) Bad debts of £ 2,590,000 have not been posted to the ledger.
- iv) Prepaid rent amounted to £ 10,500
- v) Electricity accrued as at 31 August 2018 was £ 910,000 and prepaid rates amounted to £ 1,470,000.

Required:

- i) (a) Statement of profit or loss Acc. for the year ended 31 August 2018
(12 marks)
 - ii) (b) Statement of financial position as at 31 August 2018 (8 marks)
- (b) Highlight the basic purpose of control accounts. (6 marks)
- (c) Explain the following terms:
- (i) The prudence concept (2 Marks)
 - (ii) The accruals concept (2 Marks)

QUESTION TWO

- (a) Discuss the qualities of good accounting information (8 marks)
- (b) Wilson is preparing his bank reconciliation at 31 May 2018. His bank statement shows a balance of Shs 228 000 cash at the bank. The balance on the bank account in his general ledger is Shs 113 000 (credit). He has noted the following reasons for the difference:

- i) Cheque number 958602 was incorrectly recorded in Wilson's cash book as Shs 760,000. The cheque was correctly debited on the bank statement on 2 May as Shs 670,000.
- ii) Bank charges of Shs 428,000 were debited by the bank on 4 May.
- iii) A customer's cheque for Shs 320,000 was returned by Wilson's bank in May as the customer had insufficient funds in his account. Wilson has not recorded the return of the cheque in his records.
- iv) The bank has incorrectly credited Wilson's account with interest of Shs 220,000. This is interest on a deposit account held by Wilson personally. The bank had not corrected the error by 31 May.
- v) A cheque deposit of Shs 850,000 entered in Wilson's cash book on 31 May was credited on the bank statement on 3rd June 2018.
- vi) Five cheques have not yet been presented at the bank. These are:

| Cheque No. | Shs |
|------------|--------------------------|
| 956784 | 625 see note (vii) below |
| 956892 | 326 |
| 958452 | 469 |
| 958541 | 122 |
| 958668 | 87 |
| | 1,629 |

- vii) Cheque number 956784 was lost in the post and was cancelled. Wilson has not recorded the cancellation of the cheque.

Required:

- (a) Prepare an Updated Cash Book (6 Marks)
- (b) Prepare a Bank Reconciliation Statement (6 Marks)

QUESTION THREE

- (a). Discuss the importance of a petty cash book (10 marks)
- (b). Enter the following 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 shs.420; Bank £4,940.
- 2 The following paid us by cheque, in each case deducting a 5 per cent cash discount: S Braga shs.820; L Pine shs.320; G Hodd shs.440; M Rae shs.1,040.
- 3 Cash sales paid direct into the bank shs.740.
- 5 Paid rent by cash shs.340.

- 6 We paid the following accounts by cheque, in each case deducting 21/2 per cent
Cash discount: M Peters shs.360; G Graham shs.960; F Bell shs.400.
- 8 Withdrew cash from the bank for business use shs.400.
- 10 Cash sales shs.1,260.
- 12 B Age paid us their account of shs.280 by cheque less shs.4 cash discount.
- 14 Paid wages by cash shs.540.
- 16 We paid the following accounts by cheque: R Todd shs.310 less cash discount shs.15;
F Dury shs.412 less cash discount shs.12.
- 20 Bought fixtures by cheque shs.4,320.
- 24 Bought lorry paying by cheque shs.14,300.
- 29 Received shs.324 cheque from A Line.
- 30 Cash sales shs.980.
- 30 Bought stationery paying by cash shs.56.

Required

Prepare a three column cashbook duly balanced (10 marks)

QUESTION FOUR

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
- 8 May Buys goods for resale for £8,000 on credit
- 10 May Buys further goods for £5,000 in cash
- 12 May Cash sales £2,500
- 15 May Credit sales 2,700

- 18 May Payment of £6,600 to a creditor by cheque
- 20 May Cash of £1,200 received from a debtor
- 22 May Credit sales £12,000
- 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 debtors by cheque.

Required

- (i). Open ledger entries to record the above transactions (12marks)
- (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 trail balance (6 marks)
- (c) Highlight FOUR advantages of control accounts. (4 Marks)
- (d) 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 1/1/2015. (5 Marks)