



MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2013/2014

FIRST YEAR SECOND SEMESTER EXAMINATIONS FOR THE
DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION
WITH INFORMATION TECHNOLOGY

(HOMA BAY CAMPUS)

ABA 103: INTRODUCTION TO ACCOUNTING I

Date: 23rd November, 2013

Time: 2.00 - 4.00 p.m.

INSTRUCTIONS:

- **SECTION A: Question ONE (1) is COMPULSORY.**
- **SECTION B: Answer ANY TWO questions.**

SECTION A (COMPULSORY)

QUESTION ONE

According to the cash book of Gaitani Ltd. the company has a credit balance at the bank of Sh.190.000 on 30 June 2012, but this is NOT borne out by the Bank Statement of the same date. An investigation into the difference yields the following information.

- 1) A standing order for a charitable subscription of Sh.20, 000 had been paid by the bank on 29 June but no entry had been made in the cash book.
- 2) A cheque paid for advertising on 10 June for Sh.89,500 had been entered into the cash book as Sh.98,500.
- 3) Cheques for S11.5 18,500 sent to creditors on 30 June were not paid by the bank until 8 July.
- 4) Cheques received from customers amounting to sh.840.000 were paid into the bank on 30 June but were not credited by the bank until 5 July.
- 5) On 20 July a cheque for h.57, 000 was received from a customer in settlement of an invoice for Sh.60.000. An entry of Sh.60.000 had been made in the cash book.

Required:

- a) Prepare a statement reconciling the cash book balance with the bank statement. (12 marks)
- b) Explain how a company may have reduced its bank balance during an accounting period but still have earned a profit for that same period. (10 marks)
- c) Explain the main adjustments which are made at the end of year while preparing the final accounts. (8 marks)

SECTION B (ANSWER ANY TWO (2) QUESTIONS)

QUESTION TWO

- (a) Explain the purposes for which control accounts are prepared in a business organization. (5 marks)
- (b) XML Ltd. maintains control accounts in its business records. The balances and transactions relating to the company's control accounts for the month of December 2012 are listed below:

| | Sh. |
|-------------------------------------|--------------------|
| Balance at 1 December 2012: | |
| Sales ledger | 6,185,000(debit) |
| | 52,500 (credit) |
| Purchases ledger | 16,500 (debit) |
| | 4,285,000 (credit) |
| Transactions during December 2012: | |
| Sales on credit | 8,452,000 |
| Purchases on credit | 5,687,500 |
| Returns inwards | 203,500 |
| Returns outwards | 284,000 |
| Bills of Exchange payable | 930,000 |
| Bills of Exchange receivable | 615,000 |
| Cheques received from customers | 7,985,000 |
| Cheques paid to suppliers | 4,732,000 |
| Cash paid to suppliers | 88,500 |
| Bill payable dishonoured | 400,000 |
| Charges on bill payable dishonoured | 10,000 |
| Cash received from credit customers | 153,000 |
| Bad debts written-off | 64,500 |
| Cash discounts allowed | 302,000 |
| Bill receivable dishonoured | 88,500 |
| Balances at 31 December 2012: | |
| Sales ledger | 44,000 (credit) |
| Purchases ledger | 23,500 (debit) |

Required:

Post the sales ledger and the purchases ledger control accounts for the month of December 2012 and derive the respective debit and credit closing balances on 31 December 2012. **(15 marks)**

QUESTION THREE

- (a) Explain four types of errors which are not disclosed by the trial balance. (8 marks)
- (b) The trial balance of S. Juma, a sole trader, did not balance on 30 April 2012. 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) A loan from ABD Bank of Sh. 10,000 was entered correctly in cashbook but was not posted to the ledger.
- b) A cheque of Sh.4,000 for rent received was not entered in the books.
- c) Closing stock was overvalued by Sh.1, 500.
- d) Discount allowed of Sh.500 was entered in the discount received account.
- e) The opening stock was understated by Sh.3,200.
- f) Prepaid insurance of Sh.220 had been included in the profit and loss account.
- g) 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:

- (i) Journal entries to correct the errors. (8 marks)
- (ii) Statement of corrected profit. (2 marks)
- (iii) Suspense account (2 marks)

QUESTION FOUR

The following trial balance was extracted from the books of Hiza Ltd. as on 30 September 2012:

| | Sh. `000' | Sh. `000' |
|---|----------------|----------------|
| Share capital, authorized and issued 3,125,000 | | |
| Ordinary shares of Sh.20 each | | 62,500 |
| Directors' current accounts | | |
| - Ombima | | 1,700 |
| - Mwangi | | 975 |
| Motor vehicles (cost Sh. 12 million) | 7,200 | |
| Freehold properties, at cost | 50,000 | |
| Profit and loss account | | |
| Balance at 1 October 2012 | 18,400 | |
| Purchases | 228,440 | |
| Sales | 296,000 | |
| Stock, 1 October 2012 | 26,875 | |
| Special loan from bank at 5% p. a. | | 12,500 |
| Loan interest accrued at 30 September 2012 | | 625 |
| Goodwill | 7,500 | |
| Bad debts | 1,175 | |
| Provision for bad debts 30 September 2012 | | 350 |
| Rent receivable | 625 | |
| Trade debtors and creditors | 33,900 | 23,275 |
| Motor vehicle running expenses | 1,930 | |
| General expenses | 10,825 | |
| Balance at bank | 5,020 | |
| Salaries and wages | 42,935 | |
| Rates and Insurance | 1,150 | |
| | <u>416,950</u> | <u>416,950</u> |

You are given the following information:

- Stock in trade, 30 September 2012 was Sh.28, 875,000.
- The provisions for bad debts is to be increased to Sh.750,000.
- Salaries and wages outstanding at 30 September 2012 is Sh.500,000.

- d) Rates and insurance paid in advance at 30 September 2012 is Sh. 155,000.
- e) The item 'rent receivable Sh.625,000 includes Sh. 125,000 in respect of the period from 1 October 2012 to 31 December 2012.
- f) Provision is to be made for depreciation of motor vehicles at the rate of 20 per cent per annum on cost.
- g) During the year to 30 September 2012, Ombima, one of the directors took goods (cost Sh.437,500) out of business stock for his own use. No entry for this transaction has been made in the books.

Required:

- (a) Trading and Profit and Loss Account for the year to 30 September 2012. (12 marks)
- (b) Balance Sheet as at that date. (8 marks)

QUESTION FIVE

With reference to International Accounting Standards explain the following:

- (a) Fundamental accounting concepts. (12 marks)
- (b) Accounting bases (4 marks)
- (c) Accounting policies (4 marks)