



UNIVERSITY OF EMBU

2016/2017 ACADEMIC YEAR

SECOND SEMESTER EXAMINATIONS

FIRST YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF
BACHELOR OF SCIENCE IN AGRI-BUSINESS

AEB 112: BUSINESS ACCOUNTING

DATE: APRIL 6, 2017

TIME: 8:30-10:30AM

INSTRUCTIONS:

Answer Question ONE and ANY Other TWO Questions.

QUESTION ONE (30 MARKS)

a) For each of the following users of financial statements, identify the kind of information they may require, why they require it and the decisions they make from that information.

i) Owners. (3 marks)

ii) Financial analysts. (3 marks)

iii) Lenders. (4 marks)

b) The following details were extracted from books of accounts of Akili Traders for the month of June 2016;

- | | |
|---------------|---|
| 1 June, 2016 | Started business with Sh.5, 000,000 in the bank. |
| 2 June, 2016 | Bought Motor Van paying by cheque Sh.1, 200,000. |
| 5 June, 2016 | Bought Fixtures Sh.400,000 on credit from Office Masters Ltd. |
| 8 June, 2016 | Bought a Van on credit from Motor Cars Ltd Sh.800, 000. |
| 12 June, 2016 | Took Sh.1, 000 out of the bank and put it into the cash till. |
| 15 June, 2016 | Bought Fixtures paying by cash Sh.60, 000. |
| 19 June, 2016 | Paid Motor Cars Ltd by cheque Sh.800, 000. |
| 21 June, 2016 | A loan of Sh.1, 000,000 cash is received from J Marcus. |
| 25 June, 2016 | Paid Sh.800, 000 of the cash in hand into the bank account. |
| 30 June, 2016 | Bought more Fixtures paying by cheque Sh.300, 000. |

Required;

Prepare the following Accounts from the above information;

- i) Asset accounts (5 marks)
- ii) Capital accounts (5 marks)
- iii) Liability accounts (5 marks)
- c) Briefly discuss five basic principles of accounting. (5 marks)

QUESTION TWO (20 MARKS)

(a) Distinguish reserves from share capital. (5 marks)

(b) The trial balance of Plastics Ltd as at 31 October 2014 is as follows:

	Sh.'000	Sh.'000
Ordinary shares of Sh.50 each		10,000
10% preference shares of Sh.100 each		9,000
10% debentures		8,000
Land and buildings (net book value)	25,000	
Plant and machinery (net book value)	8,000	
Motor vehicles (net book value)	2,000	
Inventory (November 2013)	6,000	
Accounts receivables and payables	20,000	19,000
Cash at bank	4,100	
Capital redemption reserve		6,000
Share premium		4,000
Retained profits as at (November 2013)		3,000
Debenture interest	400	
Preference dividend	450	
Gross profit		25,000
Other operating income		4,000
Administrative expenses	13,000	
Distribution costs	6,000	
Other operating expenses	1,550	
Interim ordinary dividend paid	2,000	
Corporation tax	_____	_____500
	<u>88,500</u>	<u>88,500</u>

Additional information:

1. A building whose net book value is currently Sh.5 million is to be revalued to Sh.9 million
2. A final ordinary dividend of Sh.2 million is proposed.
3. The balance on the corporation tax for the current year is estimated at Sh.3 million.

Required:

- (i) Income statement for the year ended 31 October 2014. (8 marks)
- (ii) Balance sheet as at 31 October 2014. (7 marks)

QUESTION THREE (20 MARKS)

- a) Explain any four contents of a partnership deed (4 marks)
- b) The following trial balance was taken from the books of Augustine Rono on 30th June, 2016.

	Sh.	Sh.
Drawings	20,000	
Purchase and Sales	713,200	923,000
Wages and Salaries	42,300	
Cash at Bank		600
Cash in Hand	700	
Debtors and Creditors	70,000	58,200
Capital		200,000
Stock, 1 st July 2015	53,300	
Electricity and Telephone	14,000	
Premises, at cost	100,000	
Office Expenses (including stationery)	9,500	
Provision for bad and doubtful debts, 1 st July 2015		1,000
Rates and Insurance	12,400	
Bad debts written off	2,900	
General Expenses	14,400	
Motor Vehicles Running Expenses	38,400	
Motor Vehicle, at cost	48,000	
Furniture and Equipment, at cost	45,000	

Provision for depreciation on Motor Vehicles		3,900
Provision for depreciation on Furniture and Equipment		5,000
Return Inwards and Outwards	<u>23,000</u>	<u>10,000</u>
	<u>1,207,000</u>	<u>1,207,000</u>

Additional information:

- 1) Expenses accrued but unpaid on 30th June, 2016, Salaries sh. 3,600 and electricity sh. 2,200.
- 2) Prepaid insurance amounted to sh. 3,100 and unused stationery to sh.1, 600 on 30th June 2016.
- 3) Provision for bad debts should be adjusted to 2% of debtors.
- 4) 20% depreciation should be provided on the cost of motor vehicles and 12.5 % on the book value of furniture and equipment.
- 5) The stock on 30th June, 2016 had a cost value of sh. 56,500.

Required

- i) The income and expenditure statement as at 30th June, 2016. (10 marks)
- ii) The balance sheet as at 30th June, 2016. (6 marks)

QUESTION FOUR (20 MARKS)

- (a) Differentiate between a petty cashbook and a three-column cashbook. (5 marks)
- (b) Briefly explain why it is important for a business entity to prepare a bank reconciliation statement. (3 marks)
- c) Enter the following transactions in the three column cash book, balance off at the end of the month and show the relevant discounts account as they would appear in the general ledger.

2010

- March 1 Balances brought forward: cash sh. 62,000; Bank sh.714, 200.
- March 2 The following paid their accounts by cheque, in each case deducting 5% cash discounts: Grace sh. 26,000; Mibey sh. 32,000; Wafula sh. 42,000 (all amounts are pre- discount).
- March 4 Paid rent by cheque sh. 43,000

- March 8 Paid the following by cheque in each case deducting 2.5% cash discount: Omariba sh. 72,000; Ochieng sh. 96,000; Wario sh. 160,000 (all amounts are pre-discount).
- March 10 Paid motor expenses in cash sh. 8,100
- March 12 Wairobi paid his account of sh.90, 000 by cheque sh. 88,000 deducting sh.2, 000cash discount.
- March 15 Paid wages in cash sh. 5,800.
- March 21 Cash withdrawn from the bank sh. 40,000 for business use.
- March 24 Cash drawings sh. 20, 000.
- March 25 Paid James his account of sh. 16,000 by cash less 5% cash discount.
- March 29 Bought fixtures paying by cheque sh. 72,000.
- March 31 Received commission by cheque sh. 12,000

(12 marks)

QUESTION FIVE (20 MARKS)

Hapo and Vipi are in partnership sharing profits and losses equally. The following is their trial balance as at 30th March 2016:

	Dr. Sh.	Cr. Sh
Buildings (cost Sh. 80,000)	55,000	
Fixtures at cost	16,000	
Provision for depreciation on fixtures		8,300
Debtors	21,243	
Creditors		16,150
Cash at bank	5,677	
Stock at 30 th March 2015	46,979	
Sales		128,650
Purchases	90,416	
Carriage outwards	6,288	
Discounts allowed	5,115	
Loan from Oloo		129,100
Office expenses	7,416	
Salaries	23,917	
Bad debts	5,503	
Provision for bad debts		5,400

Loan interest – Oloo		9,000
Capital – Hapo		45,000
Capital – Vipi		39,500
Current account – Hapo		13,106
Current account – Vipi		9,298
Drawings by Hapo	12,400	
Drawings by Vipi	8,650	
	<u>394604</u>	<u>394604</u>

Additional information;

1. Stock as at 30th June 2016 was Sh 61,341
2. Office expenses and Wages of Sh 2596 and Sh 5717 respectively are for next year starting on 1st April 2016.
3. Depreciation is to be charged at 10% on reducing balance method on fixtures and Sh 750 on buildings.
4. Provision for bad debts is to be adjusted to Sh 4000
5. Not yet entered in the books is salary of Sh 1,000 to Hapo
6. Interest on drawings: Hapo, Sh 5,180 and Vipi Sh 5,120
7. Interest on capital account balances is at 10%
8. Freehold land was purchased during the year at Sh 80,900 vide a cheque. While the entry was passed in the cash at bank account, no other entry was made.

Required

- a) Prepare a statement of comprehensive income for the year ended 30th March, 2016. (12 marks)
- b) Prepare a statement of financial position as at 30th March, 2016. (8 marks)

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