

**ZU/WI/7/EXM/6**

**ZETECH UNIVERSITY**

**ACADEMIC YEAR 2016/2017**

**EXAMINATION FOR THE BACHELOR OF BUSINESS MANAGEMENT AND ADMINISTRATION/BBIT/BPSM**

**ACCT101: FINACIAL ACCOUNTING 1**

**ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS**

**DATE: AUGUST 2017 TIME: 2 Hours**

**QUESTION ONE**

(a) Define the following accounting concepts and for each explain their implication in the preparation of financial Statements.

(i) The Going concern concept. (4 marks)

(ii) Business entity concept. (4 marks)

(iii) Materiality. (4 marks)

(b) David Dolgellau, a sole trader has prepared the following balance as at 31 March 2001

|  |  |
| --- | --- |
|  | KHS |
| Sales  Discount Received  Rent Received  Returns outwards  Creditors  Bank Overdraft  Capital  Purchases  Salaries and Wages  Office expenses  Insurance premiums  Electricity  Stationery  Advertising  Telephone  Business Rates  Discounts allowed  Returns Inwards  Stocks as at 1 April 2000  Warehouse, shop and office  Fixtures and fittings  Debtors  Cash in till  Drawings | 378,500  2,400  7,500  7,700  18,700  30,000  287,500  261,700  45,700  8,400  3,100  1,600  6,200  8,400  2,100  7,500  600  4,100  120,600  210,000  12,800  13,000  500  26,000 |

The following further information was obtained:

* Closing stock was ksh102,500
* Electricity charges accrued ksh 700
* Advertising expenses accrued ksh 500
* Insurance premiums paid in advance sh 900
* Business rates prepaid ksh1,500

**Required:** Prepare a trial balance, trading, profit and loss account for the year ended 31 March 2001 and balance sheet as at that date. (14 Marks)

C) The following categories of people are recognized as users of the information contained in financial statements:

* Owners.
* Financial analysts
* Lenders.

For each of the above users of financial statements, identify the kind of information they may require, why they require it and the decisions they make from that information. (4 Marks)

**(Total: 30marks)**

**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 1994 are

listed below:

|  |  |
| --- | --- |
|  | **Sh.** |
| Balance at 1 December 1994: |  |
| Sales ledger | 6,185,000 (debit) |
|  | 52,500 (credit) |
| Purchases ledger | 16,500 (debit) |
|  | 4,285,000 (credit) |
| Transactions during December 1994: |  |
| 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 1994: |  |
| 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 1994 and derive the respective debit and credit closing balances on 31 Dec 1994 **(15 marks)**

**(Total: 20marks)**

**QUESTION THREE**

1. The bank statement and cashbook balances should agree, but sometimes these balances may not agree:

**Required:**

Discuss this statement and explain why it is important to prepare a bank reconciliation statement. (8 marks)

1. On 31 October 2004, the cashbook of Mwea Enterprises Ltd. Showed a debit balance of Sh.1,710,000. This did not agree with the balance shown in the bank statement.

Upon investigation, the accountant discovered the following errors:

* 1. A cheque paid to Kindaruma for Sh.306,000 had been entered in the cashbook as Sh.387,000
  2. Cash paid into the bank by a customer for Sh.90,000 had been entered in the cashbook as Sh.81,000
  3. A transfer of Sh.1,110,000 to Central Savings Bank had not been posted to the cash book.
  4. A receipt of Sh.9,000 shown in the bank statement had not been posted in the cashbook.
  5. Cheques drawn amounting to Sh.36,000 had not been paid into the bank.
  6. The cash book balance had been incorrectly brought down at 1 November 2003 as a debit balance of Sh.1,080,000 instead of a debit balance of Sh.990,000
  7. Bank charges of Sh.18,000 do not appear in the cash book.
  8. A receipt of Sh.810,000 paid into the bank on 31 October 2004 appeared in the bank statement on 1 November 2004.
  9. A standing order of Sh.27,000 had not been recorded in the cash book.
  10. A cheque for Sh.45,000 previously received and paid into the bank had been returned by the customer’s bank marked “account closed”.
  11. The bank received a direct debit of Sh.90,000 from an anonymous customer.
  12. Cheques banked had been totaled at Sh.135,000 instead of Sh.153,000.
  13. A cheque drawn in favour of Nyaga for Sh.120,000 had been entered on the debit side of the cashbook.

**Required;**

(i) Adjusted cash book as at 31 October 2004. (6 marks)

(ii) A bank reconciliation statement as at 31 October 2004. (6 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

(a) Name and 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 1995. 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:

(1) A loan from ABD Bank of Sh. 10,000 was entered correctly in cashbook but was not posted to the ledger.

(2) A cheque of Sh.4,000 for rent received was not entered in the books.

(3) Closing stock was overvalued by Sh.1, 500.

(4) Discount allowed of Sh.500 was entered in the discount received account.

(5) The opening stock was understated by Sh.3,200.

(6) Prepaid insurance of Sh.220 had been included in the profit and loss account.

1. 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:**

(a) Journal entries to correct the errors. (8 marks)

(b) Statement of corrected profit. (2 marks)

(c) Suspense account (2 marks)