

**W1-2-60-1-6**

**JOMO KENYATTA UNIVERSITY**

**OF**

**AGRICULTURE AND TECHNOLOGY**

**UNIVERSITY EXAMINATIONS 2014/2015**

**YEAR 1 SEMESTER I EXAMINATION FOR THE DEGREE OF BACHELOR COMMERCE**

**HBC 2101: INTRODUCTION TO FINANCIAL ACCOUNTING**

**DATE: August 2015 TIME: 2 HOURS**

**INSTRUCTIONS: Answer Question One and Any Other Two Questions**

**QUESTION ONE (30 marks) – compulsory**

1. The accounting profession has for a long period relied on certain conventions to guide accounting practice.

Explain the following concepts and principles

1. Matching principle/accrual concept (5marks)
2. Historical cost principle (5marks)
3. Going concern concept (5marks)
4. Prudence concept (5marks)
5. Kibet set up a new business. Before he actually sells anything he bought Motor vehicles of Ksh300,000, premises Ksh700,000, stock Ksh200,000. He owes Ksh80,000 in respect of them. He had borrowed Ksh40,000 from Mary Muthoni. After the events just described and before start, he had Ksh30,000 cash in hand and Ksh60,000 cash at bank

Required;

Calculate the amount of capital (10marks)

**QUESTION TWO (20 marks)**

1. Describe the main purpose of accounting (5marks)
2. The following trial balance has been extracted from the ledger of Mpole a sole trader

Mpole Trading and Profit and Loss Account for year ended 31st May 2015

Kshs ‘000’ Kshs ‘000’

Sales 138,078

Purchases 82,350

Carriage 5,144

Drawings 7,800

Rent rates and insurance 6,622

Postage and stationery 3,001

Advertising 1,330

Salaries and wages 26,420

Bad debts 877

Provision for bad debts 130

Debtors 12,120

Creditors 6,471

Cash 177

Bank 1,002

Stock: 1 June 2013 11,927

Equipment at cost 58,000

Accumulated depreciation 19,000

Capital \_\_\_\_\_\_\_\_ 53,091

216,770 216,770

The following additional information as at 31st May 2014 is available;

1. Rent accrued by sh210,000
2. Rates have been prepaid by Ksh880,000
3. Ksh2,211,000 of carriage represent carnage inward on purchase.
4. Equipment is depreciated at 15% per annum using straight line method
5. The provision for bad debt to be increased by Ksh40,000
6. Stock at the close of business has been valued at 13,551,000

Required:

Prepare a trading and profit and loss account for the year ended 31st May 2014 and balance sheet as at that date. (15marks)

**QUESTION THREE (20 marks)**

1. Explain the main users of accounting (10marks)
2. The financial year of H seamers ended 31st December 2013. Show the ledger accounts for the following items including the balance transferred to the necessary part of the final accounts, also the balances carried down to 2014:
3. Motor expenses : paid in 2013 Ksh7,440, owing at 31st December 2013 Ksh2,800
4. Insurance paid in 2013 Ksh42,000, prepaid as at 31st December 2013 Kshs3,500
5. Stationery paid during 2013 Ksh18,000, owing as at 31st December 2012 Ksh25,000, owing as at 31st December 2013 Ksh49,000
6. Rates paid in 2013 Ksh95,000, Prepaid as at 31st December 2012 Ksh2,200, prepaid as at 31st December 2013 Ksh2,900
7. Seamers sublets part of the premises. Receives Ksh 5,500 during the year ended 31st December 2013. Tenants owed Seamers Ksh1800 on 31st December 2012 and Ksh2100 on December 2013 (10marks)

**QUESTION FOUR (20 marks)**

1. Explain the term bank reconciliation (5marks)
2. Mutunga, a sole trader received his bank statement for the month of June 2001. After that date the bank balance was sh706,500 whereas his cash book balance was sh2,366,500. His accountant investigated the matter and discovered the following discrepancies;
3. Bank charges sh3, 000 had been entered in the cash book.
4. Cheques drawn by Mutunga totaling sh22,500 had not yet been presented to the bank
5. He had not entered receipts of sh26,500 in his cash book
6. The bank had not credited Mr Mutunga with receipts of sh98,500 paid into the bank cashbook
7. Standing order payment amounting to sh62,000 had not been entered into the cash book
8. In the cash book Mr. Mutunga had entered a payment of sh74,900 as sh79,400
9. A cheque for sh15,000 from the debtor had been returned by the bank marked “(refer to drawer)” but had not been written back in the cashbook
10. Mutunga had brought forward the opening cash balance of sh329,250 as a debt balance instead of credit balance
11. An old cheque payment amounting to sh44,000 had been written back in the cashbook but the bank had already honored it.
12. Some of his customers had agreed to settle their debts by paying directly into his bank account. Unfortunately, the bank had credited some deposits amounting to sh832,500 to another customer’s account. However, acting on the information from his customers Mutunga had actually entered the expected receipts from the debtors in his cashbooks

Required;

1. A statement showing Mutunga’s adjusted cash balance as at 30th June 2001 (10marks)
2. Bank reconciliation (10marks)

**QUESTION FIVE (20 marks)**

1. Explain five types of errors. (10marks)
2. Give the journal needed to record the corrections of the following. Narratives are required:
3. Extra capital of Ksh10,000 paid into the bank had been credited to sales a/c.
4. Goods taken for own use ksh700 had been debted to general expenses a/c
5. Private insurance sh89 had been debited to insurance a/c
6. A purchase of goods from C. Kelly shs 857 had been entered in the books as 587
7. Cash banked sh390 had been credited to the bank column and debited to the cash column in the cash book
8. Cash drawing of sh400 had been credited to the bank column of the cashbook
9. Return inwards sh168 from Cathy had been entered in erro in Chartoton a/c
10. A sale of motor van sh1000 had been credited to motor expenses

NB/: All figures are in thousands (10marks)