



(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2017/2018 ACADEMIC YEAR

FIRST YEAR FIRST SEMESTER

SPECIAL/SUPPLIMENTARY EXAMINATION

FOR THE DIPLOMA IN BUSINESS MANAGEMENT

COURSE CODE: EDB 104

COURSE TITLE: FOUNDATIONS OF ACCOUNTING 1 1

DATE: 10/10/2018 TIME: 9:00 AM

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over. 

SECTION A (COMPULSORY)

QUESTION ONE

The books of Mr T, a trader in tea showed the following balances as at 31 March 1998:

| | Shs. |
|-------------------------------|---------|
| Opening stock of tea | 100,000 |
| Purchases – Tea | 400,000 |
| Salaries paid | 80,000 |
| Buildings | 95,000 |
| Cash in hand | 2,000 |
| Cash at bank | 135,000 |
| Rent, rates and council taxes | 15,000 |
| Insurance premium paid | 3,000 |
| Miscellaneous receipts | 10,000 |
| Sales | 720,000 |
| Discounts allowed | 4,750 |
| Bad debts | 3,250 |
| Building repairs | 2,900 |
| Miscellaneous expenses | 8,700 |
| Advertisement | 20,000 |
| Commission to sales manager | 32,400 |
| Furniture and fittings | 35,000 |
| Air conditioners | 30,000 |
| Sundry debtors | 100,000 |
| Sundry creditors | 80,000 |
| Loan on mortgage | 70,000 |

| | |
|-----------------------------------|---------|
| Interest paid on the above | 3,000 |
| Prepaid expenses | 4,000 |
| Drawings | 18,000 |
| Bills payable (Current liability) | 30,000 |
| Bank charges | 2,000 |
| Legal charges | 6,000 |
| Motor vehicles | 80,000 |
| Travelling and conveyance | 10,000 |
| Capital | 280,000 |

The following further information was obtained :

1. Closing stock was Shs.55,000.
2. Legal charges include Shs.5,000 for the cost of stamps and registration of a new building acquired during the year.
3. Purchases include 4000 kg tea valued at Shs.20,000, which was found totally spoilt. An insurance claim of Shs.15,000 has been accepted by the insurance company.
4. Travelling and conveyancing include proprietor's personal travelling for which he is charged Shs.4, 800.
5. The sales manager is entitled to commission of 7.5% of the total sales. However any bad debts incurred during the year are deductible from such commission entitlements.
6. Debtors include:
7. Shs.10, 000 due from M & CO (Creditors include Shs.18, 000 due to the same party).
8. Shs.5, 000 due from the sale of furniture.
9. Further bad debts of Shs.2, 000
10. Provision for bad debts is to be created at 2% of net amount outstanding from trade debtors.
11. Depreciation is chargeable as follows:

| | |
|------------------------|------|
| Buildings | 2.5% |
| Furniture and Fittings | 10% |
| Air conditioners | 15% |
| Motor vehicles | 20% |
12. Miscellaneous receipts represent sales proceeds of furniture, whose written down value was Shs.12, 000.
13. Prepaid expenses include insurance premiums for the next year.

Required:

Prepare a trading, profit and loss account for the year ended 31st March 1998 and a Balance Sheet as at that date. (30 marks)

SECTION B (CHOOSE ANY TWO QUESTIONS)

QUESTION TWO

The following transactions were recorded by the accountant of Mt Kenya Bottlers Ltd. Books in February 2018.

| | | |
|--------|---|-------|
| Feb 1. | Cash balance | 150 |
| | Bank balance | 2,850 |
| Feb 8 | cash sales | 1,100 |
| Feb 9 | received cheques from the under mentioned: | |
| | T. Thomson | 475 |
| | Discount allowed | 25 |
| | B. Baxter | 800 |
| | F. Femis | 950 |
| | Discount allowed | 50 |
| Feb 10 | paid the under mentioned creditors by cheque: | |
| | C. Carter | 1,000 |
| | p. Pickwick | 500 |
| | J. Johnson | 475 |
| | Discount received | 25 |
| Feb 12 | cash disbursements: | |
| | Sundry expenses | 50 |
| | Office stationary | 25 |
| | Wages | 60 |
| Feb 14 | Banked | 3,325 |
| | Cash sales | 1,000 |
| | cash purchases | 100 |

| | |
|--|-------|
| Purchases paid for by cheque | 1,800 |
| Feb 18 banked | 900 |
| Feb 25 issued cheque for rent | 150 |
| Withdrew for office use | 250 |
| Feb 28 paid the following amounts in cash: | |
| Sundry expenses | 40 |
| Office stationery | 10 |
| Wages | 120 |
| Purchases | 50 |

Required;

- (i) The ledger accounts to record the above transactions (14 marks)
- (ii) Three column cash book (16 marks)

QUESTION THREE

ON 31 October 2017, the cash book of J. Lemon showed a balance at the bank of sh 570. An examination of his records showed the following errors;

- (a) Lemon paid to G. Good sh 175 by cheque on 15 october 2017. This cheque was entered in the cash book as sh 195.
- (b) Bank charges not recorded in the cash book amounted to sh 25.
- (c) A cheque dated 19 october 2017, value sh 150, payable to T.Walk was not paid by the bank until 5 November 2017.
- (d) Leon, on 23 october 2017, received a cheque from Brown for sh 125.this cheque was dishonoured on 29 October 2017. No entry for this was made in the cash book.
- (e) On 31 october 2017, a cheque for sh 200 received from F.Light was banked, the bank statement was not credited until 1 November 2017.

Required:

- (i) Prepare an updated cash book for the above transactions (10 marks)
- (ii) Bank reconciliation statement as at 31 October 2017. (10 marks)

QUESTION FOUR

James Mbuvi started a taxi business in Nairobi March 1990 under the firm name Mbuvi Taxis. The firm had two vehicles KA and KB, which had been purchased for Sh.560, 000, and Sh.720, 000 respectively earlier in the year.

In February 1992 vehicle KB was involved in an accident and was written off. The insurance company paid the firm Sh.160, 000 for the vehicle. In the same year the firm purchased two vehicles, KC and KD for Sh.800, 000 each.

In November 1993 vehicle KC was sold for Sh.716, 000. In January 1994 vehicle KE was purchased for Shs.840,000. In March 1994 another vehicle KF was purchased for Sh.960, 000.

The firm's policy is to depreciate vehicles at the rate of 25 per cent on cost on vehicles on hand at the end of the year irrespective of the date of purchase. Depreciation is not provided for vehicle disposed of during the year. The firm's year ends on 31 December.

Required:

- a) Calculate the amount of depreciation charged in the profit and loss account for each of the five years. (7 marks)
- b) Prepare the motor vehicle account (at cost). (8 marks)
- c) Calculate the profit and loss on disposal of each of the vehicles disposed of by the company. (5 marks)

QUESTION FIVE

- (i) Define depreciation as applied in the accounting for assets and liabilities (5 marks)
- (ii) Name and explain the method of depreciation (15 marks)