



(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2021 / 2022 ACADEMIC YEAR

FIRST YEAR FIRST SEMESTER

MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCA 1 1 1

COURSE TITLE: FINANCIAL ACCOUNTING

DATE: 19TH MAY, 2022 TIME: 9.00AM – 11.00AM

INSTRUCTIONS TO CANDIDATES

1. Answer a total of **three** questions; question **one** and any other **two** questions.
2. Question **one** carries **30** marks and each of the other two questions carry **20** marks each.
3. This examination has six printed pages.

QUESTION ONE (COMPULSORY)

- a) Discuss the importance of accounting **[5 marks]**
- b) The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions. To achieve this, financial statements must possess key qualitative characteristics. Discuss four of these qualitative characteristics of financial statements. **[4 marks]**
- c) Explain the purpose of financial statements **[5 marks]**

- d) Plan Ltd has provided to you the following information relating to both the bank statement and cash book:

Cash balance from bank statement, June 30, 2020	= Kshs 12,461,000
Cash balance as per the cash book, June 30, 2020	= Kshs 12,438,000

Your review of the bank statement revealed that:

- A customer deposit for Kshs 1,200,000 plus Kshs 12,000 interest was collected on June 29th 2020.
- A customer cheque paying the company for Kshs 138,000 was returned because of insufficient funds.
- The monthly service charge was Kshs 15,000.

A review of the company records disclosed the following:

- A deposit for Kshs 1,143,000 at the end of the day on June 30 did not appear on the bank statement.
- Customers' cheques totaling Kshs 327,000 were on hand at the end of June awaiting deposit.
- The following company cheques for payments had not been presented to the bank at the end of June: Cheque No. 862 Amount Kshs 96,000, Cheque No. 864 Amount Kshs 147,000 Cheque No.865 Amount Kshs 263,000.
- Cheque Number 843, written for Kshs 91,000 in payment of an account payable was erroneously recorded as Kshs 19,000 in the company's cash book.

Required:

Prepare bank reconciliation statement as 30th June 2020 **[10 marks]**

- e) You have recently been appointed as the Senior Accounts Assistant of Milele Ltd. The Junior Accounts Assistant has extracted the following transactions from the books of Milele Limited and brought to you for further guidance:
- ✓ Jan 1, 2020 - Milele invested in shares of Tata multinational Ltd. and paid Kshs 2,000,000 in cash for the shares.

- ✓ Jan 10, 2020 - The Procurement Manager placed on order with Zion Investments for goods to be received a month later worthy Kshs 1,500,000.
- ✓ February 15, 2020 - Invoiced goods to Mr. Richard worth Kshs 1,000,000 and allowed a trade discount of 2 per cent.
- ✓ March 7, 2020 - Carriage Kshs 2,500 and freight Kshs 7,000 were paid by MileleLtd for the above goods but which are to be charged to Mr. Richards Account.
- ✓ April 3rd, 2020 - Paid rent to Mr. George the landlord of office premises- Kshs 15,000 in form of goods instead of cash.
- ✓ April 30, 2020 - Goods valued at Kshs 7,000 were delivered to Mr. Richard under instructions from Mr. George. They were to be charged to the George's Account.
- ✓ May 11, 2020 - Mr. Richard paid Kshs 500,000 due from him, and the same was spent on purchasing goods from Mr. George.
- ✓ May 15, 2020 - Sold one old motor car for Kshs 500,000 and the amount was invested in the business.
- ✓ June 1, 2020 - Paid Kshs 18,000 in full settlement of Mr. George for goods purchased by the Company for shareholders personal use.
- ✓ June 5, 2020 - Mr. Richard was declared insolvent and paid Kshs 450,000 in full settlement. The balance was written off as a bad debt.
- ✓ June 28, 2020 - One of Milele Ltd debtors Patrick based on advice of the company directly paid George the creditor Kshs 200,000.

Required:

Journalize the transactions

[6 marks]

QUESTION TWO

- a) Explain the duality concept of accounting and basic double entry rules as they relate to the following:

Assets 2 marks

Liabilities 2 marks

Capital 2 marks

[6 marks]

- ii) Distinguish between accounting concepts and accounting conventions **[4 marks]**

- b) Axiom business enterprises are a sole proprietor. The following information has been extracted by the cashier:

Date	Particulars	Amount - Kshs
Jan 1, 2019	Opening Balance (on imprest system)	100,000.00
Jan 2, 2019	Paid for stamps	1,200.00
Jan 3, 2019	Paid cleaner's wages	15,000.00
Jan 4, 2019	Paid for fare	1,600.00
Jan 5, 2019	Paid for office tea	1,500.00
Jan 6, 2019	Paid to proprietor for personal use	10,000.00
Jan 7, 2019	Paid for advertisement	30,000.00
Jan 8, 2019	Drew imprest from head cashier	
Jan 9, 2019	Paid for printer cartrage	1,000.00
Jan 10, 2019	Paid for travelling expenses	2,500.00
Jan 11, 2019	Paid for calling cards	1,500.00
Jan 12, 2019	Paid for entertainment to travelling salesmen	20,000.00
Jan 13, 2019	Advance to proprietor for business travel	10,000.00
Jan 14, 2019	Paid for printing works	5,000.00
Jan 15, 2019	Paid for stationery	3,000.00
Jan 16, 2019	Drew imprest from head cashier	

Required:

Prepare the petty cash book using imprest system for Axiom business enterprises
[10 marks]

QUESTION THREE

- Distinguish between trading account and manufacturing account [5 marks]
- Mbegu Trading enterprises deals with purchase, processing and sale of sunflower seeds. The following transactions have been extracted for the period ended 31st Dec 2021:

Particulars	Amount - Kshs
Purchases	425,000.00
Manufacturing expenses	19,500.00
Sales	710,000.00
Sales returns	50,000.00
Carriage inwards	10,000.00
Freight and duty for imported chemicals	50,000.00
Stocks consumed	120,000.00
Power expense	30,000.00
Wages paid	50,000.00
Opening stock	100,000.00
Purchases returns	20,000.00

Value of unsold stock as at 31st December 2021 was 12,000

Required:

Prepare trading account for Mbegu for the year ended 31st Dec 2021

[7 marks]

c) Mbegu Trading enterprises further provides the following information:

Particulars	Amount - Kshs
Gross Profit	*****
Carriage outwards	25,000
Salaries	15,000
Rent	10,000
Fire insurance premium	9,000
Bad debts	21,000
Commission received	10,000
Discount allowed for sales	5,000
Apprentice payment received	15,000
Printing and stationery	25,000
Rates and taxes	35,000
Travelling expenses	20,000
Sundry trade expenses	30,000
Discount allowed by creditors	80,000

Required:

Prepare profit and loss account as at 31st December 2021

[8 marks]

QUESTION FOUR

- a) Excel Limited deals with manufacture of paints. The following transactions have been extracted from their ledger accounts for the year ended 30th June 2018:

Particulars	Amount
Stock on Jan 1, 2018	150,000
Commission received	20,000
Bills Receivable	22,500
Returns outwards	25,000
Purchases	195,000
Trade expenses	10,000
Wages	14,000
Office fixtures	50,000
Insurance expense	55,000
Cash in hand	25,000
Debtors	150,000
Cash at bank	23,750
Carriage inwards	4,000
Rent and rates	5,500
Commission paid	4,000
Carriage outwards	7,250
Interest on capital	3,500
Sales	550,000
Stationery	22,500
Returns inwards	6,500
Bills payable	15,000
Creditors	98,250
Capital	30,250
Closing stock	125,000

Required:

- i) Prepare Excel trading, profit and Loss account for the year ended 30th June 2018 [7 marks]
- ii) Prepare Excel balance sheet as at 30th June 2018 [5 marks]
- b) Explain the following terms:
- i. Reserves [2 marks]
- ii. Depreciation [2 marks]
- iii. Amortization [2 marks]
- iv. Contingent Liability [2 marks]

QUESTION FIVE

- a) The Director of Two B insurance agency firm which is a sole proprietor as disturbed by the external audit queries since his Accountant had presented to the auditors a trial balance which had balanced. The following were issues noted after thorough audit:
- i) Kshs 50,000 posted to the Depreciation Account as Depreciation on Plant and Machinery was not posted to the Plant and Machinery Account.
 - ii) Return Outward Book is overcast by Kshs 10,000
 - iii) Purchases Book is overcasted by Kshs 4,000.
 - iv) An amount of Kshs 10,000 received as dividend on shares has been posted to the debit of the Interest Account.
 - v) Furniture was purchased for Kshs 96,000 but the entry was passed as Kshs 69,000
 - vi) Kshs 12,000 received from a debtor Bernard in settlement of account, posted to the credit of the Sales Account.
 - vii) Outstanding interest on loan Kshs 5,000 omitted to be recorded.
 - viii) Kshs 6,000 paid for the purchase of office stationery was wrongly debited to the Purchases Account.
 - ix) Sales of Kshs 60,000 payment to a creditor Patrick omitted to be posted to his account.
 - x) Kshs 2,000 paid for repairs were written as Kshs 200 in the Repairs Account.
 - xi) Discount Received, Kshs 5,000 omitted to be posted to the Discount Received Account.

Required:

Show the effect of these errors on the Final Accounts.

[12 marks]

b) Explain the following terms:

- Errors of principle
- Errors of omission
- Errors of commission
- Compensating errors

[2 marks]

[2 marks]

[2 marks]

[2 marks]