



# MURANG'A UNIVERSITY COLLEGE

(A Constituent College of Jomo Kenyatta University of Technology)

**UNIVERSITY COLLEGE UNIVERSITY EXAMINATIONS 2013/2014**  
**YEAR 1 SEMESTER I EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS**  
**INFORMATION TECHNOLOGY**  
**HBT 2103: FINANCIAL ACCOUNTING**

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

**DATE:**

**Time Allowed: 2 HOURS**

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## QUESTION ONE

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

- i. Owners.
- ii. Financial analysts
- iii. Lenders.
- iv. Employees.

For each of the above users of financial statements, identify the kind of information they require, why they require it and decisions they make from that information.(10 marks)

b) The following trial balance has been extracted from the accounts of Brenda Bailey, a sole trader.

### Brenda Bailey Trial Balance As At 30 June 2009

	Dr	Cr
	Sh	Sh
Sales		427,726
Purchases	302,419	
Carriage inwards	476	
Carriage outwards	829	
Wages and salaries	64,210	
Rent and rates	12,466	
Heat and light	4,757	
Stock at 1 July 2008	15,310	
Drawings	21,600	
Equipment at cost	102,000	
Motor vehicles at cost	43,270	
Provision for depreciation:		
Equipment		22,250
Motor vehicles		8,920
Debtors	50,633	

Creditors		41,792
Bank	8,426	3,295
Sundry expenses	477	
Cash		
Capital	<u>626,873</u>	<u>122,890</u>
		<u>626,873</u>

The following information as at 30 June 2009 is also available.

- Sh350 is owing for heat and light.
- Sh620 has been prepaid for rent and rates.
- Depreciation is to be provided for the year as follows:
  - Equipment - 10% on cost
  - Motor vehicles - 20% on cost
- Stock at the close of business was valued at Sh16,480

**Required:** Prepare Brenda Bailey's income Statement for the year ended 30 June 2009 and her balance sheet at that date.

## QUESTION TWO

On 31 December 2009 an inexperienced book-keeper working for Sparkle, a sole trader, extracted a trial balance. Due to errors committed by the book-keeper, the trial balance failed to balance by Sh.369,400. He placed the difference in a suspense account as shown below:

### Sparkle Trial balance as at 31 December 2009

	Sh.	Sh.
Fixed assets-cost	832,000	
Stocks		
1 January 2009	148,000	
31 December 2009		98,800
Trade debtors		76,000
Prepayments		10,000
Trade creditors	34,600	
Bank overdraft		15,200
Accruals		16,000
Drawings	359,600	
Capital		1,054,000
Sales	1,043,200	
Provision for depreciation		166,400
Purchases		733,000
Operating expenses	126,000	
Provision for doubtful debts		3,800
Discounts received	5,000	
Discounts allowed		5,800
Suspense account		369,400
	2,548 400	2,548 400

Investigations carried out after preparing the above trial balance detected the following errors:

1. The total of the sales day book for December 2009 was overcast by Sh.25,700.
2. On 2 July 2001 the business purchased office equipment for Sh.40.000. These were debited to purchases account.
3. Depreciation on the equipment is at the rate of 10% per annum on cost and based on the period (months) of usage in the year.
4. A payment to a creditor by cheque of Sh.8.500 was erroneously credited to the creditor's account.
5. A payment of Sh.4.500 for telephone expenses was debited to telephone account as Sh.5.400.
6. An amount of Sh.15.000 received from a debtor was not posted to the debtor's account from the cash book.
7. An amount of discounts received of Sh.2.500 was debited to discounts allowed account.
8. Purchases day book for October 2009 was undercast by Sh.28, 000.
9. Assume the business had reported a net profit of Sh.85, 800 before adjusting for the above errors.

**Required:**

- (a) The adjusted trial balance with the correct balance of the suspense account (7 marks)
- (b) Journal entries to correct the errors (7 marks)
- (c) Suspense account starting with the balance determined in the adjusted trial balance in (a) above. (4 marks)
- (d) The adjusted net profit for the year. (2 marks)

**(Total: 20 marks)**

**QUESTION THREE**

G.K. Omwaro, a sole trader had the following balance as at on 31<sup>st</sup> December 2011. You are required to prepare an income statement and a balance sheet as at 31<sup>st</sup> December, 2011

**(20 marks)**

	Sh
Sales	378,500.00
Discount Received	2,400.00
Rent Received	7,500.00
Returns outwards	7,700.00
Creditors	18,700.00
Bank Overdraft	30,000.00
Capital	287,500.00
Purchases	261,700.00
Salaries and Wages	45,700.00
Office expenses	8,400.00
Insurance premiums	3,100.00
Electricity	1,600.00
Stationery	6,200.00
Advertising	8,400.00
Telephone	2,100.00
Business Rates	7,500.00
Discounts allowed	600.00
Returns Inwards	4,100.00

Stocks as at 1 April 2000	120,600.00
Warehouse, shop and office	210,000.00
Fixtures and fittings	12,800.00
Debtors	13,000.00
Cash in till	500.00
Drawings	26,000.00

The following further information is also available::

- Closing stock was shs. 102,500.00
- Electricity charges accrued shs. 700.00
- Advertising expenses accrued shs. 500.00
- Insurance premiums paid in advance shs. 900.00
- Business rates prepaid shs. 1,500.00

#### QUESTION FOUR

- (a) State the reasons for maintaining control accounts. (4 marks)
- (b) The following information has been extracted from the books of Meko Traders Limited for the month of April 2009.

Balances as at 1 April 2009:

	Sh.
Sales ledger - Debit balances	838,000
- Credit balances	184,000
Purchases ledger -Debit balances	196,000
- Credit balances	598,000
Transactions during the month:	
Sales on credit	8,784,000
Purchases on credit	7,849,000
Returns inwards	248,000
Returns outwards	179,000
Cheques received from trade debtors	2,968,000
Cash paid to trade creditors	4,674,000
Cheques paid to trade creditors	1,393,000
Bad debts written-off	139,000
Discounts allowed to trade debtors	162,000
Discounts received from trade creditors	231,000
Credit sales off-set against credit purchases	356,000
Credit purchase of a motor vehicle posted in the purchases ledger	598,000
Dishonoured cheques from trade debtors	193,000
Cash received to replace dishonoured cheques from trade debtor	106,000
An invoice to trade debtors of Sh.174,000 posted as	147,000

Balances as at 30 April 2009:

Sales ledger credit balances 123,000

Purchases ledger debit balances

177,000

Required:

The sales ledger and purchases ledger control accounts for the month ended 30 April 2009.

(16 marks)

#### QUESTION FIVE

a) Explain FOUR types of errors which are not disclosed by the trial balance.(8 marks)

b) You are to enter the following transactions in the books of XYZ Company by completing the double entry for the month of May 2012, and thereafter extract a trial balance as at 31<sup>st</sup> May, 2012. (12 Marks)

2012

- |     |    |   |
|-----|----|---|
| May | 1  | Started business with Sh.2,000,000 in the bank.                 |
| “   | 2  | Purchased goods Sh.175,000 on credit from M Rooks.              |
| “   | 3  | Bought furniture and fittings Sh.150 paying by cheque.          |
| “   | 5  | Sold goods for cash Sh.275,000.                                 |
| “   | 6  | Bought goods on credit Sh.114,000 from P Scot.                  |
| “   | 10 | Paid rent by cash Sh.15,000.                                    |
| “   | 12 | Bought stationery Sh.27,000, paying in cash.                    |
| “   | 18 | Goods returned to M Rooks Sh.23,000.                            |
| “   | 21 | Let off part of the premises receiving rent by cheque Sh.5,000. |
| “   | 23 | Sold goods on credit to U Foot for Sh.77,000.                   |
| “   | 24 | Bought a motor van paying by cheque Sh.300,000.                 |
| “   | 30 | Paid the month's wages by cash Sh.117,000.                      |
| “   | 31 | The proprietor took cash for himself Sh.44,000.                 |