

**MURANG'A UNIVERSITY COLLEGE UNIVERSITY EXAMINATIONS 2013/2014
YEAR 1 SEMESTER I EXAMINATION FOR THE DEGREE OF BACHELOR OF
HUMAN RESOURCE MANAGEMENT**

HEH 2101: FUNDAMENTALS OF ACCOUNTING:

ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS

Time Allowed: TWO HOURS

QUESTION ONE

- a) The information contained in the financial statements affects the decision making process of various users. Highlight EIGHT users of Accounting Information. (8 marks)
- b) Explain FIVE types of errors which are not disclosed by the trial balance. (10 marks)
- c) The trial balance of S Juma, a sole trader, did not balance on 30 April 2013. The difference was put in a suspense account. The final accounts which were then prepared showed a net profit of Sh. 64,000. The following errors were later noted:
- A loan from ABD Bank of Sh 10,000 was entered correctly in cash book but was not posted to the ledger.
 - A cheque of Sh. 4,000 for rent was not entered in the books.
 - Closing stock was overvalued by Sh 1,500.
 - Discount allowed of Sh 500 was entered in the discount-received account.
 - The opening stock was understated by Sh 3,200.
 - Prepaid insurance of Sh 220 had been included in the profit and loss account.
 - 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:

- i. Journal entries to correct the errors. (7 marks)
- ii. Statement of corrected profit. (3 marks)
- iii. Suspense account. (2 marks)

QUESTION TWO

- (a) 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 2012 are listed below:

Balance at 1 December 2012:	
Sales ledger	6,185,000 (debit)
	52,500 (credit)
Purchases ledger	16,500 (debit)
	4,285,000 (credit)

Transactions during December 2012:	
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 2012:	
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 2012 and derive the respective debit and credit closing balances on 31 December 2012. (15 marks)

(b) Explain the purposes for which control accounts are prepared in an organization.(5 marks)

QUESTION THREE

- a) Briefly explain qualitative characteristics that enhance the usefulness of information provided in financial statements (4 marks)
- b) Describe FOUR fundamental Accounting Assumptions that provide a framework for financial reporting. (8 marks)
- c) Non- current Assets lose value over time. Highlight and briefly illustrate what causes such depreciation (4 marks)
- d) Briefly explain the concept “substance over form” with respect to:
 - Motor vehicles acquired on hire purchase. (2 marks)
 - Leasehold land. (2 marks)

QUESTION FOUR

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 31st May, 2012. (20 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.

QUESTION FIVE

The following Trial Balance was taken from the ledger of P Spike, a sole trader, on 1st January, 2011

	Sh.	Sh.
Capital		40,000
Purchases	26,154	
Sales		36,246
Salaries	4,814	
Opening stock	4,307	
Insurance	820	
Rent		965
Buildings	25,000	
Furniture	14,500	
Debtors	6,140	
Other expenses	1,060	
Creditors		4,638
Commission		946
	<u>82,795</u>	<u>82,795</u>

Adjustments:

- Salaries due, Sh.350
- Insurance was paid for one year up to 31st March 2012.
- Rent received for January 2012, Sh.165.
- Commission accrued but not yet received, Sh.120.
- Furniture to be depreciated by 10%.

6. 5% of debtors are doubtful.
7. Stock on 31st December 2011 was valued at Sh.5,008.

Required:

- i) The adjusted trial balance (6 marks)
- ii) Income statement and a balance sheet as at 31st December 2011 (14 marks)