

MURANG'A UNIVERSITY COLLEGE OF TECHNOLOGY
2013/2014 ACADEMIC YEAR
FIRST YEAR, SECOND SEMESTER SPECIAL/ SUPPLEMENTARY
EXAMINATION FOR THE BACHELOR OF BUSINESS INFORMATION
TECHNOLOGY (BBIT)
MAIN CAMPUS

HPS2013: FINANCIAL ACCOUNTING

DECEMBER, 2014

INSTRUCTIONS: Answer questions **ONE** and any other **TWO** questions.

TIME: 2HOURS

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.

For each of the above users of financial statements, identify the kind of information they may require, why they require it and the decisions they make from that information. (9 marks)

- b) 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	248 400

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 (6 marks)
- (b) Journal entries to correct the errors (5 marks)
- (c) Suspense account starting with the balance determined in the adjusted trial balance in (a) above. (5 marks)
- (d) The adjusted net profit for the year. (5 marks)

QUESTION TWO

The Chief Accountant of Kenatco Ltd. has extracted the following trial balance as at 31 October 2009:

	Sh. 000'	Sh. 000'
Authorised and issued capital (shares of Sh.20 each fully paid)		30,000
Share premium		350
10% debentures		3,500
General reserve		2,000
Profit and loss account 1 November 2008		2,850
Motor vehicles at cost	3,500	
Provision for depreciation		265
Freehold property	44,500	
Trade debtors	1,375	
Trade creditors		460
Purchases and sales	95,650	127,450
Stock in hand 1 November 2008	3,478	
Furniture and fittings at cost	1,540	
Provision for depreciation		138
Goodwill	500	

Rent receivable		385
Salaries and wages	2,285	
General expenses	358	
Vehicles running expenses	2,470	
Bad debts	124	
Telephone and postage	568	
Water and electricity	269	
Rates and insurance	289	
Cash at bank	<u>10,492</u>	
	<u>167,398</u>	<u>167,398</u>

Notes:

1. Credit sales amounting to Sh. 165,000 were made on 31 October 2009 but no entries were made in the books.
2. Returns outwards amounting to Sh. 128,000 were dispatched on 31 October 2009 but no entries were made in the books.
3. Closing stock was valued at Sh.4, 398,000.
4. Accrued salaries and telephone bills amounted to Sh. 134,000 and Sh.55, 000 respectively.
5. Rent for the month of October 2009 amounting to Sh.35, 000 had not been received from the tenant.
6. Provision for depreciation on furniture and fittings and the motor vehicles are 10% and 20% on cost respectively.
7. Provision for bad and doubtful debts of 5 % on trade debtors should be made.
8. Corporation tax should be provided at 35 % of the net profit before tax.
9. The directors propose a dividend of 15% on issued share capital and a transfer of Sh.2, 500,000 to the general reserve.
10. The debenture interest has not yet been paid.

Required:

- (a) Statement of income for the year ended 31 October 2009. (13 marks)
 - (b) Statement of financial position as at 31 October 2009 (7 marks)
- (Total: 20 marks)**

QUESTION THREE

- (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 FOUR

- a) Name and explain four types of errors which are not disclosed by the trial balance. (8 marks)
- b) The trial balance of S Juma, a sole trader, did not balance on 30 April 1995. The difference was put in the suspense account. The final accounts which were then prepared showed a net profit of Sh. 64,000. During audit, the following errors were 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:

1. Journal entries to correct the errors. (8 marks)
2. Statement of corrected profit. (2 marks)
3. Suspense account. (2 marks)

QUESTION FIVE

Mary's Balance Sheet as at 31 December 2010 was as shown below:

Non Current Assets	£		£
Premises			25,000.00
Plant			<u>12,000.00</u>
			<u>37,000.00</u>
Current Assets:			
Stock	11,000.00		
Debtors	10,000.00		
Cash at bank	5,000.00		
Cash in hand	<u>3,000.00</u>		
		29,000.00	
Current liabilities:			
Creditors	<u>(12,000.00)</u>	17,000.00	
		<u>54,000.00</u>	
Capital			34,000.00
Non Current Liabilities:			
Loan from bank		<u>20,000.00</u>	
			<u>54,000.00</u>

During the year to 31 December 2011 the following total transactions occurred:

- a) Mary withdrew a total of £10,000.00 in cash
- b) Stock in trade was bought, all on credit, for £34,000.00
- c) Sales were made totaling 60,000.00 of stock in trade which had cost £37,000.00. Of these sales £51,000.00 were on credit and £9,000.00 for cash.
- d) A total of £16,000.00 was drawn from the bank in cash to the cash till.
- e) Electricity for the year paid by cheque totaled £2,000.00
- f) Rates for the year paid by cheque totaled £1,000.00
- g) Wages for the year all paid cash totaled £10,000.00
- h) Sundry expenses all paid in cash totaled £2,000.00
- i) Creditors were paid a total of £36,000.00 all by cheque
- j) Debtors paid a total of £54,000.00 all in cheques.
- k) The bank charged interest on the loan deducting £3,000.00.

Required:

Prepare a revised balance sheet.

(20 marks)