



MURANGA UNIVERSITY COLLEGE

(A constituent College of Jomo Kenyatta University of Agriculture & Technology)

MAIN CAMPUS

SPECIAL/SUPPLEMENTARY UNIVERSITY EXAMINATIONS

2014/2015 ACADEMIC YEAR

FIRST YEAR SECOND SEMESTER EXAMINATIONS

**FOR THE DEGREE
OF
BACHELOR OF HUMAN RESOURCE MANAGEMENT**

COURSE CODE: HEH 2101

COURSE TITLE: FUNDAMENTALS OF ACCOUNTING

DATE: APRIL, 2015

TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES

Question ONE (1) is compulsory
Answer THREE (3) questions

MRUC observes ZERO tolerance to examination irregularities

This Paper Consists of 8 Printed Pages. Please Turn Over. ►

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 (6 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. (5 marks)

(Total: 30 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>167398</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)

(Total: 20 marks)

QUESTION FOUR

Briefly explain the nature of accounting and the accounting equation(4 marks)

- (b) Mt.Kenya Ltd. is a leading manufacturer of digital video disks (DVDs). As part of its modernization programme, the company decided to replace its old machinery with a state of the art machine imported from Denmark. The following expenses were incurred for the purpose in the year ended 30 September 2010:

| | Shs. '000' |
|---|-------------------|
| Catalogue price less cash discount at 10% of the list price | 30,000 |
| Freight and insurance | 7,000 |
| Customs and excise duty | 7,300 |
| Value added tax | 7,100 |
| Installation costs | 2,000 |
| Pre-production testing | 700 |
| Training costs (machine attendant) | 50 |
| Insurance (annual) | 700 |
| Salary paid to machine attendant (annual) | 100 |

Additional information:

1. The old machinery disposed of in the year ended 30 September 2010 for Shs. 1,500,000 had cost the company Shs. 2,000,000 on 1 October 2007. An air conditioner equipment

purchased for Shs. 545,000 at the same time with the disposed of machinery was scrapped during the year since it was no longer required.

2. The furniture used by the company was acquired on 1 October 2008 at a cost of Shs. 800,000.
3. The value added tax incurred by the company in respect of the machinery was recovered from the tax authority against output value added tax.
4. Depreciation per annum is provided at the following rates:

| | | |
|-----------|---|-------------------------------|
| Machinery | - | 25% on reducing balance basis |
| Equipment | - | 20% on cost |
| Furniture | - | 15% on cost |

Full year's depreciation is provided in the year of acquisition and none in the year of disposal.

Required:

- i. Ascertain the cost of the new machinery. (3 marks)
- ii. Disposal accounts. (3 marks)
- iii. Provision for depreciation accounts. (3 marks)
- iv. A property, plant and equipment movement schedule for the year ended 30 September 2010. (7 marks)