



MURANG'A UNIVERSITY COLLEGE (MRUC)
A Constituent College of Jomo Kenyatta University of Agriculture Technology (JKUAT)

MARKING SCHEME

HEH 2101; FUNDAMENTALS OF ACCOUNTING

Q1. a. Definitions of the three terms and their importance in the field of accounting;

i. Fundamental Accounting Concepts;

A set of concepts considered so important that they have been enforced through accounting standards and /or companies. They form the basis of records & transact in the books and they are basic assumptions or conditions upon which the science & accounting is based.

ii. Accounting bases:- They are the same as estimation techniques which refer to the methods used to estimate the value of a particular asset, liabilities or gain e.g. methods of depreciation, estimating stock or provision for bad debt, cash or account basis.

iii. Accounting policies

These are the specific principles, bases, conventions, rules and/or practices adopted and applied by an entity in order to prepare and present financial statements. They deal specifically with matters such as consolidation & accounting, goodwill depreciation, inventors pricing and research and Development costs. They must be disclosed in the Annual Financial Statements.

(b) Mr. Samuel Nzioka

Trading, Profit and Loss A/C

For the year ended 30th September 2010

Sales		Sh.
		560,000
	Less return inwards	<u>(5,000)</u>
		555,000
Less cost of sale;		
Opening stock	210,000	
Purchases	<u>205,000</u>	
	415,000	
Less closing stock (135,000)		280,000
Gross profit		275,000
Add rent received		<u>12,000</u>
		287,000
Less expenses		
1. Salaries	40,000	
2. Water & electricity	6,000	
3. Postage	2,000	
4. Office rent	<u>17,000</u>	<u>(65,000)</u>
Net profit		<u>222,000</u>

ii. Mr. Samuel Nzioka

Balance sheet as at 30.09.2010

Fixed assets

Motor van	350,000
Furniture fittings	<u>75,000</u>
	<u>425,000</u>

Current Assets

Stock	135,000
Debtors	80,000
Cash on hand	12,000
Cash in bank	<u>110,000</u>
	337,000

Less current liabilities

Creditors	<u>100,000</u>	<u>237,000</u>
		<u>662,000</u>

Financed by:

Capital

Less drawing	9,000	
Profit and loss A/C		222,000
Loan (ICDC)		<u>300,000</u>
		<u>662,000</u>

- (C) i. - Accrued expenses are expenses incurred but not paid for.
 - Prepaid expenses are those that have been paid in advance.

ii.

		Rent receivable A/C	
Bal b/d	12,000	Bal b/d	4,800
Profit & loss		Cash	90,000
12(6000 + 4,800)		Cash	48,000
	129,600		
Bal c/d	6,000	Bal	<u>4,800</u>
	<u>147,600</u>		<u>147,600</u>

(d) Five users

Debtors - to see whether they can do business with the firm.

Creditors – to see whether they can extend their credit trade to the business.

Trade union & employees – who find out whether the employees are properly remunerated.

Investor – To see whether the company is to invest in.

Tax authority – To see how much the business is earning for tax purposes.

Q2. (a)	Product 1	Product 2
Closing direct materials	18,000	–
Direct materials used	4,000	41,000
Direct Labour	–	24,000
Total manufacturing cost	23,600	–
Closing finished goods	4,000	29,000
Gross profit	25,000	
Net Income	–	51,500

(b)	A reconciliation Statement	
	Cash book bal.	36,080
	Add unpresented cheques	<u>61,450</u>
		97,530
	Less uncredited cheques	<u>(39,450)</u>
		58,080
	Add:	
	Debtors direct deposit	<u>9,700</u>
		67,780
	Less bank charges:	
	Bank charges	2,410
	Payment to landlord	8,000
	Insurance	<u>2,000</u> <u>(12,410)</u>
		55,370
	Less uncleared cheque	<u>(6,050)</u>
		<u><u>49,320</u></u>

Q3. Source documents include:-

- (a) i. Invoice – A demand notice
- ii. Credit note – Informing debtor that there was an over- charge and thus his account has been reduced.
- iii. Debit note – Informing debtor that there was an under-charge and hence the amount due is adjusted upwards.
- iv. Minutes of meetings and resolutions.
- v. Delivery Note – Accompany any goods delivered.
- vi. Cheque foils/banking deposit slips.

Mrs. Matendechere
Cash Book

Date	Particular	Disco Allow	Cash	Bank	Date	Details	Disc. Rec.	Cash	Bank
July 1	Bal b/d	-	12,500	37,000	July 2	Purchases			10,000
3	Sales		9,000		July 5	Bank(c)			
5	Cash (c)			10,000	July 6	Mrs. Onyango	225	10,000	7275

Date	Details	Disc. All.	Cash	Bank	Date	Details	Disc. Rec.	Cash	Bank
	Mr. Nyaga	1,000		19,000	July 6	Ms. Zainabu	450		7,275
	Mr.	750		14,250		Mr. Kinyine	210		6,790
	Mwamba	800		15,200	July 10	Purchases			15,000
	Mrs.	240		5,760	July 15	Drawings		2,500	
	Kioko				July 20	M/s Kosgei	240		7,760
	Mr.				July 30	Wages		5,000	
	Jerotich				July 31	Balc/o		4,000	39,835
		<u>2,790</u>	<u>21,500</u>	<u>101,210</u>			<u>1,325</u>	<u>21,500</u>	<u>101,210</u>

July Bal b/d 4,000 39,835

Discount allowed	
July 31 cash B/C 2,790	

Discount received	
	July 31 cash 1,325

(c) Debtors Ledges A/C

Date	Details	Amount	Date	Details	Amounts
2010			2010		
May 1	bal b/d	624,200	May 1	bal b/d	6,420
	Sales	734,380		Bank	663,040
	Interest charged	300		Returns inwards	15,640
	Bank (dishoured cheque)	6,300		Bad debts	11,160
	May 31 Bal C/O	7,920		Discount allowance	30,420
				Transfer to creditors A/C	2,400
		<u>1,373,100</u>		Bal C/d	<u>644,020</u>
	Bal b/d	644,020			<u>1,373,080</u>

Creditors Ledger A/C

Date	Details	Amount	Date	Details	Ats
2010		Sh	2010		Sh
May 1	Bal b/d	3,220	May 1	Bal b/d	522,420
	Bank	592,500		Purchases	435,520
	Discount received	28,320			
	Return outwards	8,420			
	Transfer from debtors A/C	2,400			
	Bal c/d	<u>327,460</u>	May 31, Bal c/d		<u>4,380</u>
		<u>962,320</u>			<u>962,320</u>
	Bal b/d	4,380		Bal b/d	327,320

Q4. a. Accounting as an;

- (i) Art – Means one has to practice the way it's practiced, follow the concepts, bases assumptions.
- (ii) A means to an end – means that the accounts are prepared in view a variety of users.
- (iii) An information system – Means that it shows the record of informal and a source of reference for education and improvement of the accounting profession.
- (iv) A process – It is not a single step activity instead it starts with raw documents, processing data up to the final accounts which are used by other users.

b.

Victor and Victoria

Trading profit and loss A/C for the year ended 3/12/10

Sales	527,440
Less cost & sales	
Opening stock	69,440
Purchases	<u>406,560</u>
	476,000
Less closing stock (105,520)	<u>370,480</u>
Trading profit	156,960
Reduction & doubtful debts	<u>885</u>
	157,845

Less expenses;			
Depreciation – Fitting	504		
- F/A	4,736		
- Machinery	3,744		
Machinery expenses	1,920		
Office expenses	20,600		
Salaries	29,440		
Rent	19,200		
Insurance	8,880		
Less (280)	8,600		
Bad debt	800		
Discount allowed	10,240		
Interest on capital;			
Victor	6,540		
Victoria	5,280	<u>111,604</u>	
Net profit		45,356	
Appropriations			
Victor	27,213.6		
Victoria	18,142.4	45,356	

Victor and Victoria
Balance sheet as at 31.12.2010

Expenses	Cost	Prov.	Net amt.
Fixed assets	46,400	28,416	17,984
Fitting	9,600	5,064	4,536
Machinery	<u>18,720</u>	<u>3,744</u>	<u>14,976</u>
	<u>74,720</u>	<u>37,224</u>	<u>37,496</u>

Current Asset

Debtors (42,200 – 8009 -1035)	40,365
Stock	105,520
Cash	5,160
Insurance	<u>280</u>
	151,325

Less current liabilities

Creditors	16,800		
B/overdraft	2,160		
Rent arrears	<u>19,200</u>	(38,160)	<u>113,165</u>
			150,661

Financed by;

Capital – Victor	65,400 – 1600		
	+27,213.6		
	+ 61540		97,553.6
- Victoria –	55,800 + 18142.4		
	+5,280		79,222.4
Less Drawing – Victor	14,400		
	Victoria 9,600		<u>(24,000)</u>
			152,776

Machinery Expenses

Bal. b/d	6,400	Victor A/c	1,600
		Profit & Loss	1,920
	<u>6,400</u>	Machinery	<u>2,880</u>
			<u>6,400</u>

Machinery A/C

Bal. b/d	15,840	Bal. c/d	18,720
Machinery expenses	<u>2,880</u>		
	<u>18,720</u>		<u>18,720</u>

Bal b/d 18,720

Provision for doubtful debts			
Bal. c/d	1035		
Profit & Loss	<u>885</u>	Bal b/d	1,920
	<u>1,920</u>		<u>1,920</u>
		b/d	1,035

debtors 42,200 - 800 = 41,400

provision 41,400 x 2.5% = 1035

Q5. (a) Eco objectives & Financial Accounting

- To provide and communicate vital information to various interested parties
- To provide an information to back up about the past and future prospects.
- To provide speedy and objective on the activities of the enterprise.
- To provide interpretative information to allow prediction, comparison and evaluation of business performance in them.

Broadways Ltd.			
Trading, profit and loss A/C			
Sales			428,000
Less cost & sales			
Opening Stock	32,600		
Purchases	<u>285,000</u>		
	<u>317,600</u>		
Less closing stock	(34,300)		<u>283,300</u>
			144,700
Gross profit			
Discount received			<u>4,200</u>
			148,900
Less expenses;			
General expenses	15,500		
Salaries	45,000		
Bad debts	4,300		
Insurance:			
Paid	4,000		
Less prepaid	(600)	3,400	

Interest:

Paid	5,000	
Add accrued	<u>5,000</u>	10,000
Directors fees	20,000	
Depreciation:		
P & Machinery	11,000	
Motor lorries	14,000	123,200
Profit for the period		25,700
P & L A/C b/d		<u>40,000</u>
		65,700
Corporate tax	15,000	
Dividend proposed	<u>30,000</u>	<u>45,000</u>
Profit & Loss c/d		<u>20,700</u>

Broadways Ltd
Balance sheet as at oct. 2010

Fixed Assets	ast	Dep.	Net value
Freehold	350,000	-	350,000
Plant & machinery	230,000	186,000	44,000
Motor vehicles	<u>150,000</u>	<u>94,000</u>	<u>56,000</u>
	<u>730,000</u>	<u>280,000</u>	450,000
Current Assets:			
Stock		34,300	
Debtors		85,000	
Insurance (prepaid)		600	
Bank		<u>47,800</u>	167,700

Current liabilities:

Creditors	67,000		
Accrued banking			
Interest	5,000		
Corporation	15,000		
Proposed dividend	<u>30,000</u>	(<u>117,000</u>)	<u>50,700</u>
			<u>500,700</u>

Financed by:

Authorized sheer capital:-

50,000 sheer capital @ 10 each	<u>500,000</u>
30,000 ordinary sheers at sh. 10	300,000
Share premium A/c	80,000
10% Detentions	<u>100,000</u>
	<u>500,700</u>



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EXAMINATION FOR:

HEH 2101; FUNDAMENTALS OF ACCOUNTING

DATE:

TIME: 3 HOURS

INSTRUCTIONS:-

Answer questions one and any other two questions.