



END OF AUGUST SEMESTER 2010 EXAMINATION

ACC 111X- FINANCIAL ACCOUNTING 1

Answer all the questions

Time: 2hrs 30min

Q1. (a) Write short notes on the following accounting principles:

- (i) Going concern
- (ii) Substance over form
- (iii) Business entity
- (iv) Accrual concept
- (v) Dual concept

(10 marks)

(b) Joseph Onyango opened a shop in Homa Bay on 1st July 2005. The following transactions took place during the month of July 2005.

- 1 July 2005 Introduced shs. 200,000 in cash into the business from his private bank account.
- 2 July 2005 Opened a business bank account by transferring shs. 180,000 of the business cash into the account.
- 5 July 2005 Paid shs. 5,000 in cash being rent for the month.
- 6 July 2005 Bought second-hand shop equipment at shs. 3,000 and paid by cheque.
- 9 July 2005 Purchased goods for resale at shs. 10,000 paying for them in cash.
- 11 July 2005 Purchased goods for resale on credit worth shs. 20,000 from Selina Wambui.
- 20 July 2005 Returned goods worth shs. 2,000 to Selina Wambui.
- 23 July 2005 Made cash sales of shs. 15,000.
- 25 July 2005 Paid Selina Wambui shs. 16,200 by cheque.
- 26 July 2005 Sold on credit goods worth shs. 10,000 to Frida Atieno.
- 27 July 2005 Frida Atieno returned goods worth shs. 5,000.
- 28 July 2005 Received a cheque for shs. 4,500 from Frida Atieno in settlement of her account, the balance being treated as a cash discount.
- 30 July 2005 Sold some of the second-hand office equipment at shs. 1,000 in cash. There was no profit or loss on disposal.
- 30 July 2005 Made a cash withdrawal of shs. 1,500 for his private use.

Required:

Prepare a three-column cash book to record the above transactions.

(15 marks)

Q2. The following balances were extracted from the books of Chuma Enterprises as at 30th September 2003.

	Shs.
Trade creditors	546,000
Sundry expenses	134,400
Land and buildings	960,000
Capital	1,182,000
Water and lighting	9,600
Bad debts recovered	8,400
Stock (30 September 2003)	292,800
Rent receivable	283,200
Investments	408,000
Salaries and wages	484,200
Trade debtors	318,000
Provision for depreciation – office equipment	62,100
Motor vehicle	24,000
Discounts – received	55,200
Allowed	48,000
Cash at bank	13,200
Personal expenses	414,600
Provision for bad and doubtful debts	27,900
Motor vehicle (at cost)	84,000
Rates and insurance	97,200
Gross profit	1,272,000
Bad debts written off	6,600
Office equipment (at cost)	180,000
Petty cash imprest in hand	10,200

Additional information:

1. Provision for depreciation on the motor vehicle and office equipment is to be provided as to reflect two years depreciation at the rate of 20% per annum on cost.
2. Rent received amounting to shs. 6,000 has not been recorded in the accounts. The proprietor converted this money to personal use.
3. The sales day book had been overcast by shs. 9,000.
4. Discounts allowed amounting to shs. 7,200 had been posted to the discounts allowed account but not to the debtors account.
5. The sales returns day book had been overcast by shs. 1,800.
6. Stock at 30th September 2003 included an item valued at shs. 60,000 which had been and invoiced to a customer on 30th September 2003.

Required:

Statement of income for the year ended 30th September 2003 and a statement of financial position as at that date. (25 marks)

Q3. (a) Financial accounting has two types of accounts:

- (i) Personal accounts
- (ii) Impersonal accounts

Using examples, explain them. (4 marks)

(b) A journal is a chronological record of double entry. Explain the uses of a journal. (5 marks)

(c) You are to open the books of Timothy, a trader, via the journal to record the transactions for the month of May 2009. A trial balance is to be extracted.

2009

May 1 Assets: premise shs. 34,000; van shs. 510,250, fixtures shs. 8,100 and cash at bank shs. 62,400, cash in bank shs. 5,600.

1 Paid storage costs by cheque shs. 400

2 Goods bought on credit from S. Hood shs. 20,100

4 Paid meta expenses in cash shs. 4,700.

5 Cash drawing by proprietor shs. 1,500

9 Bought another van on credit from General Motors shs. 480,000.

10 Returned goods to S. Hood which were damaged shs. 1,200.

12 Salaries paid by cheque shs. 12,000.

15 Settled the account of General Motors by cheque.

(16 marks)

Q4. (a) Explain the reasons for bank reconciliation of a sole proprietor. (8 marks)

(b) J. Mburu's cash book showed a debit balance of shs. 117,009.70 on 31st March 2001. His bank statement showed a credit balance of shs. 38,257.30 on the same date. A careful examination of the two records revealed that the difference was due to the following:

1. Bank charges amounting to shs. 1,711.50.
2. The bank had paid shs. 5,339.50 to Mburu's insurance company as per standing order.
3. David Ndung'u who was Mburu's tenant had paid rent shs. 14,500 direct into Mburu's bank account.
4. Cheques for shs. 43,275 deposited by Mburu on 29th March was returned unpaid but no entry had been made in the cash book to record the return.

5. Cheques totalling shs. 149,088.40 deposited by Mburu on 30 March were credited by the bank on 2nd April.
6. Cheques totalling shs. 134,402 issued by Mburu to his creditors did not appear on the bank statement. One of these cheques for shs. 6,420 is dated 3rd September 2000.
7. A cheque for shs. 8,240 issued by Mbalo, another customer at the bank, was wrongly debited by the bank in Mburu's bank account.
8. The cashier, in totalling the cash book pages, overstated the debit balance of the cash book by shs. 20,000

Required:

- (a) Adjustment of the cash book balance.
- (b) A bank reconciliation statement as at 31st March 2001.

(17 marks)