



**SCHOOL OF BUSINESS AND ECONOMICS
DEPARTMENT OF COMMERCE
END OF JANUARY 2018 SEMESTER**

CODE: ACC 111 A &T UNIT: FINANCIAL ACCOUNTING 1

Instructions

Time: 2hr 30 Min

Answer **question ONE** as a compulsory and **any TWO** other questions

Question One:

The following trial balance was extracted from the books of Kilewe, a sole trader, on 31 December 2017:

	Kshs.	Kshs.
Land	220,000	
Fixtures and fittings	92,150	
Provision for depreciation on fixtures and fittings		27,645
Inventory as at 1/1/2017	24,810	
Accounts Receivables and Accounts payables	102,350	72,300
Carriage inwards	4,490	
Cash in hand	10,800	
Cash at Bank	12,150	
Special Trade Payable		7,290
Business rent	32,400	
Purchases and Sales	315,410	604,050
Returns	9,270	10,090
Discounts	3,360	4,720
Distribution and advertising	2,850	
Light and heat	3,140	
Telephone and internet	5,920	
Business insurance	23,120	
Rates, water charges and refuse	4,520	
Wages and salaries	92,250	
5% Long term bank loan		62,500
Long term loan interest	2,000	
Bad debts	2,640	
Drawings	9,090	
Profits from the previous year		16,140
Capital		167,985
Totals	<u><u>972,720</u></u>	<u><u>972,720</u></u>

The following information, which has not been accounted for above, is also available:

1. The inventory count as at 31 December 2017 showed closing inventory valued at Kshs. 29,070.
2. During 2017, Kilewe took goods to the value of Kshs. 1,800 for his personal use.

3. Kilewe's business insurance of Kshs. 5,000 for the year was prepaid.
4. The accounts receivables amount as at 31 December 2017 showed that Kshs. 1,970 was bad debts written off from a customer who could not be able to pay.
5. Then Kilewe provided a final allowance for doubtful debts at 5% of the final accounts receivables balance after the debt was written off.
5. On 31 December 2017, light and heat for Kshs. 940 was outstanding. Also the interest of loan was outstanding *as only* Kshs. 2,000 was paid according to the trial balance.
6. Provide for depreciation as follows:
 - Land Not depreciated.
 - Fixtures and fittings 15% reducing balance method.
 - (Depreciation should be calculated to the nearest whole number)

You are required to prepare:

- a) The income statement for the year ended 31 December 2017
- b) The statement of financial position as at that date **(40) Marks**

Question Two:

Cimale, a sole trader, received a bank statement for the month of May 2018 as follows:

May		Dr.	Cr.	Balance (Kshs)
1	Opening balance			5,700
3	Chq.123456	15,000		6,500 O/D
9	Chq.123450 for April 2018	4,200		10,700 O/D
14	Sundry credit		21,000	10,300
18	Interest	2,400		7,900
20	Sundry credit		35,000	42,900
22	Chq. 123457	22,000		20,900
23	Chq. 123448 for April 2018	10,000		10,900
24	Standing order – rent	1,000		9,900
25	Sundry credit		53,100	63,000
26	Credit transfer – Millia		2,500	65,500
28	Chq. 423460	10,000		55,500
30	Chq. 123459	40,500		15,000
31	Closing balance			15,000

For the corresponding period, Cimale's own records contained the following bank account:

		Bank			
May		Kshs.	May		Kshs.
14	Cheque from Ngari	21,000	1	Balance b/d	5,700
20	Cash Sales	35,000	3	Air Time 123456	15,000
25	Cheque from Kiru	41,000	22	Water 123457	22,200
25	Cheque from Flora	12,100	23	Kenya power 123458	41,500
31	Cheque from Wawire	19,600	30	Njeri - Rent 123459	40,500
31	Balance c/d	900	31	Purchases 123460	4,700
		<u>129,600</u>			<u>129,600</u>

Required:

1. Prepare an updated cash book for Cimale's and the bank reconciliation statement as at 31 May 2018. **(20 Marks)**
2. Explain the reasons why Cimale must do bank reconciliation? **(10 Marks)**

Question Three:

The following information was given to you by your client Mr. Kamau in respect of his business transactions for the month of December 2008. He has been dealing on credit and *no customer or supplier* has ever transacted on cash. He wants you as his bookkeeper to prepare the books of accounts.

Date	Transaction	Amount(Kshs.)
01/12/2008	Purchased goods from J Kirathi Inv No. 1 (less 20% trade discount)	26,000
02/12/2008	Sold goods to P Laila Inv No. 2 (less 20% trade discount)	30,000
05/12/2008	Sold goods to G Haria Inv No. 3 (less 10% trade discount)	50,000
10/12/2008	Purchased goods from T. Jira Inv No. 4(less 20% trade discount)	38,000
12/12/2008	Returned goods to J Kirathi Credit Note No. CR12	14,000
20/12/2008	Purchased goods from Ndira Inv No. 5 (less 15% trade discount)	58,000
22/12/2008	Returns from G Harria Credit Note No. CR13	8,000
27/12/2008	Sold goods to R Musau Invoice No. 6 (less 33% trade discount)	70,000
27/12/2008	Returned goods to T. Jira Credit Note No. CR14	16,000
28/12/2008	Returned goods to B Ndira Credit Note CR15	20,000

You are required to:

- (a) Prepare the following books: (i) Purchases (ii) Purchases Returns (iii) Sales (iv) Sales returns **(10 Marks)**
- (b) Post all the entries to the appropriate ledger accounts. **(15 Marks)**
- (c) Extract the trial balance for Mr. Kamau as at 31 December 2008. **(5 Marks)**

Question Four:

Write a short note to a client dealing with the following points:

- (1) List down *four users* of accounting information **(4 Marks)**
- (2) Briefly explain what is meant by: (i) the business entity concept (ii) Accrual Concept (iii) Money measurement (iv) Substance over form **(8 Marks)**
- (3) Briefly outline *three* business entities that you know of. **(3 Marks)**
- (4) Explain what is meant by an Imprest System of Petty Cash **(8 Marks)**
- (5) Differentiate between "the journal" and the "special/specific journals" **(5 Marks)**
- (6) List any *two* objectives of accounting in the business environment **(2 Marks)**