



KIBABII UNIVERSITY COLLEGE

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UNIVERSITY REGULAR EXAMINATIONS

2013/2014 ACADEMIC YEAR

FIRST YEAR FIRST SEMESTAR

FOR THE DIPLOMA OF BUSINESS MANAGEMENT

COURSE CODE: DIB 100

COURSE TITLE: INTRODUCTION TO FINANCIAL ACCOUNTING

DATE: 11th December, 2013

TIME: 8.00-10.00AM

Instructions to Candidates

- Answer All Questions in Section A and Choose any 3 Questions from Section B
- Be neat and orderly

SECTION A (COMPULSORY)

QUESTION ONE

- (a) Define the following accounting concepts and for each explain their implication in the preparation of financial Statements.
- (i) The Going concern concept. (5 marks)
- (ii) Business entity concept.(5 marks)
- (iii) Materiality. (5 marks)
- (iv) Realization. (5 marks)
- (b) Two accounting concepts or conventions could clash or there could be inconsistency between them.
- Give two examples of such situations and explain how the inconsistency should be resolved.(5marks)

(Total: 25 marks)

SECTION B (CHOOSE ANY THREE QUESTIONS)

QUESTION TWO

- a) Define the term accounting standard and give four reasons why a professional accounting body issues accounting standards. (5 marks)
- b) Explain the meaning and significance of the revenue realization principle. (5 marks)

Indicate and give reasons the amount of revenue that should be recognized in the year ended 31 May 1996 in each of the following independent cases:

- c)
- i) Net credit sales for 1995 amounted to Sh.1.5 million, three-fourths of which were collected in 1995. Past experience indicates that about 97% of all credit sales are eventually collected. (2 marks)
- ii) Cash of Sh.350,000 is received from a customer during 1996 in payment for equipment that is to be manufactured and shipped to the customer during 1997. (2 marks)
- d)Indicate, giving reasons, the correct treatment of each of the following transactions in the books of a company:

- i) Closing stock for the current year has a cost of Sh.890,000 and a replacement cost of Sh.850,000. The stock has not been reduced to its replacement cost because the company's accountant believes that the purchase price of similar stock items would probably rise during next year. (3 marks)

QUESTION THREE

Kimeu commenced his business of making furniture on 1 April 2000. Due to his limited accounting knowledge he has not maintained proper books of account. You have been engaged to examine his records and prepare appropriate accounts therefrom. You perform an examination of the records and from interviews with Kimeu, you ascertain the following information:

1. At the commencement of business on 1 April 2000, he deposited Sh.1,200,000 into a business bank account. On the same day he brought into the firm his pickup and estimated that it was worth Sh.660,000 then and that from 1 April 2000 it will have useful life of three years.
2. To increase his working capital he borrowed Sh.400,000 at 15% interest per annum on 1 July 2000 from his sister but no interest has yet been paid.
3. On 1 April 2000, Sally was employed as a clerk at a salary of Sh.720,000 per annum.
4. He had drawn Sh.18,000 per week from the business account for private use during the year.
5. He purchased timber worth Sh.1,960,000 out of which Sh.158,000 worth of stock was retained in the workshop on 31 March 2001. He also spent Sh.960,000 on the purchase of some equipment at the commencement of the business which he estimates will last him five years.
6. Electricity bills received up to 31 January 2001 were Sh.240,000. Bills for the remaining two months were estimated to be Sh.48,000. Motor vehicle expenses were Sh.182,000 while general expenses amounted to Sh.270,000 for the year. Insurance premium for the year to 30 June 2001 was Sh.160,000. All these expenses have been paid by cheque.
7. Rates for the year to June 2001 were Sh.36,000 but these had not been paid.
8. Sally sent out invoices to customers for Sh.6,178,000 but only Sh.5,080,000 had been received by 31 March 2001. Debts totalling to Sh.17,000 were abandoned during the year as bad. Other customers for jobs too small to invoice have paid Sh.726,000 in cash for work done of which Sh.560,000 was banked. Kimeu used Sh.75,000 of the difference to pay for his family's food stuff bought Kenya Charity Sweepstake tickets worth Sh.24,000 and Sally used the rest on general expenses except for Sh.30,100 which was left over in the drawer in the office on 31 March 2001.
9. You agree with Kimeu that he will pay you Sh.55,000 for accountancy fee.

Required:

- a) Profit and loss account for the year ended 31 March 2001. (8 marks)
- b) Balance sheet as at 31 March 2001. (7marks)

(Total: 20 marks)

QUESTION FOUR

- (a) What is the purpose of preparing a bank reconciliation statement? (3 marks)
- (b) The following is the bank statement of Kakamega Retail Traders for the month of October 1996:

Date	Particulars	Debit	Credit	Balance
		Sh.	Sh.	Sh.
October 1	Balance b/d			365,875
2	Cheque no. 63	31,000		334,875
2	Cheque no. 67	3,548		400,327
2	Cheque no. 65	13,000		331,327
2	Deposit		82,000	318,327
4	Cheque no. 69	6,000		394,327
4	Cheque no. 68	3,115		391,212
4	Cheque no. 64	51,000		340,212
4	Deposit		7,280	347,492
7	Cheque no. 70	7,000		340,492
7	Cheque no. 71	51,500		288,992
7	Deposit		36,100	325,092
8	Cheque no. 66	9,000		316,092
8	Deposit		28,000	344,092

Date	Particulars	Debit	Credit	Balance
1996		Sh.	Sh.	Sh.
October 9	Cheque no. 72	1,330		342,762
9	Cheque no. 73	6,250		336,512
9	Deposit		51,000	387,512
15	Cheque no. 74	2,800		384,712
15	Deposit		20,560	405,272
16	Cheque no. 75	65,000		340,272
16	Deposit		18,014	358,286

17	Deposit		34,500	392,786
19	Cheque no. 76	8,500		384,286
19	Deposit		42,750	427,036
21	Cheque no. 79	2,410		424,626
21	Cheque no. 77	12,506		412,120
21	Cheque no. 78	4,000		408,120
21	Cheque no. 81	6,500		401,620
21	Deposit		9,000	410,620
23	Cheque no. 82	16,240		394,380
23	Deposit		63,000	457,380
26	Cheque no. 84	1,500		455,880
26	Dividends		8,750	464,630
26	Deposit		62,500	527,130
28	Cheque no. 88	35,500		491,630
28	Standing order (Insurance)	10,400		481,230
28	Cheque no. 85	27,000		454,230
28	Cheque no. 87	22,500		431,730
28	Deposit		13,025	444,755
31	Service charge	750		444,005
31	Deposit		28,050	472,055

The following is the bank column of the cashbook:

Date	Particulars	Debit	Date	Particulars	Credit
1996		Sh.	1996		Sh.

October 1	Balance b/d	365,875	October 1	Cheque no.65	13,000
1	Deposited at bank	7,280	1	Cheque no. 66	9,000
3	Deposited at bank	36,100	1	Cheque no. 67	3,548
5		28,000	2	Cheque no. 68	3,115
8		51,000	4	Cheque no. 69	6,000
10.		20,560	5	Cheque no. 70	7,000
15		18,014	5	Cheque no. 71	51,500
15		34,500	7	Cheque no. 72	1,330
17		42,750	8	Cheque no. 73	6,250
19		15,700	10	Cheque no. 74	2,800
19		9,000	11	Cheque no. 75	65,000
22		36,000	15	Cheque no. 76	5,800
24		26,500	18	Cheque no. 77	12,506
27		13,025	19	Cheque no. 78	4,000
28		28,050	19	Cheque no. 79	2,410
29		171,010	19	Cheque no. 80	3,860
31		31,525	19	Cheque no. 81	6,500
			22	Cheque no. 82	16,240
			23	Cheque no. 83	15,000
			26	Cheque no. 84	1,500
			28	Cheque no. 85	27,000
			28	Cheque no. 86	10,520
			28	Cheque no. 87	22,500
			28	Cheque no. 88	53,500
			30	Cheque no. 89	2,500
			31	Cheque no. 90	64,529

			31	Cheque no. 91	15,500
		_____	31	Balance c/d	<u>502,481</u>
		<u>934,889</u>			<u>934,889</u>

Notes:

1. The bank reconciliation on 30 September 1996 showed that one deposit was in transit and two cheques had not yet been presented to the bank.
2. Deposits of Sh.62, 500 and Sh.36, 000 had been entered in the cash book as Sh.26,500 and Sh.36,000 and in the bank statement as Sh.62,500 and Sh.63,000, respectively.
3. A cheque from Mkulima for Sh.15,700 was deposited on 18 October 1996 but was dishonoured and the advice was received on 4 November 1996.
4. Counterfoils for cheques no. 76 and no. 88 showed they had been drawn for Sh.5,800 and Sh.35,500 respectively.

Required:

- (a) A correct cashbook balance. (6 marks)
- (b) A bank reconciliation statement on 31 October 1996. (6 marks)

(Total: 15 marks)

QUESTION FIVE

- (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:

- (1) A loan from ABD Bank of Sh. 10,000 was entered correctly in cashbook but was not posted to the ledger.
- (2) A cheque of Sh.4,000 for rent received was not entered in the books.
- (3) Closing stock was overvalued by Sh.1, 500.
- (4) Discount allowed of Sh.500 was entered in the discount received account.
- (5) The opening stock was understated by Sh.3,200.

(6) Prepaid insurance of Sh.220 had been included in the profit and loss account.

(7) 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:

(a) Journal entries to correct the errors. (7 marks)

QUESTION SIX

Manga Munene is the proprietor of a retail business, which has two main departments, which sell hardware and electrical goods, respectively. He had previously prepared his annual accounts in such a way that the relative profitability of the two departments was not ascertainable, but now he wishes to attempt to identify the profit attributable to each department in order that he may pay a bonus to the more successful of the departmental managers. At 30 September 1994, the balances in the books of the business were as follows:

	Sh.	Sh.
Capital		8,520,000
Sales - Hardware		7,080,000
Electrical		3,540,000
Purchases - Hardware	2,400,000	
Electrical	1,200,000	
Stocks at 1 October 1993 - Hardware	278,400	

Electrical	256,320	
Salaries and Wages - Hardware	2,467,200	
- Electrical	1,852,800	
Advertising	73,800	
Discounts allowed - Hardware	48,000	
- Electrical	24,000	
Drawings	360,000	
Buildings (cost)	5,160,000	
Shop fittings and equipment - Hardware	2,160,000	
- Electrical	840,000	
(At cost less depreciation)		
Debtors and creditors	1,224,000	638,280
Bank	672,000	
Rent and rates	189,600	
Canteen charges	105,000	
Electricity	105,600	
Insurance on stock	112,800	
General administrative expenses	<u>248,760</u>	
	<u>19,778,280</u>	<u>19,778,280</u>

Notes:

1. At 30 September 1994 the following amounts were owing:

Sh.

Wages - Hardware	30,000
- Electrical	20,400
Electrical expenses	2,400

2. The general administrative expenses and the rent and rates included prepayments of Sh.3, 960 and Sh.6, 400 respectively.
3. Stocks at 30 September 1994 were:

Sh.

Hardware	336,000
Electrical	294,000

4. Depreciation is to be provided on shop fittings and equipment at 10% of the written down value.

5. The managers of the hardware and electrical departments are to be paid a commission of 5 % of the net profit (prior to the commission payment) of the respective departments.
6. In apportioning the various expenses between the two departments due regard is to be taken of the following information:

	Hardware	Electrical
Number of workers	9	6
Average stock levels	Sh.300, 000	Sh.264, 000
Floor area (Sq.meters)	4,000	2,000

The general administrative expenses are primarily incurred in relation to the processing of purchases and sales invoices.

Required:

- (a) The departmental and combined Trading and Profit and Loss Account for the year ended 30 September 1994. (10marks)
- (b) Balance Sheet at 30 September 1994. (5 marks)

(Total: 25 marks)