



**KIBABII UNIVERSITY COLLEGE**

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**UNIVERSITY REGULAR EXAMINATIONS**

**2012/ 2013 ACADEMIC YEAR**

**1<sup>st</sup> YEAR SEMESTER TWO**

**FOR THE DEGREE OF BACHELOR OF  
EDUCATION (ARTS) (GUIDANCE & COUNSELING)**

**SCHOOL BASED PROGRAMME  
(MAIN EXAM)**

**COURSE CODE: BBM 100**

**COURSE TITLE: FINANCIAL ACCOUNTING**

**DATE: 2<sup>nd</sup> September, 2013**

**TIME: 2.00p.m. – 5.00p.m.**

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**INSTRUCTIONS TO CANDIDATES**

- Answer any THREE questions

1. (i) Given that prudence is the main consideration, discuss under what circumstances, if any, revenue might be recognized at the following stages of a sale.

(a) Goods have been acquired by the business, which it confidently expects to resell very quickly.

(b) A customer places a firm order for goods.

(c) Goods are delivered to the customer.

(d) The customer is invoiced for goods.

(e) The customer pays for the goods.

(f) The customer's cheque in payment for the goods has been cleared by the bank.

(10mks)

(ii) Discuss the following concepts showing their relevance in accounting theory.

(a) Consistency concept.

(b) Entity concept.

(c) Money measurement concept.

(10mks)

2. James Mbuvi started a taxi business in Nairobi March 1990 under the firm name Mbuvi Taxis. The firm had two vehicles KA and KB, which had been purchased for Sh. 560,000 and Sh. 720,000 respectively earlier in the year.

In February 1992 vehicle KB was involved in an accident and was written off. The insurance company paid the firm Sh. 160,000 for the vehicle. In the same year the firm purchased two vehicles, KC and KD for Sh. 800,000 each.

In November 1993 vehicle KC was sold for Sh. 716,000. In January 1994 vehicle KE was purchased for Sh. 840,000. In March 1994 another vehicle KF was purchased for sh.960,000.

The firm's policy is to depreciate vehicles at the rate of 25 per cent on cost on vehicles on hand at the end of the year irrespective of the date of purchase. Depreciation is not provided for vehicle disposed of during the year. The firm's year ends on 31<sup>st</sup> December.

Required:-

(a) Calculate the amount of depreciation charged in the profit and loss account for each of the five years. (7mks)

(b) Prepare the motor vehicle account (at cost). (8mks)

(c) Calculate the profit and loss on disposal of each of the vehicles disposed of by the company. (5mks)

3. (a) Discuss the use of control accounts in an organization. (5mks)

(b) Prepare a sales ledger control account from the following:- (5mks)

2003		Sh.
May 1	Debit balances	64,200
	Totals for May	
	Sales journal	128,000
	Cash and cheques received from debtors	103,700
	Discounts allowed	3,950
	Debit balances in the sales ledger set off against credit	
	Balances in the purchases ledger	1,450
May 31	Debit balances	?
	Credit balances	500

4. The balance sheet of N Patel, a sole trader, as at 31 March 2000 was as follows.

	Sh'000	Sh'000		Sh'000	Sh'000
Capital 1 April 1999		1,890	Land and buildings (at valuation)		1,650
Profit for the year Ended 31 March 2000	450		Machinery(at cost)	1,200	
Deduct: drawings	<u>150</u>	300	Deduct: depreciation	750	450
Creditors		630	Stock at cost	570	
Bank overdraft		<u>270</u>	Debtors	<u>420</u>	
<u>990</u>		<u>3,090.</u>			<u>3,090</u>

Further investigation reveals the following information:

1. The closing stock includes damaged goods which, although they had cost sh. 10,000 have an estimated sale value of Sh. 7,500.
2. Debtors include Sh. 20,000 in respect of a customer who has gone bankrupt. A provision for doubtful debts of 2½% is also required on the balance of the debtors.
3. The machinery was acquired five years ago and is being depreciated to its scrap value on a straight-line basis over eight years. A more realistic estimate indicates that the life span will be 10 years.
4. Wages owing at 31 March 2000 amounted to Sh. 9,500 but this has not been reflected in the accounts.
5. Charges for the bank overdraft, amount Sh. 8,000 have not been reflected in the accounts.

6. In arriving at the profit for the period, a drawing of Sh.100,000 paid to Mr. Patel had been deducted as an expense.
7. Sh. 20,000 rent owing to Mr. Patel for the letting of part of his business premises to external party had not been received and not entry had been made in the books in respect of this item.

Required:

- (a) Journal entries to correct errors and omissions. (5mks)
- (b) A statement of revised profit for the year ended 31 March 2000. (5mks)

5. A bookkeeper extracted a trial balance on 31 December 2002 that failed to agree by £3,300, a shortage on the credit side of the trial balance. A suspense account was opened for the difference.

In January 2003 the following errors made in 2002 were found:

- i. Sales daybook had been under cast by £1,000.
- ii. Sales of £2,500 to J Church had been debited in error to J.Chane account.
- iii. Rent account had been under cast by £3,000.
- iv. The sale of a motor vehicle at book value had been credited in error to Sales account £3,600.

You are required to:-

- (a) Show the journal entries necessary to correct the errors. (5mks)
- (b) Draw up the suspense account after the errors described have been corrected. (2mks)
- (c) A statement of the corrected profit and loss account. (8mks)