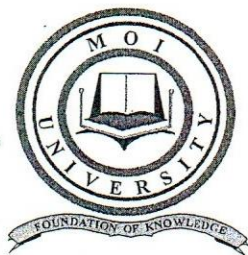


2012/17



MUEO

MOI UNIVERSITY

**OFFICE OF THE DEPUTY VICE CHANCELLOR, ACADEMIC
AFFAIRS, RESEARCH & EXTENSION**

**UNIVERSITY EXAMINATIONS
2014/2015 ACADEMIC YEAR**

FIRST YEAR END OF SEMESTER EXAMINATIONS

**FOR THE DEGREE OF
BACHELOR OF BUSINESS MANAGEMENT**

EXAM CODE:- BBM 112

COURSE TITLE:- PRINCIPLES OF ACCOUNTING II

DATE:- 26TH AUGUST, 2015

TIME:- 9.00A.M. – 12.00NOON.

INSTRUCTION TO CANDIDATES

➤ **SEE INSIDE.**

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BBM 112: PRINCIPLES OF ACCOUNTING II
 MAIN EXAMINATION

INSTRUCTIONS: Answer Question One and Any Other Three Questions

QUESTION ONE

The following balances have been extracted from the books of Limuru Manufacturers, a small scale manufacturing enterprise, as at 31 December 2014:

		Ksh'000'	
Stocks as at 1 January 2014:	Raw materials	7,000	
	Work in progress	5,000	
	Finished goods	6,900	
Purchases of raw materials		38,000	
Direct labour		28,000	
Factory overheads:	Variable	16,000	
	Fixed	9,000	
Administrative expenses:	Rent and rates	19,000	
	Lighting	6,000	
	Stationery and postage	2,000	
	Staff salaries	19,380	
Sales			192,000
Plant and machinery:	At cost	30,000	
	Provision for depreciation		12,000
Motor vehicles (for sales deliveries):	At cost	16,000	
	Provision for depreciation		4,000
Creditors			5,500
Debtors		28,000	
Drawings		11,500	
Balance at bank		16,600	
Capital at 1 January 2014			48,000
Provision for unrealized profit at 1 January 2014			1,380
Motor Vehicle running costs		4,500	
		262800	262800

Additional information:

1. Stocks at 31 December 2014 were as follows:

	Ksh'000'
Raw materials	9,000
Work in progress	8,000
Finished goods	10,350

2. The factory output is transferred to the trading account at factory cost plus 25% of factory profit.

3. Depreciation is provided at the rates shown below on the original cost of fixed assets held at the end of each financial year.

Plant and machinery - 10% per annum

Motor vehicles - 25% per annum

4. Amounts accrued at 31 December 2014 for direct labour amounted to Sh. 3,000,000 and rent and rates prepaid at 31 December 2014 amounted to Sh. 2,000,000.

Required:

a. Manufacturing, trading and profit and loss account for the year ended 31 December 2014.

(15 marks)

b. Balance sheet as at 31 December 2014.

(10 marks)

(Total 25 Marks)

QUESTION TWO

a. In the process of book-keeping, accountants are likely to make errors. These errors may or may not affect the trial balance totals. Explain three errors that affect the trial balance totals and three that do not. (9mks)

b. Accountants are guided by accounting principles in the process of financial statement preparation. explain the following accounting principles:-

i. accrual

ii. money measurement

iii. going concern

(6mks)

QUESTION THREE

The draft final account for the year ended 30 June 2014 of central limited, car dealers, show a gross profit of Sh 9,000,000 and a net profit of Sh 2,250,000. After subsequent investigations the following discoveries were made:

1. A debt of Sh. 75,000 due from Mema to the company was written off as irrecoverable in the company's books in January 2014. Since preparing the draft accounts, Mema has settled the debt in full.

2. The company's main warehouse was burgled in February 2014, when goods costing Sh. 5,000,000 were stolen. This amount has been shown in the draft account as an overhead item "Loss due to burglary". Although the insurance company denied liability originally, in the past days or two that decision it has changed and central limited have advised that Sh. 3,500,000 will be paid in settlement.

3. Discounts received in March 2014 of Sh. 52,500 have been credited, in error, to purchases.

4. On 2 January 2014, a car, which had cost the company Sh. 450,000, was taken from the showroom for the use of one of the company's sale representatives whilst on company

business. In the showroom, this car had a Sh. 600,000 price label. Effect has not been given to this transfer in the books of the company, although the car was not included in the trading stock valuation at 30th June 2014. The company provides for depreciation on motor vehicles at the rate of 25% of the cost of vehicles held at the end of each financial year.

5. Goods bought and received from Nene on 29 June 2014 at a cost of Sh 300,000 were not recorded in the company's books of account until early July 2014. Although they were unsold on 30th June 2014, the goods in question were not included in the stock valuation at that date.
6. The company is hoping to market a new car accessory product in January 1995. The venture is to be launched with an advertising campaign commencing in July 2014. The cost of this campaign is Sh. 1,250,000 and this has been debited in the company's profit and loss account for the year ended 30 June 2014, and is included in current liabilities as a provision, notwithstanding the confident expectations that the new product will be a success.
7. On June 30th 2014, the company paid an insurance premium of Sh. 150,000, the renewal being for the year commencing 1 July 2014. This premium was included in the insurances of Sh. 275,000 debited in the draft profit and loss account.

Required:

- a. The journal entries necessary to effect corrections of all the above errors (8mks)
- b. A computations of the corrected gross profit and net profit for the year ended 30 June 2014 (7mks)

QUESTION FOUR

Mali Mingi is the sole distribution agent of roofing sheets in Mombasa. Under an agreement with the manufacturers, Mabati Ltd., Mali Mingi purchases roofing sheets from Mabati Ltd. at a trade discount of 20% of the list price. Every year in the month of May, Mali Mingi receives an agency commission of 1% of his purchases for previous year ended 31 March.

Mali Mingi has been making a gross profit of 40% on all sales. In a burglary that occurred in January 2014, Mali Mingi lost stock costing Sh.480,000 as well as the bulk of his accounting records.

After thorough investigation, the accountant has obtained the following information relating to the year ended 31 March 2014:

1. Assets and liabilities as at 31 March 2013 were:

	Sh.
Buildings at cost	1,200,000
Provision for depreciation on buildings	720,000

Motor vehicles at cost	600,000
Provision for depreciation on motor vehicles	240,000
Stock at cost	384,000
Trade debtors (sales)	756,000
Prepayment (Trade expenses)	14,400
Agency commission receivable	36,000
Balance at bank and cash in hand	517,200
Trade creditors	504,000
Accrued motor vehicle expenses	27,600

- Mali Mingi has been notified that he will receive an agency commission of SH. 52,800 on 1 May 2014. Commissions are paid directly to the bank.
- Stock, at cost, at 31 March 2014 was valued at Sh.360,000 more than the value as at 31 March 2013. In October 2013, stock worth Sh.120,000 was scrapped as worthless.
- Other details relating to the period up to 31 March 2014 are as follows:

	Sh.
Discounts allowed	194,400
Discounts received	144,000
Prepaid trade expenses	9,600
Motor vehicle expenses	842,400

- Balances as at 31 March 2014:

	Sh.
Trade creditors at list prices	1,140,000
Trade debtors	804,000

- Depreciation is provided at the following rates:
 - Buildings – 5% per annum on cost
 - Motor vehicles – 20% per annum on cost
- In addition to purchases, the following payments were made through the bank:

	Sh.
Motor vehicle expenses	806,400
Drawings	516,000
Trade expenses	883,200

- All receipts pass through the bank and Mali Mingi is not insured against burglary.
- The agency commission due as at 31 March 2013, was received during the year through the bank.
- All purchases and sales are on credit.

Required:

- Trading and profit and loss accounts for the year ended 31 March 2014. (8 marks)
- Balance sheet as at 31 March 2014. (7 marks)

(Total 15 Marks)

QUESTION FIVE

The cashbook column of Eldoret Traders Company Ltd. had an overdraft of Sh.532, 400 as at 31 October 2014, which did not agree with balance as per bank statement of the same date. On checking through the relevant records and documents, some details were established as shown below:

1. Bank charges and interest on overdraft as per the bank statement amounted to Sh. 12,450 and Sh. 135,480 respectively.
2. A debtor deposited Sh.254, 500 to the bank direct.
3. Insurance premium of the mortgaged property amounting to Sh.35, 485 was paid direct by the bank.
4. Standing orders of Sh. 138,000 have been effected by the bank.
5. Cheques for Sh.354, 890 which were banked on 29 October 2014 were credited by the bank on 5 November 2014.
6. Cheques drawn by the company amounting to Sh.745, 964 had not been presented for payment as at 31 October 2014.
7. A cheque for Sh.74, 500 was debited by the bank as Sh.47, 500.
8. The payments side of the cashbook was undercast by Sh.32, 000.
9. The bank had debited the account with another customer's cheque of Sh.27, 500 but had not yet corrected the mistake on 31 October 2014.

Required:

- a. Make adjustments in the cash book and show the adjusted cash book balance. (9mks)
- b. A bank reconciliation statement as at 31 October 2014 (6mks)

(Total 15 Marks)

QUESTION SIX

- a. Identify and explain four source books of accounts (4 marks)
- b. Identify and explain three books of prime entry (3 marks)
- c. Qualitative characteristics are the attributes that make information provided in financial statements useful to users." Briefly explain the four main qualitative characteristics of financial statements with reference to shareholders of a company. (8 marks)

(Total 15 Marks)