



MUEO

MOI UNIVERSITY

OFFICE OF THE DVC ACADEMIC AFFAIRS, RESEARCH AND EXTENSION

UNIVERSITY EXAMINATIONS

2015/2016 ACADEMIC YEAR

FIRST YEAR END OF SEMESTER EXAMINATIONS

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

EXAM CODE: BBM 112

EXAM TITLE: PRINCIPLES OF ACCOUNTING I

DATE: 12TH AUGUST, 2016 TIME: 9.00 A.M. – 12.00 NOON

INSTRUCTION TO CANDIDATES

➤ **SEE INSIDE**

BBM 112: PRINCIPLES OF ACCOUNTING I
INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER THREE

QUESTION ONE

Kedenko Enterprises manufactures one product which it sells to the wholesale trade. The following trial balance was extracted from the books of the business at 30 April 2015:

	Sh.	Sh.
Stocks at 1 May 2014		
Raw materials, at cost	350,000	
Work- in-progress, at factory cost	1,800,000	
Finished goods (3,500 units) at factory cost	3,500,000	
Raw materials purchased	3,950,000	
Sales (12,000 units)		18,000,000
Manufacturing wages	3,000,000	
Factory rent and rates	1,400,000	
Factory light, heat and power	655,000	
Plant at cost		6,000,000
Plant depreciation at 1 May 2014		2,800,000
Works manager's salary	245,000	
Plant repairs		400,000
Administrative overheads	1,800,000	
Factory lease at cost (20 years duration)	4,000,000	
Amortization at 1 May 2014		1,200,000
Share capital		7,500,000
Debtors	3,050,000	
Bank balance	1,600,000	
Creditors		2,450,000
Carriage inwards	<u>200,000</u>	
	<u>31,950,000</u>	<u>31,950,000</u>

The following additional information is available:

- Plant depreciation is to be provided at 10% on the cost of plant owned at the year end.
- Raw materials costing Sh.500,000 were in stock on 30 April 2015.
- Finished goods are transferred to the warehouse as soon as they are completed. During the year, 10,000 units were completed and transferred to the warehouse. Work-in-progress at the end of the financial year (at factory cost) amounted to Sh.2,300,000.
- There was no wastage or pilferage during the current year.

Required:

- Manufacturing, trading and profit and loss account for the year ended 30 April 2015. (15mks)
- Assume the facts as in (a) above, except that it had always been the company's practice to transfer completed units from the factory to the warehouse at cost plus 25% and to value stocks of finished goods at the transfer price for the trading account but at factory

QUESTION FOUR

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

Kedenko has been making a gross profit of 40% on all sales. In a burglary that occurred in January 2015, Kedenko 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 2015:

1. Assets and liabilities as at 31 March 2014 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

2. Kedenko has been notified that he will receive an agency commission of SH. 52,800 on 1 May 2015. Commissions are paid directly to the bank.
3. Stock, at cost, at 31 March 2015 was valued at Sh.360,000 more than the value as at 31 March 2014. In October 2014, stock worth Sh.120,000 was scrapped as worthless.
4. Other details relating to the period up to 31 March 2015 are as follows:

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

5. Balances as at 31 March 2015:

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

6. Depreciation is provided at the following rates:

Buildings – 5% per annum on cost
Motor vehicles – 20% per annum on cost

- cost for balance sheet purposes. Show how the manufacturing, trading and profit and loss account for the year ended 30 April 2015 would appear. (3mks)
- c. Balance sheet as at 30th April 2015. Ignore the changes in b above (7mks)

QUESTION TWO

Kimutai, a sole trader received his bank statement for the month of June 2015. At that date the bank balance was Sh.706,500 whereas his cash book balance was Sh.2,366,500. His accountant investigated the matter and discovered the following discrepancies:

1. Bank charges of Sh.3,000 had not been entered in the cashbook.
2. Cheques drawn by Kimutai totaling Sh.22,500 had not yet been presented to the bank
3. He had not entered receipts of Sh.26,500 in his cashbook.
4. The bank had not credited Mr. Kimutai with receipts of Sh.98, 500 paid into the bank on 30 June 2015.
5. Standing order payments amounting to Sh.62, 000 had not been entered into the cashbook.
6. In the cash book Kimutai had entered a payment of Sh.74,900 as Sh.79400.
7. A cheque for Sh. 15,000 from a debtor had been returned by the bank marked "refer to drawer" but had not been written back into the cashbook.
8. Kimutai had brought forward the opening cash balance of Sh.329, 250 as a debit balance instead of a credit balance.
9. An old cheque payment amounting to Sh.44,000 had been written back in the cashbook but the bank had already honored it.
10. Some of Kimutai's customers had agreed to settle their debts by paying directly into his bank account. Unfortunately, the bank had credited some deposits amounting to Sh.832, 500 to another customer's account. However, acting on information from his customers, Kimutai had actually entered the expected receipts from the debtors in his cashbook.

Required:

- i. A statement showing Kimutai's adjusted cash book balance as at 30 June 2013. (10mks)
- i. A bank reconciliation statement as at 30 June 2013. (5mks)

QUESTION THREE

- a. Explain the following accounting principles
 - i. Substance over form
 - ii. Realization
 - iii. Entity
 - iv. Duality
 - v. Prudence (10mks)
- b. Explain the attributes for useful financial information (5mks)

7. 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

8. All receipts pass through the bank and Kedenko is not insured against burglary.

9. The agency commission due as at 31 March 2014, was received during the year through the bank.

10. All purchases and sales are on credit.

Required:

- (a) Trading and profit and loss accounts for the year ended 31 March 2015. (10mks)
 (b) Balance sheet as at 31 March 2015. (5mks)

QUESTION FIVE

Ben Mogaka prepared the following draft balance sheet for BM Enterprises as at 31 December 2005:

Non current assets	Cost Sh.	Accumulated depreciation Sh.	Net book value Sh.
Equipment	450,000	220,000	230,000
Furniture	300,000	150,000	150,000
Motor vehicles	<u>600,000</u>	<u>300,000</u>	<u>300,000</u>
	<u>1,350,000</u>	<u>670,000</u>	<u>680,000</u>

Current Assets:

Inventory	122,800	
Accounts receivable	19,600	
Deposit account	50,000	
Suspense account	9,000	<u>201,400</u>
		<u>881,400</u>

Financed by:

Capital	652,000	
Net profit	153,200	
Drawings	<u>(13,200)</u>	792,000

Current liabilities:

Accounts payable	81,400	
Bank over draft	<u>8,000</u>	<u>89,400</u>
		<u>881,400</u>

Additional information:

On further investigation, the suspense account was discovered to have resulted from the following errors:

- a. The sales of goods on credit to Alex Otis amounting to Sh.19,000 had been recorded in the sales journal as sh.9,000.
- b. A receipt of Sh.20,000 from sale of an item of equipment had been credited to sales account. The equipment was shown in the books of account at costs of account of Sh.90,000 and accumulated depreciation of Sh.72,000.
- c. A credit note from a supplier, Simon Masound for Sh.15,000 had been omitted from the books.
- d. A bank overdraft for Sh.7,000 reflected in the cash book as at 31 December 2005 was omitted In the trial balance.
- e. A payment of Sh. 9,700 to Tom Wambugu, a creditor, was correctly entered in the cash book but posted to his personal account as Sh.7,900.
- f. The debit side of rent expense account had been undercast by Sh.1,000.
- g. A provision of Sh.2,000 for sundry expenses outstanding as at 31 December 2004 and debited to sundry expenses at that dated had not been brought forward to the credit of the account in the following period. No credit entry had been made in any other account in respect to this account in respect to this item.
- h. Discount received from the supplier of Sh.8,200 had been entered on the wrong side of purchases ledger control account.
- i. On 31 December, goods valued at Sh.9,600 (selling price) were returned by Jane Kerubo (a debtor). No entry had been made in the books to reflect this transaction. These goods were not included in the closing stock.
- j. Discounts allowed were overcast by Sh.1,200.

Required:

- a. Journal entries to correct the above errors (5marks)
- b. Suspense account. (3marks)
- c. Statement of corrected net profit for the year ended 31 December 2005 (3 marks)
- d. Corrected balance sheet as 31 December 2005. (2 marks)

QUESTION SIX

- a) Differentiate between a petty cashbook and a three-column cashbook (5marks)
- b) Briefly explain why it is important for a business entity to prepare a bank reconciliation statement. (4marks)
- c) Differentiate accounting policies, accounting bases and change in accounting estimates (6marks)

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