



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

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JANUARY – APRIL 2022

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FACULTY OF LAW

REGULAR PROGRAMME

CLS 440: COMMERCIAL ACCOUNTS

Date: APRIL 2022

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and any Other TWO Questions

Q1.

- a) Highlight 3 advantages of double entry system of accounting **(3marks)**
- b) Your bookkeeper extracted actual balance on 31st 2018 which failed to agree by 210,000 which is a shortage on the credit side of the trial balance. A suspense account was opened for the difference. In January, 2019, the following errors made in 2018 were found.
- Sales day book had been under cast by Ksh 190,000/=.
 - Sales of 6,000 to Mwambi J had been debited in error to the account of Mwamba
 - Rent account had been under cast by 80,000/=
 - Discounts allowed account had been overcast by 100,000/=
 - The sale of a computer at net book value had been credited in error to the sale account 25,000/=
 - The rent receivable was over added by Kshs 4000 and the wages and salaries were over added by Kshs 4000
 - A credit sale of 5,000 to F. Njeraine was credited to his account
 - A Purchase of Kshs 5,000 was credited to the purchase account
 - A cash purchase of furniture of 25,000 was debited to the purchases account

Required:

- Show the journal entries necessary to correct the above errors. **(6 marks)**
 - Draw up the suspense account after the errors have been corrected. **(4 marks)**
- c) Explain the difference between the following terms and explain how they are treated in the financial statements.
- Carriage inwards an carriage outwards **(2 marks)**

- ii. Return inwards and return outwards (2 marks)
- iii. Discount received and discount allowed (2 marks)

d) Champ enterprises ltd has the following transactions for the month ended 31st December 2021.

- i. Started business with a Bank of Kshs 400,000
- ii. Bought goods for sale and paid by cheque Kshs120,000
- iii. Paid rent Kshs 4,000
- iv. Sold goods for Kshs 200,000
- v. Sold good on credit to JJ for Kshs 23,000
- vi. Bought goods on credit from Ngirisha enterprises worth Kshs 65,000

Required

Balance off the accounts and extract a trial balance for the year ended December 2021

(6marks)

a) Explain as to why the following parties would be interested in the information provided by the financial statements.

- i. Shareholders of a joint stock company
- ii. Creditors
- iii. Employees
- iv. Government
- v. Management

(5marks)

Q2.

	Kshs 000	Kshs 000
Share capital authorized and issued 24,000,000 of sh.20		480,000
8000000 8% shs.20 Preference shares		160,000
stocks at 30th June 2010	335,408	
accounts receivables	108,800	
accounts payables		54,888
Bank Balance	31,184	
10% debentures		64,000
general reserves		112,000
bad debts	1,360	
gross profit		326,000
wages and salaries	112,800	
Rates and insurance	5,600	
Postage and telephone	2,480	
Light and Fuel	4,864	
Debenture interest	3,200	
Directors fees	10,000	

General expenses	12,432	
Motor vehicles (cost Kshs 116,400,000)	27,200	
Office fittings and equipment's (Cost Kshs 78,566,000)	109,760	
Land and buildings at Cost	528,800	
Profit and loss at 1st July 2009		97,000
	1,293,888	1,293,888

Additional information

- i) A bill of kshs. 2,192,000 in respect of electricity up to 30th June 2010 are accrued.
- ii) The amount for insurance includes a premium of shs 1,200,000 paid in march to cover the company for six months April to September 2010.
- iii) Office fittings and equipments are to be depreciated at 15% of cost and motor vehicle at 20% of cost.
- iv) Provisions are to be made for
 - Directors shs.20,000,000
 - Audit fee shs 4,800,000
 - The outstanding debenture interest
- v) The directors have recommended that
 - Shs 48,000,000 to be transferred to general reserves
 - Preference dividends be paid
 - A 10% ordinary dividend be paid

Required

- a) A statement of comprehensive income **(10 marks)**
- b) Statement of Financial position **(10 marks)**

Q3. Kigame, a sole trader received his bank statement for the month of June 2001. 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:

- a) Bank charges of sh. 3,000 had not been entered in the cash book
- b) Cheque drawn by Kigame totaling Sh. 22,500 had not yet been presented to the bank
- c) He had not entered receipts of Sh. 26,500 in his cash book
- d) The bank had not yet credited Mr. Kigame with receipts of sh. 98,500 paid into the bank on 30th June 2001
- e) Standing order payment amounting to Sh. 62,000 had not been entered into the cash book
- f) In the cash book Kigame has entered a payment of Kshs 74,900 as Kshs79,400
- g) 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 cash book
- h) Kigame had brought forward the opening cash balance of sh. 329,250 as a debit balance instead of a credit balance
- i) An old cheque payment amounting to sh. 44,000 had been written back in the cash book but the bank had already honored it

- j) Some of Kigame's customer had agreed to settle their debts by paying 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, Kigame had actually entered the excepted receipts from the debtors in his cash book.

Required

- a) A statement showing Kigame's adjusted cash book balance as at 30th June 2001. **(9marks)**
- b) A bank reconciliation statement as at 30th June 2001. **(5marks)**
- c) Bring out and briefly explain any four accounting principles **(6 marks)**

Q4.

- a) Explain the purpose for which control accounts are prepared **(3marks)**
- b) The balances and transactions affecting the control accounts of Kilimo Ltd for the month of November 2019 as listed below

	Sh.
Balances on 1 st November 2019:	
Sales ledger	9,123,000 (debit)
	211,000 (credit)
Purchase ledger	4,490,000 (credit)
	88,000 (debit)
Transactions during November 2019:	
Purchases on credit	18,135,000
Allowances from suppliers	629,000
Receipts from customers by cheques	27,370,000
Sales on credit	36,755,000
Discount received	1,105,000
Payments to creditors by cheque	15,413,000
Contra settlements	3,046,000
Bill of exchange receivable	6,506,000
Allowances to customers	1,720,000
Customer cheques dishonored	489,000
Cash received from credit customers	4,201,000
Refunds to customers for overpayments	53,000
Discount allowed	732,000
Balance on 30 November 2019	
Sales ledger	136,000 (credit)
Purchases ledger	67,000 (debit)

Required:

The sales ledger and purchase ledger control accounts for the month of November 2019 and show the respective debit and credit closing balances on 30th November 2019

(17

marks)

Q5. The following trial balance has been extracted from the ledger of Mr. Ndiema, a sole trader

Mr. Ndiema Trial Balance for the year ended 31st May 2017

	Kshs000	Kshs0000
Sales		138,078
Purchases	82,350	
Carriage inwards	5,144	
Drawing	7,800	
Rent, rates and insurance	6,622	
Postage and stationery	3,000	
Advertising	1,330	
Salaries and wages	26,420	
Bad debts	877	
Provision for bad debts		130
Debtors	12,227	
Equipment		
At cost	71,000	
Accumulated depreciation		19,000
Capital		<u>59,563</u>
	<u>216,770</u>	<u>216,770</u>

The following additional information as at 31st May 2017 is available:

- Rent is accrued by Kshs 210,000
- Rates have been prepaid by Kshs 880,000
- Kshs 2,211,000 of carriage represents carriage inwards on purchases
- Equipment is to be depreciated as 15% per annum using the straight line method
- The provision for bad debts to be increased by Kshs 40,000
- Stock at the close of business has been valued at Kshs 13,551,000

Required:

- Income Statement as at 31st May 2017 (10 marks)
- Statement of Financial Position as at that date (10 marks)

END