



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA
A. M. E. C. E. A

P.O. Box 908
30100 Eldoret - Kenya
Telephone: 0728458276
Fax: 254-20-891084
Email: academics@cuea.edu

GABA CAMPUS – ELDORET

MAIN EXAMINATION

MAY – AUGUST 2022 TRIMESTER

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

CAC 121: INTRODUCTION TO FINANCIAL ACCOUNTING

Date: July 2022	Duration: 2 Hours
Instructions: Answer Question ONE and any other TWO Questions	

QUESTION ONE

- a) Minim Ltd. started trading on 1 January 2013. It has been adjusting its doubtful debt provision at the end of each year on percentage basis, but each year the percentage rate is adjusted in accordance with the economic performance in the country.

The following details are available for the years ended 31 December 2013, 2014, and 2015.

Year	Bad debts Witten off at year end	Debtors at year end	Provision for bad and doubtful debts
2013	656,000	22,000,000	5%
2014	1,805,000	40,000,000	7%
2015	3,817,000	60,000,000	6%

Required:

- i) Bad debts account for the three years **(3 Marks)**
- ii) Provision for bad and doubtful debts for the years 2013, 2014 and 2015 **(3 Marks)**
- iii) The balance sheet extracts for the years 2013, 2014 and 2015. **(4 Marks)**

b) The trial balance extracted from the books of Benard Masita as at 30 September 2010 failed to agree. The debit difference of Sh. 442,000 was posted to a suspense account. An income statement was prepared which showed a gross profit and a net profit of Sh. 1,985,000 and Sh. 1,229,000 respectively. Upon investigations, the following errors were discovered:

1. A purchase of Sh 150,000 on credit was correctly posted to the suppliers account but was completely omitted from the purchase's daybook.
2. Sales amounting to Sh. 250,000 to Samuel Njuguna were erroneously credited to his account. The sales account had been correctly posted.
3. Salaries paid for the month of September 2010 amounting to Sh. 230,000 were recorded in the salaries account as Sh 320,000.
4. Purchases of office stationery for Sh. 125,000 were erroneously debited to purchases account.
5. A payment of Sh. 45,000 to Daniel Olunya, a creditor, was erroneously debited to the account of Alois Ofunya, another creditor.
6. An entry of Sh. 21,000 for returns outwards was made in error in the sales daybook instead of in the purchases return daybook.
7. A bad debt of Sh 22,500 is yet to be written off.
8. Goods valued at Sh '220,000 were taken for personal use but no entry had been made in the books.
9. A discount received of Sh. 59,000 was correctly entered in the cashbook but posted to the discounts allowed account.

Required:

A fully balanced suspense account.

(10 Marks)

c) XYZ Company Limited depreciates its plant at the rate of 20 per cent per annum, straight line method, for each month of ownership.

2005 Bought plant costing Sh. 900 on 1 January.

Bought plant costing' 511. 600 on 1 October.

2007 Bought plant costing Sh. 550 on 1 July

2008 Sold plant which had been bought for Sh. 900 on 1 January 2005 for the sum of Sh. 275 on 30 September 2008

Required:

From the details above draw up the plant account and the provision for depreciation account for each of the years 2005, 2006, 2007 and 2008. You are also required to draw up the plant disposal account and the extracts from the balance sheet as at the end of each year. **(10 Marks)**

QUESTION TWO

The following trial balance was extracted from the books of Mr. Mugominyo, a sole trader.

	Sh.	Sh.
Capital		5,920,000
Drawings	1,200,000	
Trade debtors	1,808,400	
Trade creditors		2,168,000
Sales		8,892,600
Purchases	4,188,400	
Stock – 1 st January 2003	2,533,300	
Sales returns	144,700	
Purchases returns		218,800
Cash in hand	56,800	
Balance at bank	1,056,400	
Warehouse expenses	640,000	
Discounts allowed	90,200	
Discounts received		170,000
Office salaries	600,000	
Office lighting	188,800	
Rates	108,200	
Motor vehicle (cost)	1,280,000	
Freehold premises (cost)	2,600,000	
Fixtures and fittings	576,000	
General expenses	142,400	
Insurance	28,000	
Provision for bad debts		50,000
Motor vehicle expenses	150,400	
Bad debts written off	<u>28,800</u>	
	<u>37 420,800</u>	<u>17,420,800</u>

Additional information:

1. Stock as at 31 December 2003 was valued at Sh. 1,760,000
2. Depreciation on fixtures and fittings and the motor vehicle is to be provided at the rate of 5% and 10% per annum on cost respectively.
3. Rates prepaid as at 31 December 2003 amounted to Sh.25,600.
4. Unexpired insurance as at 31 December 2003 is to be made at 21/2 of the trade debtors,

Required:

- a) Trading and profit and loss account for the year ended 31 December 2003.
- b) Balances sheet as at 31 December 2003,

QUESTION THREE

The following version of the receipts and payments account has been provided by the treasurer of Maendeleo Social club for the year ended 30th September 2017:

Opening Balance	500	
Accountancy Fees		200
Bar Purchases		24,000
Bar sales	55,000	
Dances: Expenses		900
Ticket Sales	1,600	
Foods: Purchases		4,500
Sales	8,000	
Insurance		500
Electricity		1,500
Members Subscriptions	35,000	
Office Expenses		22,000
Purchase of Furniture		4,000
Rates		2,000
Salaries and Wages: Bar Staff		10,000
Other Staff		14,000
Telephone		3,000
Travelling Expenses		13,000
Balance c/f		<u>500</u>
	<u>100,100</u>	<u>100,100</u>
<u>Additional Information:</u>	Shs. 000	Shs. 000
1. Fixed Assets: At November 2002		
Club Premises at Cost		18,000

Furniture and Fittings at Cost	35,000	
Less Provision for depreciation	<u>14,000</u>	<u>21,000</u>
		<u>39,000</u>
2. Accruals and Sundry Creditors	At Oct 2016	At 31 sept 2017
	Shs. 000	Shs. 000
Accountancy Fees	200	250
Bar Purchases	1,500	2,000
Electricity	400	300
Members Subscriptions (Paid in Advance)	1,000	800
Telephone	600	700
3. Sundry Prepayments and Receivables		
Insurance	300	200
Members Subscriptions (In Arrears)	6,000	7,000

4. Maendeleo Social Club had a Bank Account, which had a balance of Shs. 2,500,000 on 1 oct 2016. This Bank account was not used during the year to 31 September 2017 and the only entry made in

this account was for the interest of shs. 200,000 which was credited yo the bank on 31 September 2017.

5. Depreciation on Furniture and fittings is at the rate of 10% per annum on cost. A full years depreciation is provided for any furniture bought during the year.

6. Bar stock was valued at shs. 7,000,000 On 1 Nov 2002 and at Shs. 1,500,000 on 30TH September 2017.

7. No Apportionment of costs is made between bar activities and other club activities.

Required:

Income and Expenditure Account for the year 30th September 2017.

(12 Marks)

Statement of financial position as at 30th September 2017

(8 Marks)

QUESTION FOUR

The following Trial Balance has been extracted from the books of Andati Ltd, a manufacturing firm as at 30th June 2011, the year-end for the firm.

	<u>Dr (Sh.)</u>	<u>Cr (Sh.)</u>
		500,000
Sh. 10 Share capital		
20% 5-year bank loan		270,000
Inventory	450,000	
Interest paid	50,000	
Factory plant	350,000	
Provision for depreciation		100,000
Salesman motor vehicles	300,000	
Provision for depreciation		180,000
Buildings	320,000	
Wages	300,000	
Purchases and Sales	990,000	2,088,000
Plant hire	9,000	
Returns	15,000	12,000
General expenses	300,000	
Debtors and Creditors	500,000	400,000
Bank	60,000	
Freight of materials	80,000	
Advertising	20,000	
Factory supervisory salaries	120,000	
Provision for doubtful debts		44,000
Production overhead expenses	40,000	
Sh. 10% preference share capital		340,000
Consultancy fees	<u>30,000</u>	
	<u>3,934,000</u>	<u>3,934,000</u>

Additional information:

- i) The inventory figure in the trial balance incorporates:
- | | |
|------------------|------------|
| Raw materials | Sh.140,000 |
| Work in progress | Sh.100,000 |
| Finished goods | Sh.210,000 |
- ii) General expenses and consultancy fees are to be apportioned between office and factory in the ratio of 1: 4 respectively
- iii) Included in the general expenses are the following:
- Rates for three months to 30.9.2011 Sh.25,000
 - Insurance for four months to 31.10.2011 Sh.9,000
- iv) Accountancy fee incurred of Sh.10,000 is yet to be recorded nor paid by the year end.
- v) A debtor of Sh.10,000 has gone bankrupt. The provision for doubtful debts needs to be provided at 4% of the debtors at year end.
- vi) Depreciation is to be provided on all noncurrent assets at 10% straight line.
- vii) Closing inventory for materials, work in progress and finished goods was determined at Sh.180, 000; Sh.150, 000 and Sh.140, 000 respectively.

Required:

Prepare the manufacturing income statement for the year ended 30.6.2011 and a balance sheet as at that date

QUESTION FIVE

ABC Ltd. maintains control accounts in its business records. The balances and transactions relating to the company's control accounts for the month of December 2014 are listed below:

	Sh.
Balance at 1 December 2014:	
Sales ledger	6,185,000 (debit)
	52,500 (credit)
Purchases ledger	16,500 (debit)

	4,285,000 (credit)
Transactions during December 2014:	
Sales on credit	8,452,000
Purchases on credit	5,687,500
Returns inwards	203,500
Returns outwards	284,000
Bills of Exchange payable	930,000
Bills of Exchange receivable	615,000
Cheques received from customers	7,985,000
Cheques paid to suppliers	4,732,000
Cash paid to suppliers	88,500
Bill payable dishonored	400,000
Charges on bill payable dishonored	10,000
Cash received from credit customers	153,000
Bad debts written-off	64,500
Cash discounts allowed	302,000
Bill receivable dishonored	88,500
Balances at 31 December 2014:	
Sales ledger	44,000 (credit)
Purchases ledger	23,500 (debit)

Required:

Post the sales ledger control account and purchases ledger control account for the month of December 2014 and derive the respective debit and credit closing balances on 31 December 2014.

END