



# THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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**MAIN EXAMINATION**

**AUGUST - DECEMBER 2014 TRIMESTER**

**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**EVENING PROGRAMME**

**CAC 111: BASIC ACCOUNTING**

**Date: DECEMBER 2014**

**Duration: 2 Hours**

**INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions**

- Q1. a) Accounting information help users to make financial decisions. What aspects of financial statements will be of interest to the following users of accounting information?
- i) Creditors
  - ii) Tax authorities
  - iii) Customers
- (6 marks)**

- b) George Washington has a business that has been trading for some time. You are given the following information as at 31-12-2010.

	Sh. 000
Buildings	15,000
furniture and fittings	9,500
Motor vehicles	9,800
Inventory	12,500
Trade receivables	9,600
Cash at bank	5,500
Cash in hand	4,400
Trade payables	6,500

Capital	40,800
Loan	19,000

**Required:**

Prepare a statement of financial position showing the accounting equation as at 31.12.2010. **(10 marks)**

c) Briefly describe the following errors of book keeping which are not disclosed by the trial balance and give examples of each:

- i) Error of commission
- ii) Error of omission
- iii) Error of principle
- iv) Error of compensation

**(8marks)**

d) The following details relate to Mr. Kokonya a solo trader in Kakamega County:

- May 1 Started business with capital in cash Shs. 1,000,000.
- May 2 Paid rent by cash Shs. 100,000
- May 3 F. Omondi lent us Shs. 5,000,000, paid by cheque
- May 4 We paid Mr. Muga by cheque Shs. 650,000
- May 5 Cash sales Shs. 980,000
- May 7 N. Musyoka paid us by cheque Shs. 620,000
- May 9 We paid B. Bukosi in cash Shs. 220,000
- May 11 Cash sales paid direct to the bank Shs. 530,000
- May 15 G. Muragu paid us in cash 650,000
- May 16 We took Shs. 500,000 out of the cash till and paid it into the bank account
- May 19 We repaid Omondi Sh. 1,000,000 by cheque.
- May 22 Cash sales paid direct into bank Shs. 660,000
- May 26 Paid motor expenses by cheque Shs. 120,000
- May 30 Withdrew Shs. 1,000,000 cash from the bank for business use.
- May 31 Paid wages in cash Shs. 970,000

**Required**

Prepare a two-column cash book from the above details, and balance off as at the end of the month. **(6 marks)**

- Q2. a) Define the following accounting concepts and for each explain their implication in the preparation of financial statements.
- i) The going concern concept **(4 marks)**
  - ii) Business entity concept **(4 marks)**
  - iii) Materiality concept **(4 marks)**
  - iv) Realization concept **(4 marks)**
- b) Two accounting concepts or conventions could clash or there could be inconsistency between them. Give two examples of such situations and explain how the inconsistency should be resolved. **(4 marks)**
- Q3. a) The bank statement and cash book balances should agree, but sometimes these balances may not agree.

**Required:**

Discuss this statement and explain why it is important to prepare a bank reconciliation statement. **(8 marks)**

- b) On 31 October 2010, the cash book of Muka Enterprises Ltd showed a debit balance of Shs. 1,710,000. This did not agree with the balance shown in the bank statement upon investigation, the accountants discovered the following errors.
1. A cheque paid to Kindaruma for Shs. 306,000 had been entered in the cash book as Shs. 387,000.
  2. Cash paid into the bank by a customer for Shs. 90,000 had been entered in the cash book as Shs. 81,000.
  3. A transfer of Shs. 1,110,000 to Central Saving Bank had not been posted to the cash book.
  4. A receipt of Ssh. 9,000 shown in the bank statement had not been posted in the cash book.
  5. Cheques drawn amounting to Shs. 36,000 had not been paid into the bank.
  6. The cash book balance had been incorrectly brought down at 1 November 2009 as a debit balance of Shs. 1,080,000 instead of a debt balance of Shs. 990,000.
  7. Bank charges of Shs. 18,000 do not appear in the cash book.

8. A receipt of Shs. 810,000 paid into the bank On 31 October 2010 appeared in the bank statement 0-1 November 2010.
9. A standing order of Shs. 27,000 had not been recorded in the cash book.
10. A cheque of Shs. 45,000 previously received and paid into the bank had been returned by customer's bank market "account closed"
11. The bank received a direct debit of Shs. 90,000 from an anonymous customer
12. Cheques banked had been totaled at Shs. 135,000 instead of Shs. 153,000.
13. A cheque drawn in favour of Nyaga for Shs. 120,000 had been entered on the debit side of the cash book.

**Required:**

- i) Adjusted cash book as at 31 October 2010. **(8 marks)**
- ii) A bank reconciliation statements as at 31 October 2010. **(4 marks)**

Q4. The following trial balance was extracted from the ledger of Mr. Yusuf, a sole trader for the year ended 31 May 2011.

	<b>Dr.</b>	<b>Cr.</b>
	<b>Sh. 000</b>	<b>Sh. 000</b>
Sales		138,078
Purchases	82,350	
Carriage	5,144	
Drawings	7,800	
Rent, rate and insurance	6,622	
Postage and stationery	3,001	
Advertising	1,330	
Salaries and wages	26,420	
Bad debts	877	
Allowance for bad debts		130
Trade receivables	12,120	
Trade payables		6,471
Cash in hand	177	
Cash at bank	1,002	
Inventory as at 1 June 2010	11,927	
Equipment		
At cost	58,000	
Accumulated depreciation		19,000

Capital	<u>216,770</u>	<u>53,091</u> <u>216,770</u>
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The following additional information as at 31 May 2011 is available:

1. Rent is accrued by Shs. 210,000.
2. Rates have been prepaid by Shs. 880,000
3. Shs. 2,211,000 of carriage represents carriage inwards on purchases.
4. Equipment is to be depreciated at 15% per annum using the straight lien method.
5. Allowance for bad debts to be increased by Shs. 40,000.
6. Inventory at the close of business has been valued at Shs. 13,551,000.

**Required:**

- a) Prepare an income statement for the year ended 31 May 2011. **(12 marks)**
  
- b) A statement of financial position as at that date. **(8 marks)**

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