



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A
CITY CAMPUS

P.O. Box 62157
00200 Nairobi - KENYA
Telephone: 891601-6
Fax: 254-20-891084
E-mail: academics@cuea.edu

MAIN EXAMINATION

MAY – JULY 2016 TRIMESTER

FACULTY OF COMMERCIAL

DEPARTMENT OF ACCOUNTING AND FINANCE

CAC 111: BASIC ACCOUNTING

Date: JULY 2016

Duration: 2 Hours

INSTRUCTIONS: Answer QUESTION ONE AND ANY OTHER TWO Questions

Q1. a) The following balances were extracted from the records of Bencampo for the year ended 30th September 2012:

	Shs.
Cash in hand	6,000
Cash at bank	55,000
Stock 1.9.2011	105,000
Debtors	40,000
Creditors	50,000
Returns inwards	2,500
Sales	280,000
Purchases	102,500
Capital	74,500
Salaries	20,000
Water and electricity	3,000
Postage	1,000
Drawings	4,500
Stock 30.9.2012	67,500
Furniture and fittings	37,500
Motor van	175,000
Loan from chama	150,000
Rent received	6,000
Office rent	8,500

Required:

- i) Prepare a trial balance as at 30th September 2012. **(4 marks)**
- ii) Prepare a trading account for the year. **(3 marks)**
- iii) Display a profit and loss account for the year. **(5 marks)**
- iv) Display a balance sheet as at 30th September 2012. **(5 marks)**

b) The transactions below relate to the business of Bamako traders:

2013	Feb. 1	Started business with 25,000 cash and 400,000 in Bank
	Feb. 2	Borrowed 49,000 cash from a friend Kigali.
	Feb. 3	Bought goods on credit from Harare 63,000
	Feb. 4	Bought office furniture for 36,500 paid by cheque.
	Feb. 5	Sold goods on credit to Juba 81,700
	Feb. 6	Bought goods for 125,000 by cheque
	Feb. 7	Sold goods for cash 74,500
	Feb. 8	Paid salaries 46,200 cash
	Feb. 9	Received commissions 19,900 by cheque
	Feb. 10	Paid rent 82,300 by cheque
	Feb. 11	Bamako sold private property for 650,000 cash and brought it all to the business.
	Feb. 12	Deposited 500,000 cash into the business bank account.

Required:

- i) State the principle Double – Entry Rule in accounting. **(1 mark)**
- ii) Record the above transactions in the accounting books using the Double – Entry System. **(5 marks)**
- iii) Balance off each of the accounts. **(3 marks)**
- iv) Extract a trial balance as at Feb 12, 2013. **(4 marks)**

Q2. a) The following errors were detected in the accounting records of Alicia Merchants:

- Office furniture was bought for 88,000 and debited to purchases account.
- The rent expense account was overcast by 73,000 and the commission revenue account was undercast by 73,000.

- A purchase of goods on credit from Rihanna for 99,000 was not recorded anywhere in the books.
- A sale of goods on credit to Jaydee Sh. 154,000 was entered in Jayzee's account.
- A sale of goods for cash 85,000 was entered in the books as 58,000.
- A cheque payment for rent 87,000 was debited in bank account and credited to rent expense account.

Required:

- i) State the accounting name of each of the above errors. **(3 marks)**
 - ii) Show the journal entries to correct the errors. **(7 marks)**
- b) The trial balance of Dida traders failed to agree and the difference was placed in a suspense account. Investigations revealed the errors below:
- i) The sales account had been overcast by 15,000.
 - ii) Returns outwards account had not been credited with 61,320.
 - iii) A payment by a debtor of 150,000 by direct bank transfer had not been entered in the debtors account.
 - iv) A cash purchase of 2,320 had been recorded in the cash book only.
 - v) 22,000 received from a debtor had been debited to his account.

Required:

- a) Show the necessary journal entries to correct the above errors. **(5 marks)**
- b) Complete the suspense account and clearly show the original difference before the errors were corrected. **(5 marks)**

- Q3. a) Clearly distinguish between ACCRUALS and PREPAYMENTS with regard to trading EXPENSES and REVENUES, and indicate whether each is an Asset or Liability to the firm including their treatment in the profit and loss account and also the balance sheet. **(8 marks)**
- b) i) What do you understand by the term “Depreciation”? **(1 mark)**
- ii) State and briefly explain **TWO** causes of depreciation. **(2 marks)**
- iii) Office furniture was bought on 1st April 2008 for Ksh. 800,000. It is assumed that the furniture depreciates at the rate of 15% p.a. You are required to clearly show the DEPRECIATION AMOUNTS, NET BOOK VALUES and also the BALANCE SHEET Extracts for each of the years 2008, 2009 and 2010 using EACH of the methods below separately:-
- I) Straight – Line Method **(4 marks)**
- II) Reducing – Balance Method **(5 marks)**
- Q4. a) i) State and briefly explain four reasons why the bank statement balance may differ from the cash book balance of a business firm even when produced on the same day. **(4 marks)**
- ii) On 31st January 2013, the cash book of Modde traders showed a debit balance of 455,200 while their bank statement showed a different balance X. On careful examination of the two records, the following discrepancies were discovered:
- i) A banking of 640,000 had been posted and debited in the cash book as 64,000.
- ii) Bank commissions amounting to 12,800 had not been entered in the cash book.
- iii) Cash and cheques amounting to 86,400 banked on 31 January 2013 had not been reflected by the bank.

- iv) The cash book had been overcast by 23,000 on the debit side.
- v) The bank had paid an insurance premium of 91,200 on behalf of Modde but had not advised Modde.
- vi) A cheque of 45,620 drawn in favour of City Council had not been presented for payment.
- vii) Cheques amounting to 76,430 had been dishonoured by the bank.

Required:

Prepare a bank reconciliation statement and clearly show the balance X as per the bank statement. **(6 marks)**

- b) Use the following details to write up a three-column cash book and balance it off at the end of the month:

2013	Feb. 1	Cash in hand 58,900, cash at bank 456,700.
	Feb. 2	We paid each of the following accounts by cheque, in each case deducting a 4.5% discount: Nana – 62,300 Papa – 58,600 Buba – 46,000
	Feb. 3	Mode paid us by cash 94,200.
	Feb. 4	Paid rent and rates by cheque 77,000.
	Feb. 5	The following people paid us their account in cash, in each case they deducted a 3.5% discount: Parkplace – 74,000, Rongai – 28,600, Karen – 69,000.
	Feb. 6	Paid insurance fees 84,000 cash.
	Feb. 7	Sold goods for 97,000 receiving a cheque.
	Feb. 15	Paid wages and salaries 78,000 cash
	Feb. 20	Received 55,000 loan in cash from Langat
	Feb. 25	Paid for stationery 27,000 by cheque
	Feb. 27	Received commissions by cheque 125,000
	Feb. 28	Sold goods on credit to Ongata 350,000

(10 marks)

State and briefly explain FOUR reasons why the bank statement balance may differ from the cash book balance of a business firm even when produced on the same day. **(4 marks)**

END