



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

MAIN EXAMINATION

MAY – JULY 2016 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

REGULAR PROGRAMME

CAC 111: BASIC ACCOUNTING

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

Date: JULY 2016

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions

- Q1. a) Define and explain the meaning of an accounting equation giving an example where possible. **(5 marks)**
- b) The summary of the cashbook of Eagle Trading Company for the month of October 2015 is as follows

	Cash book Kshs '000'		kshs 000
Opening balance	1,570	payments	15,620
Receipts	15,060	Closing balance	1,010
	<u>16,630</u>		<u>16,630</u>

After through investigations the following issues were discovered.

1. A cheque deposit of shs 1,346,000 made by the company had not yet been credited by the bank.
2. A credit transfer of sh 210,000 in settlement of a debt due by a customer were credited by the bank to the company's account on 31st October 2015 but had been entered in the cash book.
3. A cheque for shs 375,000 deposited in the company's bank account on 28th October 2015 had been dishonoured.
4. Unpresented cheques totaled sh 405,000
5. The bank had debited a cheque for shs 82,000 in error to the company's account.
6. A standing order of shs 24,000 had not been effected by the bank.
7. The bank statement showed an overdrawn balance of shs 178,000

Required

i Adjusted cashbook (5 marks)

ii Bank reconciliation statement as at 31st October 2015 (5 marks)

c) Mr. Ombati prepared the following list of balances from his books of account as at 31st October 2015.

	Dr shs	Cr Shs
Land and buildings	10,400,000	
Purchases and sales	3,267,000	5,681,000
Returns inwards and outwards	25,000	27,000
Travelling expenses	69,000	
Printing and stationery	16,000	
Bank	307,950	
Discount allowed and received	18,000	12,000
Miscellaneous expenses	186,200	
Accounts receivable and payables	640,000	657,000
Postage	8,000	
Furniture	80,000	
Cash	59,000	
Motor vehicles (cost)	1,600,000	
Investments	120,000	
Drawings	100,000	
Inventory on 1 st November 2014	684,800	
Interest on bank loan	30,000	
Salaries (including advance of shs 15,000)	220,000	
Rates	15,950	
Carriage inwards and outwards	30,000	
Advertisement expenses	160,000	
Income from investments		9,900
12% bank loan		840,000
Capital	<u>18,036,900</u>	<u>18,036,900</u>

Additional information

1. Inventory as at 31st October 2015 was valued at sh 1,200,000
2. Provision for doubtful debts is to be maintained at 1% of the debtors.
3. Three quarters of the advertising expenses are to be carried forward.
4. Depreciation on fixed assets is to be charged on the straightline basis as follows
 - Land and buildings 2.5% p.a
 - Furniture 10% p.a
 - Motor vehicles 20%p.a

Required

- i Prepare the income statement for the year ended 31st October 2015. **(8 marks)**
- ii A statement of financial position as at 31st October 2015. **(7 marks)**

Q2. A trainee accountant working for a sole trader Juma Mambo Leo had prepared the following summary of the cash book for the month of March 2016.

Cash book (Extract)			
	Shs		Shs
Balance b/d	561,000	Payments	4,189,000
Receipts	3,748,000	Balance c/d	120,000
	<u>4,309,000</u>		<u>4,309,000</u>

While checking the cash book the cash book against the bank statement you find the following discrepancies.

- i Bank charges of shs 8,000 shown in the bank statement have not been entered in the cashbook
- ii The bank had debited a cheque of shs 37,000 in error in the account of Juma Mambo Leo.
- iii Cheques totaling shs 96,000 have not been presented to the bank for payment.
- iv Dividends received for sh 4,200 have been credited on the bank statement but not yet recorded on Juma Mambo Leo's cashbook
- v There were cheques received of shs 484,000 which were entered in the cashbook but not yet credited by the bank.
- vi A cheque of sh 17,000 had been returned by the bank marked as 'refer to drawer' but no entry relating to this has been made in the books.
- vii The opening balance in the cashbook should have been shs 651,000 and not shs 561,000
- viii The bank statement shows that there is an overdraft as at 31st March 2016 of shs 198,000

Required

- a) State and briefly explain two purposes of bank reconciliation statement. **(4 marks)**
 - b) Entries necessary to correct the cashbook **(6 marks)**
 - c) A bank reconciliation statement as at 31st March 2016. **(6 marks)**
 - d) State and explain any TWO types of errors which cannot affect the trial balance. **(4 marks)**
- Q3. a) The bank statement and the cashbook balances do not agree sometimes. Discuss this statement. **(4 marks)**

- b) For each of the following information relating to Andrew determine the double entry required to record the transaction in the accounts.
1. Andrew invests 810,000 of his life savings into his business bank account.
 2. He then buys goods from Isabel, a supplier for 81,000 and pays by cheque
 3. A sale is made for 8400. The customer pays by cheque
 4. Andrew makes a sale for 8600 and the customer promises to pay in the future.
 5. Andrew the buys goods from his supplier Kamen for 4500 on credit
 6. Andrew pays a telephone bill of 8150 by cheque
 7. The credit customer pays the balance on her account by cheque
 8. Andrew pays Kamen 8,340
 9. Bank interest of 830 is received
 10. A cash customer retrieved 820 goods to Andrew for a refund.
 11. Andrew sent goods of 8,100 back to Kamen. **(8 marks)**

- c) Kamotho opened a small business in Gikomba I 1st October 2015. His transactions for the month of October were as follows.

October 2: Opened a bank account and deposited shs 150,000 and retained shs 50,000 in cash.

2: Paid rent in cash shs 13,000

3: Purchased goods for shs 160,000 from Marwa and company on credit

4: Sold goods in cash for shs 260,000

5: Banked shs 230,000

9: Purchased office furniture for shs 150,000 and paid by cheque

11: Purchased goods for shs 130,000 from Mwamgo Limited and paid half of the amount by cheque.

12: Sold goods on credit to Mbaya exporters worth shs 126,000

12: Hired transport for shs 10,000 and paid in cash

13: Mbaya exported returned goods worth shs 16,000 and were given a credit note for the same

16: Received cheque of shs 60,000 from Mbaya exporters

- 19: Purchased goods for shs 19,000 on credit from S. Omollo
- 21: Sold goods for shs 15,000 on credit to Bx. Boutique
- 23: Paid Marwa and company shs 144,000 in full settlement of the amount owed to them by cheque
- 24: Withdraw cash sh 16,000 for personal use.
- 26: Bought goods for shs 18,000 and paid by cheque
- 27: Bx. Boutique paid by cheque shs 13,500 in full settlement of their debt.
- 28: Paid Mwangi Limited debt less 10% discount by cheque
- 31: Paid salaries shs 15,000 and water bill shs 1,700 in cash

Required

Three column cashbook.

(8 marks)

- Q4. a) Explain the concept of double entry in accounting giving an example where possible. **(5 marks)**
- b) Andrew has been in business for some time now. For an accounting year ended 31st October 2015 the accountant extracted the following trial balance from the ledger accounts.

	Dr 8000	Cr 8000
Buildings at cost	740	
Buildings accumulated depreciation		60
Plant at cost	220	
Plant accumulated depreciation		110
Bank balance		70
Revenue		1,800
Net purchases	1,140	
Inventories at 1.11.2014	160	
Cash	20	
Receivables and payables	320	250
Administrative expenses	325	
Provision for doubtful debts 1.11.2014		10
Retained profit 1.11.2014		130
Capital		495
	<u>2,925</u>	<u>2,925</u>

Additional information

1. The provision for doubtful debts is to be increased to 5% of trade receivables
2. Closing inventory has been counted and valued at 875,000
3. Plant is depreciated at 20% p.a using the reducing balance method while buildings are depreciated at 5% p.a using straight-line method.
4. An invoice of 815,000 for energy costs relating to the quarter ended 30th November 2015 was received on 2nd December 2015. Energy costs are included in administrative expenses.

Required

- i Prepare the income statement for the year ended 30th October 2015. **(8 marks)**
- ii Statement of financial position as at 30th October 2015. **(7 marks)**

END