



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

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

MAIN EXAMINATION

JANUARY – APRIL 2017 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

REGULAR PROGRAMME

CAC 111: BASIC ACCOUNTING

Date: April 2017

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and any other TWO Questions

Q1. Nicolette, a sole proprietor, extracted the following trial balance from her ledgers on 31 March 2017.

	Dr (Sh.)	Cr (Sh.)
Sales		126,500
Purchases	99,850	
Premises at cost	100,000	
Depreciation for premises 1 April 2016		25,000
Plant at cost	18,000	
Depreciation for plant 1 April 2016		2,300
Wages and salaries	8,900	
Rent	7,500	
Stock at 1 April 2016	5,000	
Capital at 1 April 2016		80,000
Drawings	25,000	
Carriage inwards (freight-in)	4,000	
Receivables	27,500	
Bad debts written off	5,000	
Payables		16,000
Rent revenue		2,000
Bank balance		18,950
Loan		30,000
	<u>300,750</u>	<u>300,750</u>

Additional information:

- a. Stock at 31 March 2017 was valued at Sh12,500.
- b. Wages and salaries accrued amounted to Sh 700
- c. Loan interest of 10 per cent per annum had not yet been paid.
- d. Rent had been prepaid by Sh300.
- e. Provision for doubtful debts of 2 per cent is to be made.
- f. Depreciation is provided at 2 per cent of cost on premises and at 10 per cent on plant.

Required:

Prepare the following statements for Nicolette;

- a) Income statement for the year ended 31 March 2017. **(15 marks)**
- b) Balance sheet as at 31 March 2017. **(15 marks)**

Q2. a) The following fourteen items are commonly used in accounting.

- | | |
|----------------------------------|----------------------------------|
| A. General journal | H. Permanent accounts |
| B. Trial balance | I. Revenue recognition principle |
| C. Periodicity assumption | J. Prepayments |
| D. Accrual accounting | K. Accrued expenses |
| E. Cash basis accounting | L. Matching principle |
| F. Expense recognition principle | M. Closing entries |
| G. Ledger | N. Temporary accounts |

Below are nine statements that define some of the items listed above.

1. Accounting basis in which companies record amounts in the periods in which the events occur rather than in the periods in which the company receives or pays cash
2. An assumption that the economic life of a business can be divided into artificial time periods
3. Expenses incurred but not yet paid in cash or recorded
4. The principle that companies recognize revenue in the accounting period in which they perform the services
5. The most basic form of journal
6. The principle that dictates that companies match efforts (expenses) with accomplishments (revenues)
7. Accounting basis in which a company records revenues only when it receives cash and an expense only when it pays out cash
8. A list of accounts and their balances at a given time
9. Income statement accounts whose balances are closed at the end of an accounting period.
10. Expense item paid for in advance

Required:

Match each statement with the item it defines or describes by indicating the number of the statement (1, 2, 3, etc.) and the matching item code (A, B, C, etc.). **(10 marks)**

- b) Each of the situations below may illustrate a violation of an accounting assumption or principle. Indicate the assumption or principle that is most clearly violated and briefly explain what should have been done to avoid the violation. **(10 marks)**

1. Mobile Saver has 20,000 Model 44G cell phones in inventory at a cost of Sh 6,400 each. Due to the advancement of technology and newer models available, only 4 of Model 44G phones were sold last month. To avoid recognizing a loss on writing off this inventory, Mobile Saver has decided not to issue financial statements until at least half of the remaining Model 44G phones have been sold.
2. Hodari Peter, owner of Hodari Devices, took an iPod Touch out of inventory to use as a birthday present for his son. The cost was debited to Supplies Expense.
3. Wilson Traders made no entry to record depreciation on its equipment for 2016.
4. Owners invested an additional Sh 43,000 cash in the business in 2016. This investment was reported as revenue on the 2016 income statement.
5. Baby Toys Company is being liquidated because it has sustained losses for the past few years. It continues to depreciate its assets and prepare financial statements on the cost basis.

- Q3. a) Place an 'X' in the appropriate column to designate whether each of the following accounts is an asset, a liability, Capital, revenue, or expense account. **(10 marks)**

Account	Asset	Liability	Capital	Revenue	Expense
1. Common Stock					
2. Rent Expense					
3. Equipment					
4. Retained Earnings					
5. Dividends					
6. Accounts Receivable					
7. Mortgage Payable					
8. Sales Revenue					
9. Cash					
10. Prepaid Insurance					

- b) The records of Dynamo Retailers show the following transactions for the month of October.
- Oct. 5 Paid cash of Sh12,600 for operating expenses that were incurred and properly recorded in the previous period
- 9 Purchased goods for Sh22,000 on account. Credit terms: 3/10, n/30
- 12 Paid a freight bill of Sh110 for goods purchased on October 9
- 17 Paid for goods purchased on October 9. The company takes all discounts to which it is entitled
- 26 Issued a credit note to Rattles Distribution for Sh300 for goods returned from an earlier sale.

Required:

Prepare the necessary general journal entries for the month of October. **(10 marks)**

- Q4. a) You are given below a draft trial balance for Shafer Company. The trial balance has some errors.

Shafer Company Trial Balance For the Quarter Ended March 31, 2017		
	Debit (Sh)	Credit (Sh)
Cash	28,000	
Accounts Receivable		32,000
Prepaid Insurance	2,500	
Equipment	60,000	
Accounts Payable		15,000
Unearned Service Revenue	10,000	
Notes Payable		20,000
Capital		30,000
Retained Earnings	27,000	
Dividends		1,500
Service Revenue		52,000
Salaries and Wages Expense	15,000	
Utilities Expense	5,000	
Rent Expense	10,000	
	<u>150,500</u>	<u>150,500</u>

Required:

Prepare a corrected trial balance for Shafer Company. All accounts should have a normal balance. **(6 marks)**

- b) The transactions of the Stori Imbambe Store are recorded in the general journal below.

General Journal

Date	Account Titles and Explanation	Debit	Credit
2016			
Aug. 5	Accounts Receivable	2,500	
	Service Revenue		2,500
10	Cash	3,000	
	Service Revenue		3,000
19	Rent Expense	1,000	
	Cash		1,000
25	Cash	1,400	
	Accounts Receivable		1,400

Required:

Post the journal entries to T-accounts and balance off the accounts as at August 31, 2016. **(14 marks)**

END