



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A MAIN EXAMINATION

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

AUGUST – DECEMBER 2018 TRIMESTER

FACULTY OF LAW

REGULAR PROGRAMME

CLS 415: COMMERCIAL ACCOUNTS

Date: DECEMBER 2018

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions

QUESTION ONE

- Discuss the objectives of preparing control accounts (4 marks)
- Citing suitable examples, distinguish between the accrual and the cash base (4 marks)
- Describe the various classes of accounts (4 marks)

The following information relates to T. Howe traders Ltd for the year ended 31 December 2015.

	Dr	Cr
	Kshs	Kshs
Bank	6,723	
Debtors	18,910	
Creditors		12,304
Stock at 31 December 2014	40,360	
Buildings at cost	100,000	
Equipment at cost	45,000	
Capital		127,486
Purchases	72,360	
Sales		135,486
Carriage inwards	1570	
Carriage outwards	1390	
Salaries	18310	
Rates and occupancy expenses	4235	
Office expenses	3022	
Sundry expenses	1896	
Provisions for depreciation at 31.12.2015		
Buildings		32,000

Equipment		16,000
Drawings	<u>9500</u>	<u> </u>
	<u>323,276</u>	<u>323,276</u>

Notes at 31 December 2015:

- (i) Stock at 31 December 2015 was Kshs 52,360
- (ii) Rates owing Kshs 280; Office expenses owing Kshs. 190
- (iii) Depreciation on cost: Buildings 5 per cent; Equipment 20 per cent.

Required;

- i) Income Statement of for the year ended 31st December 2015 (10 marks)
- ii) Statement of financial position as at that date (8 marks)

QUESTION TWO

Mary & Ann are partners sharing profits and losses in the ratio 3:2. The following balances was extracted from their accounts 31st December 2014

Capital	Mary	1,120,000
	Ann	640,000
Net profit for the year		244,000
Creditors		480,000
Loan		360,000
Buildings		1,020,000
Plant		840,000
Stock		346,000
Debtors		263,000
Bank		375,000

The partners agreed to admit Lucy into the partnership on the following terms;

- a) Lucy is to bring sh.500,000 as her capital
- b) The new profit sharing ratio between Mary ,Ann and Lucy will be 5:3:2 respectively
- c) Goodwill of the business is sh.160,000 while the buildings and plant are valued at sh.2,200,000 and sh.160, 000 respectively. Goodwill will be raised in the books for the purpose of admission of Lucy but written off immediately in the partners' capital account.
- d) Mary and Ann are to be credited with 5% interest on capital
- e) The loan was to be repaid

Required;

- i) Profit and loss appropriation account (4mks)
- ii) Capital account of the partners (11mks)
- iii) Balance sheet after completion of above matters (5mks)

QUESTION THREE

Your bookkeeper extracted actual balance on 31st 2017 which failed to agree by Ksh.2,100 being a shortage on the credit side of the trial balance. A suspense account was opened for the difference. In January, 2018, the following errors made in 2017 were found.

- i. Sales day book had been under cast by Ksh.2000
- ii. Sales of Kshs 6100 to T. Mwanga had been debited in error to T. Mwqngi's account.
- iii. Rent account had been under cast by Kshs.900
- iv. Discounts allowed account had been overcast by Kshs.1000
- v. The sale of a computer at net book value had been credited in error to the sale account Kshs 2300

Required:

- a) Show the journal entries necessary to correct the errors. (10marks)
- b) Draw up the suspense account after the errors have been corrected. (5marks)
- c) If the net profit had previously been calculated as at 310,400 for the year ending 31st December 2017, show the calculations of the corrected net profit. (5marks)

QUESTION FOUR

- a) Define depletion and cite any two assets likely to be affected by it (2 Marks)
- b) Using suitable illustrations, distinguish between income and expenditure account and the receipts and payments account. (6 Marks)
- c) David and Company operates transport business. In 2010 the company bought three Lorries KBL at a Cost of 1,320,000, KZT at a Cost of 870,000 and KAZ at a Cost of 980,500. In 2011 the company bought another lorry KBA for 1,350,000. In the year 2013, one of the Lorries KZT developed serious engine problems and was sold to a dealer for 630,800. The policy of the company is to depreciate Motor vehicles at the rate of 15% on straight line basis. Whole year's depreciation is charged on the year of purchase while no depreciation is charge on the year of sale.

Required

For the three years 2010, 2011 and 2013

- i. Compute deprecation (3 marks)
- ii. Prepare
 - a) The motor vehicles account (3 marks)
 - b) The Provision for depreciation Account (4 marks)
 - c) The Disposal of Motor vehicles account (2 marks)

QUESTION FIVE

- a) Discuss reasons for providing for doubtful dates (4 marks)
- b) Otieno commenced business on 1st January 2015 and his financial year ends on 31st December. For the year ended 31st December 2015, bad debts written off amounted to Shs 168,000 and provision for doubtful debts was 280,000.

In the year ended 31 December 2016:

Bad debts written off amounted to 244,000.

Miss Wanja whose debt amounting to shs 49,000 was among those written off in the year 2015, settled her debt on 30th November 2016. Total debts outstanding as at 31st December 2016 stood at shs 7,840,000.

It was decided to provide for doubtful debts at 5% of the outstanding total debts.

In the year ended 31st December 2017

Bad debts written off amounted to Shs 329,000.

A recovery of shs 21,000 was made in respect of bad debts written off in year 2015

As at 31st December 2017 total debts outstanding stood at Shs 5,880,000.

The provision for doubtful debts was maintained at 5% of the total outstanding total debts.

Required

For each of the years ended 31st December 2015, 2016 and 2017 prepare:

- a) Bad debts written off account (6 marks)
- b) Bad debts recovered account (2 marks)
- c) Provision for doubtful debts (3 marks)
- d) Income statement extracts (5 marks)

END