



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

MAIN EXAMINATION

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AUGUST - DECEMBER 2018 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

ODEL / REGULAR PROGRAMME

**CAC 111: BASIC ACCOUNTING
ECN 202: FUNDAMENTALS OF ACCOUNTING**

Date: DECEMBER 2018

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions

- Q1. a) Distinguish between financial accounting and book-keeping **(2 marks)**
- b) The conceptual framework guides that accounting information provided to users should be _____. **(1 mark)**
- c) Characteristics of accounting information are broadly categorized into two; _____ and _____. **(2 marks)**
- d) Give one example of an external user of accounting information. **(1 mark)**
- e) Give one example of an internal user of accounting information. **(1 mark)**
- f) What is the difference between proprietorships, partnerships, and companies on the basis of ownership? **(3 marks)**
- g) A business purchased goods for sale from Nairobi Wholesalers for Sh 25,000 paying Sh 10,000 in cash and the rest to pay later. Analyze this transaction by completing the following table. **(3 marks)**

Effect	Account affected	Entry to make (debit or credit)

- h) Transactions are recorded twice in double entry by debiting and crediting. True/False) **(1 mark)**
- i) The supplier AB Wholesalers sold goods to BC Retailers on 13 October 2018 for Sh 32,000 cash. On 14 October 2018, BC retailers returned goods worth Sh 2,000 due to defects.
- 1) Indicate the source documents involved in these transactions **(2 marks)**
 - 2) What was the balance on AB Wholesalers account in the books of BC Retailer on 14th October 2018? **(2 marks)**
- j) Leo Sales had a transaction on 20 November 2018; bought equipment for Sh 45,000 in cash. The accounting clerk of Leo Sales made the following entry for this transaction;

Purchases Account					
Date	Description	Sh	Date	Description	Sh
20.11.18	Cash	45,000			

Cash Account					
Date	Description	Sh	Date	Description	Sh
			20.11.18	Equipment	45,000

- 1) Is this entry done correctly? **(1 mark)**
 - 2) If the entry is not done correctly, indicate the name of the error made, and explain it. **(1 mark)**
- k) What is the difference between 'cash book' and 'petty cash book'? **(2 marks)**
- l) Distinguish between cash-accounting and accrual-accounting **(2 marks)**
- m) Prepare the necessary journal entry on the books of Kelly Carpets to record the following transaction:
Kelly Carpets purchased Sh40,000 of merchandise on account, terms 2/10, n/30 from Kenya Knits **(2 marks)**

n) The following information is provided.

Sales revenue	Cost of goods sold	Gross profit	Operating expenses	Net income
Sh 75,000	(1)	Sh 30,000	(2)	Sh 17,000

Determine the values (1) and (2) **(2 marks)**

o) Match the statements below with the appropriate terms by entering the appropriate letter code. **(2 marks)**

TERMS:

- A. Prepaid Expenses
- B. Unearned Revenues
- C. Accrued Revenues
- D. Accrued Expenses

STATEMENTS:

- 1. A revenue not yet earned; collected in advance
- 2. Office supplies on hand that will be used in the next period
- 3. An expense incurred; not yet paid or recorded
- 4. Rent not yet collected; already earned

Q2. a) Briefly explain the following accounting principles or assumptions;

- i) Going-concern
- ii) Full disclosure
- iii) Money measurement
- iv) Historical cost
- v) Periodicity
- vi) Business entity

(7 marks)

b) On December 31, 2017, Fashion Boutique prepared an income statement and balance sheet and failed to consider three adjusting entries. The incorrect income statement showed net income of Sh35,000. The balance sheet showed total assets, Sh115,000; total liabilities, Sh45,000; and capital, Sh70,000.

The data for the three adjusting entries were:

- 1) Depreciation on equipment of Sh10,000 was not recorded.
- 2) Salaries amounting to Sh9,000 for the last two days in December were not paid and not recorded.
- 3) Rent of Sh15,000 was paid for two months in advance on December 1. The entire amount was debited to Rent Expense when paid.

Required

Complete the following tabulation to correct the financial statement amounts shown (indicate deductions with parentheses). **(13 marks)**

<u>Item</u>	<u>Net Income</u>	<u>Total Assets</u>	<u>Total Liabilities</u>	<u>Capital</u>
Incorrect balances	Sh 35,000	Sh115,000	Sh 45,000	Sh 70,000
Effects of:				
Depreciation	_____	_____	_____	_____
Salaries	_____	_____	_____	_____
Rent	_____	_____	_____	_____
Correct balances	=====	=====	=====	=====

Q3. Mambo Insurance Agency prepares monthly financial statements. Presented below is an income statement for the month of October that is correct based on information considered.

Mambo Insurance Agency
Income Statement
For the Month Ended October 31

	Sh	Sh
Revenues		
Sales revenue		3,500,000
Expenses;		
Salaries and wages expense	600,000	
Rent expense	42,000	
Depreciation expense.....	28,000	
Advertising expense	<u>80,000</u>	
Total expenses.....		<u>750,000</u>
Net income		2,750,000

Additional information

When the income statement was prepared, the company accountant neglected to take into consideration the following information:

1. An electricity bill for Sh2,500 for the month of October was received on the last day of the month.
2. An insurance sales representative sold a life insurance policy to a client for a premium of Sh30,000. The agency billed the client for the policy and is entitled to a commission of 20%.
3. Supplies on hand at the beginning of the month were Sh3,000. The agency purchased additional supplies during the month for Sh3,500 in cash and Sh2,200 of supplies were on hand at October 31.
4. The agency purchased a new car at the beginning of the month for Sh2,200,000 cash. The car will depreciate Sh 220,000 per year.
5. Salaries owed to employees at the end of the month total Sh610,000. The salaries will be paid on November 5.

Required

Prepare a correct income statement.

Q4. During the month of October Benji's Bicycle Store had the following transactions occurred.

- Oct. 4 Purchased 30 bicycles at a cost of Sh2,000 each from Monda Bicycle Company, terms 1/10, n/30.
6 Sold 18 bicycles to Team CUEA for Sh3,300 each, terms 1/10, n/30.
7 Received credit from Monda Bicycle Company for the return of 2 defective bicycles.
13 Issued a credit memo to Team CUEA for the return of a defective bicycle.
14 Paid Monda Bicycle Company in full, less discount.

Required

- a) Prepare the journal entries to record the transactions (5 marks)
b) Post the entries into the ledger accounts (5 marks)
c) Balance the ledger accounts and extract a trial balance (7 marks)
d) Prepare a balance sheet extract as at October 31. (3 marks)

END