



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 SCIENCE

DEPARTMENT OF COMPUTER AND LIBRARY SCIENCE

REGULAR PROGRAMME

CMT 106: ELEMENTS OF ACCOUNTING

Date: DECEMBER 2018

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and any other TWO Questions

- Q1.** a) i) Define the accounting equation (1mark)
- ii) Describe each of the elements of accounting equation. (3marks)
- b) Give five reasons why an organisation maintains a petty cash book. (5marks)
- c) Differentiate between the following terms:
- i) Discount received and discounted allowed
- ii) Carriage inwards and carriage outwards
- iii) Trial balance and balance sheet (6marks)
- d) The following trial balance was extracted from the books of SK, a sole trader, as at 30 April 2016.

	Shs'000	Shs'000
Capital		26,050
Sales		37,000
Creditors		824
Bank Balance		132
Loan from Small Trader Association		925
Purchases	24,000	
Purchases returns		28
Sales returns	136	
Discount received		120
Discount allowed	193	
Salaries and wages	2,465	
Rates and Rent	1,320	
Insurances	462	
Telephone and postage	385	
Transport and Travelling	1,268	
Loan interest	449	
Bank charges and interest	178	
General expenses	214	
Trade debtors	1,560	
Stock in Trade 1 May 2015	1,260	
Land and Building at cost	13,650	
Plant and machinery at cost	8,500	
Motor vehicles	6,200	
Drawings	2,300	
Bad debts	79	
Cash in hand	460	
	65,079	65,079

Additional information.

Closing stock in trade was valued at Shs1,468,000

Insurance paid in advance amounted to Shs.55,000

The unpaid telephone bill as at 30th April 2016 amounted to shs 73,000.

April 2016 wages amounting to shs.320,000 were paid on 5th May 2016.

The transport and travelling included personal travelling amounting to shs.175,000.

Required. Using the Vertical format

- i) Trading and Profit and Loss a/c for the period ended 30th April 2016.
(8marks)

- ii) Balance sheet as at 30th April 2016. **(5marks)**
- e) Describe two types of errors that may cause the trial balance not to agree. **(2marks)**
- Q2. a) i) Describe the terms depreciation of fixed assets. **(1mark)**
- ii) Describe two reason why an organisation would charge fixed assets. **(2marks)**
- iii) On 1/1/2016, Oryx Traders bought the following fixed assets and paid by cash. Motor vehicle shs.450,000, photocopier machine shs.120,000. The business depreciates the motor vehicle at the rate of 25% p.a using the straight line method, while photocopier is depreciated at the rate of 10% p.a using the reducing balance method.
- Required:
- a) Open the following accounts, post the above transactions and depreciation adjustments to be made as at 31/12/2016 and 31/12/2017.
- i) Motor vehicle a/c
- ii) Photocopier a/c
- iii) Profit and loss a/c
- iv) Provision for depreciation a/c-motor vehicle a/c
- iv) Provision for depreciation a/c – photocopier a/c
- v) Cash a/c- show entry on 1/1/2016 only **(8marks)**
- b) Prepare the balance sheet extract showing the fixed assets as at 31/12/2016 and 31/12/2017. **(2marks)**
- c) i) Explain the meaning of the double entry system. **(1mark)**
- ii) List and explain four qualities of good accounting information. **(4marks)**
- iii) List and explain two uses of a trial balance. **(2marks)**
- Q3. a) i) Explain the suspense account and how it is used in accounting. **(3marks)**
- ii) The following trial balance related to Texas Hardware Shop as at 31/12/2016.

	Debit Shs.	Credit Shs.
Cash	3,600	
Sales		20,000
Debtors	16,000	
Purchases	12,000	
Telephone expenses	5,000	
Creditors		6,000
Furniture	8,000	
Motor Vehicle	14,000	
Rent Income		4,000
Capital		28,600
	58,600	58,600

Despite the fact that the trial balance totals agreed, investigations carried out in the ledger accounts revealed the following errors and omissions:

- i) Cash withdrawn shs400 by owner had not been posted to the ledger account.
- ii) James, a debtor had paid shs2,002 cash to the business to clear an outstanding debt. His account was credited by shs2,200 and cash account debited by shs2,200.
- iii) The business made cash sales worth shs800. cash account was credited with shs.800 and sales account was debited with shs.800
- iv) The business had purchased furniture for use in the business worth shs.1,200 and by paid cash. Purchases account was debited by shs.1,200 and cash account credited by the same amount.
- iv) The business made credit sales to Johnson worth shs1,800 .Sales account was credited by shs1.800 and Johnstone(another debtor)account was debited by shs1.800.

Required:

Identify the type of error involved in each of the above cases. Indicate whether it will affect the agreement of the trial balance or not. **(10marks)**

- b) i) Explain a source document as it is used in accounting. **(1mark)**
 - ii) List three functions of source documents. **(3marks)**
 - iii) List any three source documents and explain each of their purpose. **(3marks)**
- Q4. a) Discuss the concepts below as used in accounting.
- i) Going concern concept
 - ii) Consistency concept

- iii) Accruals concept
- iv) Materiality concept
- v) Business entity concept **(10marks)**

- b) Discuss the following accounting ratios and give two examples in each.
- i) Profitability ratios
 - ii) Liquidity ratios
 - iii) Efficiency ratios **(6marks)**

- c) Clearly define the following accounting terms.
- i) Accrued expenses
 - ii) Working capital
 - iv) Ledger account
 - v) Balance sheet **(4marks)**

- Q5. a) i) Saleable stock can be analysed into five classes. Describe each of the classes. **(5marks)**

- ii) List down three types of ledger books and indicate the content of each of the ledger. **(3marks)**

- b) The following details relate to Wafula's business

	Debtors a/c Debit balance	Bad debts to be written off	Provision for doubtful debt to be made
31/12/2016	Shs. 180,000	Shs. 15,000	8% of the remaining debtors
31/12/2017	Shs. 120,000	Shs.10,000	10% of the remaining debtors

Required:

For each of the year, ended 31/12/2016 and 31/12/2017, open the following ledger accounts and make the necessary adjustments in respect of the bad debts and provision for doubtful debts. Balance off the accounts.

- i) Debtors a/c
- ii) Bad debts a/c
- iii) Profit and loss a/c
- iv) Provision for doubtful debts a/c **(10marks)**

- c) List down two uses of a purchases ledger control account. **(2marks)**

END