



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

MAY – JULY 2019 TRIMESTER

FACULTY OF SCIENCE

DEPARTMENT OF COMPUTER AND LIBRARY SCIENCE

REGULAR PROGRAMME

CMT 106: ELEMENTS OF ACCOUNTING

Date: JULY 2019

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and any other TWO Questions

Q1. a) i) Clearly state the accounting equation. **(1mark)**

ii) Show the effects of the following transactions on the accounting equation.

1/12/18 The owner started the business with shs.50,000 cash
3/12/18 Received a bank loan amounting to shs20,000 cash
4/12/18 Deposited shs,25,000 cash into the business bank account
7/12/18 The owner withdrew shs2000 cash for his personal use
10/12/18 Bought stock worth shs 15,000 and paid by cheque.

(5marks)

iii) Clearly discuss the activities found in the accounting process.

(3marks)

iv) Clearly differentiate between management accounting and financial accounting.

(4marks)

b) There are two main methods of estimating depreciation amounts. Discuss each method clearly. **(4marks)**

c) Accounting errors can be classified into two categories, those that affect agreement of the trial balance totals and those that don't affect. Discuss any two types of errors in each of the two categories and give at least one example in each.

(6marks)

- d) i) Explain the term contra entry as used in accounting. **(2marks)**
- ii) Explain the term imprest system as used in petty cash book operations. **(3marks)**
- e) List two uses of a general journal. **(2marks)**

Q2. a) The following trial balance was extracted from the books of Harrison's a sole trader as at 31/12/2018.

	DEBIT SHS	CREDIT SHS
Furniture	12,000	
Motor Vehicle	20,000	
Bank loan		20,000
Debtors	39,000	
Stock 1/1/18	14,000	
Sales		96,000
Discount Allowed	3,500	
Advertising expenses	1,800	
Insurance expenses	4,000	
Return Inwards	6,000	
Salaries Expenses	2,800	
Electricity expenses	2,000	
Purchases	38,000	
Rent Income		12,000
Carriage inwards	5,000	
Return outwards		3,000
Discount received		4,500
Dividend income		7,000
Creditors		16,000
Drawings	4,000	
Cash	15,000	
Capital		8,600
	167,100	167,100

Additional Information:

Value of closing stock shs.5,000

Bad debts to be written off shs.1,500
Prepaid insurance expenses was shs.2,500
Unpaid electricity bill as at 31/12/2018 was shs.1,000.
Rent income received in advance was shs.4,000
Dividend income receivable was shs.3,000

Required:

- i) Prepare a Trading and profit and loss account for the year ended 31/12/2018 **(10marks)**
- ii) Balance sheet as at 31/12/2018. **(6marks)**
- b) Differentiate between the following terms as used in accounting
 - i) Bad debts and provision for doubtful debts
 - ii) Accruals and prepayments **(4marks)**

- Q3. a) Enter the following in the three-column cash book of an office supply shop. Balance off the cash book at the end of the month and show the discount accounts in the general ledger. **(12marks)**

01/06/18	Balance brought forward cash –debit kshs4200, bank-debit kshs49400
02/06/18	The following paid us by cheque, each deducting a 5% cash discount: Kim- shs 8200,Parker-Shs3200, Harriet- shs-4400,Rick-shs10400
03/06/18	Cash sales paid direct into the bank shs7400
05/06/18	Paid rent by cash shs3400
06/06/18	We paid the following amounts by each deducting a 2.5% cash discount: Pete-shs3600, George- shs9600, Bell- shs4000
08/06/18	Withdrew cash from the bank for business use shs4000
10/06/18	Cash sales shs12600
14/06/18	Paid wages by cash shs5400
20/06/18	Bought fixtures by cheque shs44,200
29/06/18	Cash sales 9800
30/06/18	Received shs 3240 cheque from Text Book Centre
30/06/18	Bought stationery paying by cash shs5600

- b) Explain the meaning of the following accounting concepts
- i) Accrual concept
 - ii) Going concern concept
 - iii) Consistency concept

iv) The money measurement concept

(8marks)

Q4. a) The summarised accounts of Eternal Springs Ltd for the year 2017 and 2018 are given below:

Trading and Profit and Loss Accounts for the period ended 31 December

	Business A		Business B	
	Shs	Shs	Shs	Shs
Sales		100,000		150,000
Less cost of goods sold				
Opening Stock	25,000		30,500	
Add Purchases	<u>65,000</u>		<u>93,000</u>	
	85,000		123,500	
Less Closing Stock	<u>12,000</u>	73,000	<u>19,500</u>	104,000
Gross Profit		27,000		46,000
Less Depreciation	6,000		7,000	
Other Expenses	<u>13,000</u>	19,000	<u>6,000</u>	13,000
Net Profit		<u>8,000</u>		<u>33,000</u>

Balance Sheets

	Business A		Business B	
Fixed Assets				
Equipment at Cost	15,000		20,000	
Less Depreciation to date	9,000	6,000	6,000	14,000
Current Assets				
Stock	12,000		19,500	
Debtors	24,000		20,000	
Bank	<u>8,000</u>		<u>5,500</u>	
	44,000		45,000	
Less current liabilities				
Creditors	<u>4,000</u>	40,000	<u>10,000</u>	35,000
		<u>46,000</u>		<u>49,000</u>

Financed by:				
Capitals				
Balance at start year		40,000		20,000
Add net Profit		<u>12,000</u>		<u>33,000</u>
		48,000		53,000
Less Drawings		<u>6,000</u>		<u>4,000</u>
		<u>46,000</u>		<u>49,000</u>

- b) Calculate for both 2017 and 2018:
- net profit as a percentage of sales
 - gross profit mark-up
 - expenses as percentage of sales
 - stock turnover
 - return on capital employed (F.A +C.A- CL)
 - current ratio
 - Debtors turnover
 - acid test ratio

(8marks)

- c) In your opinion what are the possible reasons for the changes between 2018 and 2017. **(4marks)**

Q5) On 1/1/17 the business bought the following fixed assets and paid by cash. Motor vehicle shs 250,000, photocopier machine 90,000. The business depreciated the motor vehicle 15% p.a using the straight line method. Photocopier is depreciated at the rate of 8% p.a using the reducing balance method.

Required:

- a) Open the following a/cs, post the above transactions and depreciation adjustment to be made as at 31/12/17 and 31/12/18.
- Motor vehicle a/c
 - Photocopier a/c
 - Provision for depreciation -motor vehicle a/c
 - Provision for depreciation –photocopier a/c
 - Cash a/c –(Show the entry on 1/1/17)

(15marks)

- b) i) Define the term source document as used in accounting.

Give at least two examples.

(2marks)

- ii) Discuss any three functions of source documents

(3marks)

END