

**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

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**University Examinations 2016/2017**

FIRST YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE, PURCHASING AND SUPPLIES MANAGEMENT, BUSINESS ADMINISTRATION, COMMERCIAL MANAGEMENT AND BUSINESS INFORMATION TECHNOLOGY

SECOND YEAR FIRST SEMESTER BACHELOR IN ECONOMICS, COMPUTER AND SECURITY AND FORESCIC TECHNOLOGY

AND

THIRD YEAR FIRST SEMESTER DEGREE OF BACHELOR OF MATHEMATICS AND

COMPUTER

**BFC 3125: FINANCIAL ACCOUNTING 1**

**DATE: DECEMBER 2016 TIME: 2HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30 MARKS)**

1. i. Differentiate between book-keeping and accounting? (2 marks)

ii. Explain any three qualities of useful accounting information (3 marks)

iii. Discuss the users of accounting information (5 marks)

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1. The following trial balance was extracted from the books of Mr. Kinoti a small trader in Maua town for the year ending 31st December

Mr. Kinoti

Trial Balance

As at 31st December 2015

Dr Cr

Shs.’000’ Shs.’000’

Free hold property 1,500,000

Trade debtors 20,000

Trade creditors 30,000

Cash at bank 90,000

Cash in hand 10,000

Purchases 140,000

Stock 45,000

Sales 320,000

Discount received 2,000

Discount allowed 6,000

Salaries and wages 15,000

Drawings 35,000

Commission received 8,000

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Power and lightning 12,000

Return inwards 16,000

Return outwards 19,000

Carriage inwards 4,400

Carriage outwards 2,300

Capital 1,543,700

Furniture & fixtures 27,000

1,922,700 1,922,700

Additional information

1. Closing stock was valued at ksh.22,000,000
2. Outstanding salaries amounted to ksh. 3,500,000
3. Prepaid power was ksh. 7,200,000

Required:

1. Income statement for the year ending 31st December 2015 (10marks)
2. Statement of financial position as at 31st December 2015 (10 marks)

**QUESTION TWO (20 MARKS)**

1. Explain the term “bank reconciliation” and explain the reasons for its preparation

(5 marks)

1. D. karimi a sole trader received his bank statement for the month of may 2016. At that date the bank showed a balance of ksh. 706,500 whereas his cashbook balance was sh.2,366,500. His accountant investigated the matter and discovered the following discrepancies.

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1. Bank charges of ksh. 3000 had not been entered in the cashbook
2. Cheques drawn by D.karimi amounting to ksh. 22,500 had not yet been presented to the bank
3. He had not entered receipts of ksh. 26,500 in his cashbook
4. The bank hand not credited D.karimi account with receipts of ksh.98,500 paid into the bank on 31st may 2016
5. Standing order payments amounting to ksh. 62,000 had not been entered into the cashbook
6. In the cashbook D.karimi had entered a payment of ksh.74,900 instead of ksh. 79,400
7. A cheque for ksh. 15,000 from a debtor had been returned by the bank marked “refer to drawer” but had not been written back into the cashbook
8. D. karimi had brought the opening cash balance of ksh. 329,250 as a debit balance instead of a credit balance
9. An old cheque payment amounting to sh.44,000 had been written back in the cashbook but the bank had already honored it
10. Some of D.karimi customers had agreed to settle their debts by paying directly to the account. Unfortunately, the bank had credited some deposit amounting to sh. 832,500 to another customers account. However acting on information from the customers D.karimi had actually entered the expected receipts from the debtors in cashbook

**Required:**

1. A statement showing D.karimi adjusted cash book balance as at 31st may 2016 (9 marks)
2. A bank reconciliation statement as at 31st may 2016 (6 marks)

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**QUESTION THREE (20 MARKS)**

Haraka Upesi has been a sole trader for two years. On 1st January 2014 he extracted the balance sheet shown below

Ksh.

Furniture and equipment at cost 200,000

Accumulated depreciation 50,000

Stock 240,000

Cash in hand 20,000

Cash at bank 170,000

Debtors F Mwirigi 18,000

Creditors P Muthoni 13,500

Prepaid rent 2014 8,000

Accrued salary for December 2013 6,000

The following transaction took place during the month of January 2014

Date Details

January 2. Sold goods on credit to F.Mwirigi of sh.14,000

January 3. Bought goods on credit from P.muthoni of sh. 9,000

January 10. Bought goods by cheque amounting to sh.30,000

January 12. Paid P. Muthoni by cheque the amount outstanding on 1st January after deducting

5% of cash discount

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January 14. Paid December 2013 salaries in cash amounting to sh.6,000

January 16. Damaged goods returned by F. Mwirigi worth 5,000

January 18. Haraka Upesi received notification from the bank of sh. 11,000 for a direct debit

Transfer to his account from F.mwirigi

January 19. Goods sold on credit to Masai list price sh.15,000 less 15% trade discount

January 28. Banked all cash from the till except sh. 4000

**Required:**

1. Three-column cashbook recording the above transactions (10 marks)
2. The necessary ledge account to record the above transactions (10 marks)

**QUESTION FOUR (20 MARKS)**

1. The following information was available in the books of meru traders during the month of January 2016

January 1. Sales ledger balance 357,400

Total credit sales for the month 381,200

Sales returns and allowances 5,600

Discount allowed 2,900

Cash received from debtors 356,500

Bad debts written off 28,000

Carriage paid and charged to debtors 25,000

**Required:**

1. Prepare a sales ledger control a/c (5 marks)
2. List and explain five accounting concepts underlying the preparation of financial statement (10 marks)
3. Distinguish between capital expenditure and revenue expenditure (5 marks)

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**QUESTION FIVE (20 MARKS)**

1. Discuss meaning of depreciation and show why do companies charge depreciation on fixed assets. (5 marks)
2. An equipment was bought on 1st January 2012 for sh. 150,000 and another one on October 2013 for sh 205,000. The first equipment was sold on 30th June 2014 for sh.80,000. The businesses financial year ends on 31 December. Using straight line method for every month of use. Show the equipments records (15 marks)

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