

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE
OF BACHELOR OF SCIENCE IN AGRIBUSINESS MANAGMENT
& BACHELOR OF SCIENCE IN AGRICULTURAL ECONOMICS

AGBM 121: FINANCIAL ACCOUNTING I

STREAMS: BSC (AGBM & AGECE)

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 06/12/2017

8.30 A.M. – 10.30 A.M.

INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS

QUESTION ONE

- (a) State five potential users of company financial statements, briefly explaining for each one their likely information needs from those statements. [5 marks]
- (b) With the help of examples, briefly explain a source document. [3 marks]
- (c) The following trial balance was extracted from the books of Duncan Karithi, a sole trader, as at 31 May the end of his financial year.

	Dr.	Cr.
Property, at cost	120,000	
Equipment at cost	80,000	
Accumulated depreciation (as at 1 June 2016)		
Property		20,000
Equipment		38,000
Purchases	250,000	
Sales		402,200
Stock, as at 1 June 2016	50,000	
Discounts allowed	18,000	
Discount received		4,800
Returns outwards		15,000
Wages and salaries	58,800	
Bad debts	4,600	
Loan interest	5,100	
Other operating expenses	17,700	
Trade payables		36,000
Trade receivables	38,000	
Cash in hand	300	
Bank	1,300	

AGBM 121

Drawings	24,000	
Allowance for receivables		500
Bank loan		30,000
Capital	<u> </u>	<u>121,300</u>
	<u>667,800</u>	<u>667,800</u>

The following additional information as at 31 May 2017 is available

- (a) Closing inventory was valued at a cost of sh. 42,000
- (b) Wages and salaries to be accrued sh. 8,000
- (c) Other operating expenses are prepaid by sh. 3, 000
- (d) The allowance for receivables is to be adjusted so that it is 2% of trade receivables.
- (e) Depreciation for the year ended 31 May 2017 is to be provided on property at a 1.5% per annum using the straight line method while for equipment at the 25% per annum using the reducing balance method

Required:

- (a) Income statement for the year ended 31st May 2017. [12 marks]
- (b) Statement of financial position as at 31st May 2017. [10 marks]

QUESTION TWO

- (a) Distinguish between ‘cash basis of accounting’ and ‘accrual basis of accounting’. [4 marks]
- (b) Briefly explain four types of bookkeeping errors which are not disclosed by a trial balance. [4 marks]
- (c) The following transactions relating to XYZ enterprises occurred in the month of December 2017.

December 1 proprietor puts capital into a bank account for the business sh. 109,400

December 2 received a cheque from Mwangi sh. 3,150

December 4 cash sales sh. 8,020

December 6 paid rent by cash sh. 1,350

December 7 banked sh 500 of the cash held by the business

December 15 cash sales paid direct into the bank. Sh. 4,900

December 23 paid cheque to S. Kimani sh. 2,770

December 29 withdrew cash from bank for business use. Sh. 1,200

December 30 paid wages in cash sh. 5, 180

AGBM 121

Required:

A fully balanced two – column cash book

[12 marks]

QUESTION THREE

(a) Using illustrations, distinguish between capital expenditure and revenue expenditure.

[4 marks]

(b) The following information relates to Way ltd, a dealer in household goods, for the year ended 30 April 2017.

1. Balance as at 1 May 2016

Sales ledger 24, 000 (Cr)

Purchase ledger 156, 000 (Dr)

Purchase ledger 8,000 (Dr)

Sales ledger 198,000 (Dr)

2. Total sales for the year include cash sales of sh. 2, 100,000 and credit sales of sh. 5, 400,000

3. Total purchase for the year were sh. 4, 340,000 out of which credit purchases were sh. 2, 998,000

4. During the year the company received a total of sh. 6, 540, 000 from both cash and credit customers and made total payments of sh. 3, 860,000 for both cash and credit purchases.

5. Discount allowed to credit customers amounted to sh. 145, 600 while discounts received from credit suppliers amounted to sh. 115,800.

6. A balance in the purchase ledger of sh. 140,000 was set-off against the sales ledger

7. Bad debts written off amount to sh. 350,000

8. Credit notes issued to customers amounted to sh. 487,000 and those issued by suppliers of Way limited amounted to sh. 360,000

9. The balance as at 30 April 2017 were

	Dr.	Cr.
	Sh.	Sh.
Sales ledger balance	?	60,000
Purchase ledger balance	75,000	?

AGBM 121

Required:

- (i) Sales ledger control account for the year ended 30 April 2017. [8 marks]
- (ii) Purchase ledger control account for the year ended 30 April 2017. [8 marks]

QUESTION FOUR

- (a) Explain the following assumptions
 - (i) Accrual [2 marks]
 - (ii) Going concern [2 marks]
- (b) James Mwangi, a sole trader prepares his account as at 31st December of every year. On 1 January 2017, he purchased a car for sh 1,200,000. The car is expected to last for 5 years and to have a scrap value at the end of the 5 years of sh. 200,000. Full depreciation is charged in the year of purchase and disposal.

Required:

Calculate the depreciation charger for each of the first three accounting periods and show the extracts of the statements of income in those period. [6 marks]

- (c) The following transactions were recorded in the books of account of STV enterprises in the month of December 2017 by an inexperienced staff.
 - (i) The business received an invoice for sh. 250,000 from a supplier which was omitted from the books entirely.
 - (ii) Repairs worth sh. 15,000 were incorrectly debited to the machinery account instead of the repairs account.
 - (iii) Telephone expenses of sh. 5,400 were incorrectly debited to the electricity account.
 - (iv) A page in the sales day book had been added up to sh. 284, 250 when it should be sh. 288,250

Required:

Journal entries to correct the errors. [8 marks]