

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS
**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF SCIENCE IN
 AGRICULTURAL ECONOMICS AND BACHELOR OF AGRIBUSINESS
 MANAGEMENT**
AGBM 121: FINANCIAL ACCOUNTING I**STREAMS: BSC AGBM, AGEC****TIME: 2 HOURS****DAY/DATE: THURSDAY 13/12/2018****8.30 A.M – 10 .30 A.M****INSTRUCTIONS**

- **Answer question one and any other two questions**

1. (a) Explain the following terms as used in financial accounting

Matching principle	[2 marks]
Revenue recognition principle	[2 marks]
Materiality	[2 marks]
Going concern assumption	[2 marks]
Auditing	[2 marks]

(b) The following trial balance has been extracted from the ledger of Herbert, a sole trader as at 31st May 2015.

	DR	CR
Property	90,000	
Equipment	57,500	
Provision for depreciation- property		12,500
Provision for depreciation -equipment		32,500
Stock as at 1 st June 2014	27,400	
Purchases	259,600	
Sales		405,000
Discount allowed	3,370	
Discount received		4,420
Wages & salaries	52,360	

AGBM 121

Bad debts	1,720	
Loan interest	1,560	
Carriage outwards	5,310	
Operating expenses	38,800	
Trade receivables	46,200	
Trade payables		33,600
Provision for bad debts		280
Cash on hand	151	
Bank overdraft		14,500
Drawings	28,930	
Loan		12,000
Capital		<u>98,101</u>
	<u>612,901</u>	<u>612,901</u>

Additional information;

- (i) Stock as at the close of business was valued at 25,900.
- (ii) Depreciation is to be provided on straight line method at 1% and 15% on property and equipment respectively.
- (iii) Wages and salaries accrued ksh 140 while other expenses prepaid is ksh 500
- (iv) Provision of doubtful debts is to be provided at 0.5% of debtors.

Required :

- (i) Income statement for the year ended 31st may 2015. [12 marks]
- (ii) Statement of financial position as at 31st May 2015. [8 marks]

2. (a) State five potential users of company financial statements, briefly explaining for each one their likely information needs from those statements. [5 marks]
- (b) Briefly explain five types of book keeping errors which are not disclosed by a trial balance. [5 marks]
- (c) The following information has been extracted from the books of Kimani traders limited for one month of April 2002.

Balance as at 1 April 2002		Ksh
Sales ledger	Debit balances	838,000
	Credit balances	184,000
Purchase ledger	Debit balanced	196,000
	Credit balances	598,000
Transactions during the month		
Sales on credit		8,784,000
Purchases on credit		7,849,000

Return inwards	248,000
Return outwards	179,000
Cheques received from trade debtors	2,968,000
Cheques paid to trade creditors	4,674,000
Cash paid to trade creditors	1,393,000
Bad debts written off	139,000
Discount allowed to trade debtors	1,621,000
Discount received from trade creditors	231,000
Credit sales offset against credit purchases.	356,000
Credit purchase of a motor vehicles posted in the purchase ledger	598,000
Dishonored cheques from trade debtors	193,000
Cash received to replace dishonored cheques from trade debtors	106,000
An invoice to trade debts of ksh 174,00 posted as balances at 30 April 2002	147,000
Purchases ledger debit balances	177,000

Required ;

Sales ledger and purchase ledger control accounts for the year ended 30 April 2002.

[10

marks]

3. (a) Tom who operates a retail shop commenced business on 1st April 2005 and the following transactions took place within the month.

1 st April	commenced business by depositing ksh 96,000 in the bank
2 April	paid rent deposit of ksh 1000 by cheque
4 April	bought fittings and paid for them cheque ksh 18,000
5 April	Bought fitting on credit from Opiyo for ksh 2100
6 April	Bought goods on credit from John 21,300, Mary 17,100 and Peter 38,800
7 April	Made cash sales of ksh 960
8 April	Sold goods on credit to Allan 7,200, Grace 11,000 and Luke 17,500
9 April	Paid in cash ksh 500 for miscellaneous expenses
11 April	withdrew ksh 600 from the bank for personal use.
12 April	Made sales of ksh 2000
13 April	Sold goods on credit to Rachel 25,600, Ruth 7,450 and Frank 81,300
14 April	Allan returned goods with ksh 550

AGBM 121

- 15 April Tom paid ksh 17,000 into the business bank account from his private account
- 16 April Tom returned goods worth ksh 1,300 to Mary
- 18 April Bought fitting and paid in cash ksh 680
- 20 April Received cheques from Allan less 10% and Luke less 15%
- 21 April Paid the following suppliers by cheque John less 10% and Mary less 10%
- 22 April Paid rent amounting to ksh 2300 by cheque
- 23 April Received cheque from Grace less 10%
- 24 April Paid peter less 15% by cheque
- 25 April Paid wages amounting to ksh 1,100 by cash
- 26 April Withdrew cash from the bank amounting to ksh 2,330 for use in the business.
- 10 April Bought goods on credit worth ksh 22,760 from John.

Required;

Prepare a three column cash book to record the above transactions. [12 marks]

Prepare the relevant ledger accounts to record the transactions. [8 marks]

4. (a) Explain the following as used in manufacturing accounts
- (i) Direct materials [2 marks]
- (ii) Direct labour [2 marks]
- (iii) Prime cost [1 mark]
- (b) The following balances have been extracted from the books of limuru manufacturers, a small manufacturing enterprise, as at 31 December 2002.

		'000'
Stocks as at 1January 2002	Raw materials	7,000
	Work in progress	5,000
	Finished goods	6,900
Purchases of raw materials		38,000
Direct labour		28,000
Factory overheads;		25,000
Administrative expenses;	Rent and rates	19,000
	Lighting	6,000
	Stationery and postage	2,000
	Staff salaries	19,380

AGBM 121

Sales		192,000
Plant and machinery	At cost	30,000
	Provision for depreciation	12,000
Motor vehicles (for sales deliveries)	At cost	16,000
	Provision for depreciation	4,000
Creditors		5,500
Debtors		28,000
Drawings		11,500
Balance at bank		16,600
Capital at 1 January 2002		48,000
Provision for unrealized profit at 1 January 2002		1,380
Motor vehicle running costs		4,500

Additional information:

1. Stocks at 31 December 2002 were as follows;

	Ksh
Raw materials	9,000
Work in progress	8,000
Finished goods	10,350

2. The factory output is transferred to the trading account at factory cost plus 25% of factory profit.
3. Depreciation is provided at the rates shown below on the original cost of fixed assets held at the end of each financial year.
 Plant and machinery - 10% per annum
 Motor vehicles - 25% per annum
4. Amounts accrued at 31 December 2002 for direct labour amounted to 3,000,000 and rent and rates prepaid at 31 December 2002 amounted to ksh 2,000,000.

Required ;

- (a) Manufacturing, trading and profit and loss account for the year ended 31 ended 31 December 2002. [15 marks]