CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

RESIT/SPECIAL EXAMINATION

FIRST YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

AGBM 311/BCOM 112/ BBAM 111: FINANCIAL ACCOUNTING II

STREAMS: B.ED (ARTS) **TIME: 2 HOURS**

DAY/DATE: THURSDAY 26/07/2018 **8.30 A.M. – 10.30 A.M.**

INSTRUCTIONS:
- **Answer question ONE and any other TWO.**
- **Do not write anything on the question paper.**

QUESTION ONE

(a) Explain why it's necessary to prepare a bank reconciliation statement in an organization and the reasons for differences in the balances shown by cashbook and bank statement. (6 marks)

(b) The following is an extract from the cash book (bank column only) of John Mutua, a sole trader, for the month ended 31 January 2017.

	Sh.		Sh.
Balance b/d	703,500	Payments	7,760,000
	7,536,500	Bal. c/d	480,000

Additional information:

The bank statement as at 31 January 2007 showed that the bank account was overdrawn by Sh. 62,000.

Bank charges of Sh. 17,500 had not been entered in the cash book.

A cheque drawn of Sh. 23,500 had been entered in the cash book as a receipt.

A cheque for Sh. 9000 had been returned unpaid by the bank but had not been written back in the cash book.

The opening balance of the cash book should have been brought down as Sh. 735,000.

Cheques paid to suppliers for Sh. 107,000, Sh 15, 000 and Sh. 185,000 had not yet been debited by the bank.

The last pay-in-pay slip for the month showing a deposit of Sh. 771,000 had not yet been credited by the bank.

The bank had debited a cheque for Sh. 36000 by mistake to John Mutua account.

Required:

(i) Updated Cash book as at 31 January 2007. (9 marks)

(ii) Bank reconciliation statement as at 31 January 2007. (8 marks)

(c) Differentiate between Petty Cash book and three Column Cash book. (8 marks)

(d) Explain the contents of a partnership agreement. (3 marks)

QUESTION TWO

(a) The comparative balance sheet of Chuka Ltd at 31 March 2009 reported the following:

	2009	2008
Current Assets	Sh.	Sh.
Cash and cash equivalents	6200	4000
Accounts receivable	14900	21700
Inventories	63200	60600
Current liabilities:		
Accounts payable	30100	27600
Accrued liabilities	10700	11100
Income tax payable	8000	4700

Chuka Ltd's transactions during the year ended 31 March 2009 included the following:

(i) Payment of cash dividend Ksh. 30000

(ii) Purchase of equipment Ksh. 78700

(iii) Issuance of long term note payable to borrow cash Ksh. 50000

(iv) Depreciation expense Ksh. 17300

(v) Purchase of building Ksh. 47000

(vi) Net income Ksh. 70000

(vii) Issuance of common stock Ksh. 11000

Required:

(i) Cash flow statement for the year ending 31 March 2009 using indirect format. (11 marks)

(ii) Explain the three categories of cash flows giving reasons for their evaluation. (9 marks)

QUESTION THREE:

Kimani and Otieno have been trading in partnership as Kioti Traders. The following trial balance was extracted from the books of the books of the partnership as at 31 December 2003.

	DR Sh. Sh. '000'	CR Sh. Sh. '000'
Capital account – 1 January 2003		
Kimani		155,000
Otieno		55,000
Current accounts – I January 2003		
Kimani		15,500
Otieno		25,500
Sales		765,000
Stock – I January 2003	155,000	
Salaries and Wages	75,250	
Rent	25,500	
General Expenses	15,500	
Electricity	5,600	
Debtors/Creditors	75,000	57,750
Transport costs	25,650	
Drawings :		
Kimani	35,500	
Otieno	45,500	
Cash in hand	25,250	
Fixed assets	35,000	
Purchases	555,000	
	1,073,750	1,073,750
	=======	=======

Additional information:

1. Stock as at 31 December 2003 was valued at Sh. 205,000,000.

2. A depreciation charge with respect to the fixed assets amounting to Sh. 5,750,000 had been made for the year ended 31 December 2003.

3. As at 31 December 2003, wages amounting to Sh. 5,250,000 were accrued and rent amounting to Sh. 5,500,000 was prepaid.

4. During the year ended 31 December 2003, goods costing Sh. 5,170,000 were converted to personal use by Kimani. No entry was made to this record.

5. The partnership agreement provided that profits and losses should be shared equally between the partners after:

   - Allowing for annual salaries of Sh. 15,000,000 for Kimani and Sh. 25,000,000 for Otieno.
   - Allowing interest of 5% per annum on the balance of each partner's capital account.
   - Charging Kimani Ksh. 5,100,000 and Otieno Ksh. 5, 150,000 as interest on drawings.

6. The balance on the capital account are to remain unchanged and all adjustments are to be in current accounts.

Required:

(viii) Trading, Profit and Loss account for the year ended 31 December 2003. (8 marks)
(ix) Appropriation account for the year ended 31 December 2003. (5 marks)
(x) Balance sheet as at 31 December 2003. (7 marks)

QUESTION FOUR

(a) The following balances have been extracted from the books of Limuru manufacturers a small manufacturing enterprise as at 31 December 2002:

		Sh. "000"
Stock as at 1 January 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: variables		16,000
Fixed		9,000
Administrative expenses	Rent and Rates	19,000
	Lighting	6,000
	Stationery and postage	2,000
	Staff salaries	19,380
Sales		192,000
Plant and Machinery:	At cost	30,000
	Provision for deprecation	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 January 2002		1,380
	Motor vehicle running costs	4,500

Additional information:

1. Stock as at 31 December 2002 were as follows:

	Sh. '000'
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 of direct labour amounted to Sh. 3,000,000 and rent and rates prepaid at 31 December 2002 amounted to Sh. 2,000,000.

Required:

(i) Manufacturing trading and profit and loss account for the year ended 31 December 2002. (12 marks)

(ii) Balance sheet as at 31 December 2003. (8 marks)
