

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**FIRST YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF
EDUCATION (ARTS)**

BUST 121: FUNDAMENTALS OF FINANCIAL ACCOUNTING

STREAMS: B.ED (ARTS) Y1S2

TIME: 2 HOURS

DAY/DATE: THURSDAY 12/04/2018

11.30 A.M. – 1.30 P.M.

INSTRUCTIONS:

- Answer question ONE and any other TWO questions.
- Show all your workings.
- Do not write on the question paper.

QUESTION ONE

- (a) Explain the specific use of accounting information for the following persons
- | | |
|------------------|-----------|
| (i) Banks | (4 marks) |
| (ii) Investors | (3 marks) |
| (iii) Government | (3 marks) |
- (b) Accounting is guided by a conceptual framework which allows for standards and practices built on the same foundation.
- (i) Explain the role and importance of the conceptual framework to the accountants. (5 marks)
- (ii) Explain any 5 generally accepted accounting principles. (10 marks)
- (c) Explain the branches of accounting and their usefulness to the organization. (5 marks)

QUESTION TWO

Meru-Maua Power Mills Ltd has provided the following information for the year ended December 31st 2016.

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Trading and Profit and Loss account	Details Sh	Sh
Sales		1,000,000
<u>Less: Cost of Sales</u>		
Opening stock	210,000	
Purchases	690,000	
Less: Closing stock	<u>(200,000)</u>	
		<u>(700,000)</u>
Gross profit		300,000
<u>Less: Expenses</u>		
Wages & salaries	70,000	
Interest on loans	15,000	
Water and electricity	15,000	
Rent and Rates	16,000	
General expenses	104,000	(220,000)
NET PROFIT		80,000
		=====

Balance Sheet of Meru-Maua Power Mills

	Details Sh	Sh
Fixed Assets		
Land and buildings		700,000
Plant and machinery		500,000
Motor vehicles		450,000
Fixtures & fittings		<u>150,000</u>
		1,800,00
<u>Current Assets</u>		
Debtors	250,000	
Cash at bank	300,000	
Cash at hand	150,000	
Stock	<u>200,000</u>	
		900,000
<u>Current liabilities</u>		
Creditors	400,000	
Proposed dividends	250,000	
Provisions for tax	<u>50,000</u>	(700,000)
TOTAL NET ASSETS		<u>2,000,000</u>
		=====
Financed by:		
Capital		1,000,000
10% KCB loan		500,000
Retained Profits		500,000
		<u>2,000,000</u>
		=====

Required:

- | | | | |
|-----|-------|----------------------|-----------|
| (a) | (i) | Stock turnover ratio | (3 marks) |
| | (ii) | Net Profit ratio | (2 marks) |
| | (iii) | Current ratio | (2 marks) |

- (iv) Liquid ratio (3 marks)
 - (v) Return on capital employed (2 marks)
 - (vi) Gearing ratio (3 marks)
- (b) State three advantages and two disadvantages of ratios. (5 marks)

QUESTION THREE

The following information has been extracted from the books of Kariuki, who operates a shop, for the year ended 30 September 2014.

Balances as at 1 October 2013:	Sh.
Sales ledger debit balances	146,000
Sales ledger credit balances	1,000
Purchases ledger credit balances	84,000
Purchases ledger debit balances	3,200
<u>Totals for the year ended 30 September 2014:</u>	
Credit sales	2,250,000
Credit purchases	1,772,000
Cash received from debtors	2,190,000
Payment to creditors including a refund of Sh. 600 to a customer who made a double payment for a sale	1,715,000
Discount allowed	25,000
Discount received	10,000
Returns Inwards	34,000
Returns Outwards	30,000
Credit balances in purchases ledger which were transferred to sales ledger accounts	5,000
Debit balances in sales ledger which were transferred to purchases ledger which accounts	3,000
Bad debts written off	2,000
Balances at as 30 September 2014:	
Sales ledger credit balances	400
Purchases ledger debit balances	1400

Required:

- (i) Sales ledger control accounts for the year ended 30 September 2014. (7 marks)
 - (ii) Purchases ledger control account for the year ended 30 September 2014. (7 marks)
- (b) Explain the errors that do not affect the trial balance. (6 marks)

QUESTION FOUR

- (a) The following trial balance has been extracted from the ledger of Herbert Howell, a sole trader as at 31st May 2014

BUST 121

	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 2013	27,400	
Purchases	259,600	
Sales		405,000
Discount allowed	3,370	
Discount received		4,420
Wages and salaries	52,360	
Bad Debts	1,720	
Loan Interest	1,560	
Carriage outwards	5,310	
Operating Expenses	38,800	
Trade Debtors	46,200	
Trade Creditors		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 sh 140 while other expenses prepaid is sh 500.
- (iv) The provision for bad debts is to be adjusted to 0.5% of trade debtors

Required

- (i) Income statement for the year ended 31st may 2014. (12 marks)
- (ii) Statement of financial position. (8 marks)