CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

RESITS/SPECIAL EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF SCIENCE IN ACTURIAL SCIENCE

FNMT 103: INTRODUCTION TO ACCOUNTING AND FINANCE

STREAM: **TIME: 2 HOURS**

DAY/DATE: FRIDAY 1/9/2023 **11.30 A.M. – 1.30 P.M.**

ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

(a) Discuss four distinguishing features between Limited Liability Company (LLC) and Corporation. (4 Marks)

(b) State the accounting equation. (1 Mark)

(c) To be useful, financial information must have the fundamental qualitative features. State these two features. (2 Marks)

(d) Outline any four objectives of accounting. (4 Marks)

(e) ABC Corporation holds cash of Ksh. 5,000 and owes Ksh. 29,000 on accounts payable. ABC has accounts receivable of Ksh. 45,000, inventory of Ksh. 36,000, and land that cost Ksh. 50,000. How much are ABC's total assets and liabilities? (2 Marks)

(f) Journalize the following transaction for Mwangi Enterprise and post them to their respective T-accounts. (8 Marks)

i. The owner, Mwangi invested Ksh. 50,000 into the business in exchange of common shares.

ii. Paid cash of Ksh. 40,000 to a real estate company to acquire land.

iii. Performed service for a customer and received cash of Ksh. 5,000

iv. Performed customer service and earned revenue on account, Ksh. 2,600.

(g) A company reported monthly revenues of Kshs. 110,000 and expenses of Kshs. 65,000. Calculate the net income generated by the company during the month.

(2 Marks)

(h) Explain four objectives of the internal control measures in the business.

(4 Marks)

(i) Good business and accounting practices require the exercise of good judgment. How should ethics be incorporated into making accounting judgments? Why is ethics important? (3 Marks)

QUESTION TWO (20 MARKS)

The cash data of XYZ Automotive for October 2012 follow:

	Cash Receipts (CR)	Cash Payments (CP)	
Date	Cash Debit	Check no:	Cash Credit
Oct-02	2,787	3113	1,506
Oct-08	586	3114	1,838
Oct-10	1,695	3115	1,930
Oct-16	845	3116	95
Oct-22	413	3117	819
Oct-29	896	3118	174
Oct-30	2,008	3119	488
Total	9,230	3120	972
		3121	165
		3122	2,318
		Total	10,305

Bank Statement for October 2012		
Beginning balance		7,750
Deposits and other additions:		
Oct, 1 *EFT	750	
Oct, 4	2,787	
Oct, 9	586	
Oct, 12	1,695	
Oct, 17	845	
Oct, 22	413	
Oct, 23 *BC	1,350	8,426
Checks and other deductions:		
Oct, 7	1,506	
Oct, 13	1,390	
Oct, 14 *US	417	
Oct, 15	1,838	
Oct, 18	95	
Oct, 21 *EFT	312	
Oct, 26	819	
Oct, 30	174	
Oct, 30 *SC	25	6,576
Ending balance		9,600

Explanation: BC—bank collection, EFT—electronic funds transfer, US—unauthorized signature, SC—service charge

Additional data for the bank reconciliation include the following:

- The EFT deposit was a receipt of monthly rent. The EFT debit was a monthly insurance expense.
- The unauthorized signature check was received from a customer.
- The correct amount of check number 3115, a payment on account, is $1,390. (XYZ's accountant mistakenly recorded the check for $1,930.)

a) Prepare the XYZ Automotive bank reconciliation at October 31, 2012. (8 Marks)

b) Journalize the October 31 transactions needed to update XYZ's Cash account. Include an explanation for each entry. (10 Marks)

c) Describe how a bank account and the bank reconciliation help the general manager control XYZ's cash. (2 Marks)

QUESTION THREE (20 MARKS)

(a) State and explain any four components of internal control using organization use to prevent fraud. (8 Marks)

(b) Safaricom Ltd Company requires that all documents supporting a check be cancelled by punching a hole through the packet. Why is this practice required? What might happen if it were not? (4 Marks)

(c) Outline any four advantages and disadvantages of accounting. (4 Marks)

(d) Differentiate between a bank statement and a bank reconciliation. (2 Marks)

(e) Describe any two distinguishing features between a book-keeping and accounting. (2 Marks)

QUESTION FOUR (20 MARKS)

(a) State the assumptions that underlie the principles of accounting. (4 Marks)

(b) Sharon Hall, the owner of Sharon's Party Picks, has delegated management of the business to Lola Oster, a friend. Hall drops by to meet customers and check up on cash receipts, but Oster buys the merchandise and handles cash payments. Business has been very good lately, and cash receipts have kept pace with the apparent level of sales. However, for a year or so, the amount of cash on hand has been too low. When asked about this, Oster explains that suppliers are charging more for goods than in the past. During the past year, Oster has taken two expensive vacations, and Hall wonders how Oster can afford these trips on her $52,000 annual salary and commissions.

Describe at least three ways Oster could be defrauding Hall of cash. In each instance, also identify how Hall can determine whether Oster's actions are ethical. Limit your answers to the store's cash payments. The business pays all suppliers by check (no EFTs). (6 Marks)

(f) Chuka University has asked you to prepare its bank reconciliation at the end of the current month. Answer questions indicating how the item described would be reported on the bank reconciliation.

i. A check for Kshs. 17,530 written by the university during the current month was erroneously recorded as a Kshs. 15,730 payments. (2 Mark)

ii. A Kshs. 19,000 deposits made on the last day of the current month did not appear on this month's bank statement. (2 Mark)

iii. The bank statement showed interest earned of Kshs. 1,550. (2 Mark)

iv. The bank statement included a check from a student that was marked NSF. (2 Mark)

v. The bank statement showed that the bank had credited the university's account for a Kshs. 50,000 deposits made by Equity Holdings. (2 Mark)

QUESTION FIVE (20 MARKS)

Cloud Break Consulting, Inc., has the following information at June 30, 2012:

Cloud Break Consulting, Inc. Unadjusted Trial Balance 30-Jun-12		
Account Title	Balance	
	Debit	Credit
Cash	131,000	
Accounts receivable	104,000	
Supplies	4,000	
Prepaid Rent	27,000	
Land	45,000	
Building	300,000	
Accumulated depreciation- building		155,000
Accounts payable		159,000
Unearned service revenue		40,000
Common stock		50,000
Retained earnings		52,000
Dividends	7,000	
Service charge		450,000
Salary expense	255,000	
Rent expense	25,000	
Miscellaneous expense	8,000	
Total	906,000	906,000

June 30 is Cloud Break's fiscal year end; accordingly, it must make adjusting entries for the following items:

- Supplies on hand at year-end, $1,000.
- Nine months of rent totaling $27,000 were paid in advance on April 1, 2012. Cloud Break has recorded no rent expense yet.
- Depreciation expense has not been recorded on the building for the 2012 fiscal year. The building has a useful life of 25 years.
- Employees work Monday through Friday. The weekly payroll is $5,000 and is paid every Friday. June 30, 2012, falls on a Thursday.
- Service revenue of $15,000 must be accrued.
- Cloud Break received $40,000 in advance for consulting services to be provided evenly from January 1, 2012, through August 31, 2012. Cloud Break has recorded none of this revenue.

i. Open the T-accounts with their unadjusted balances. (4 Marks)

ii. Journalize Cloud Break's adjusting entries at June 30, 2012, and post the entries to the T-accounts. (4 Marks)

iii. Total each T-account in the ledger. (4 Marks)

iv. Journalize and post Cloud Break's closing entries. (4 Marks)

v. Prepare Cloud Break's income statement and statement of retained earnings for the year ended June 30, 2012, and the balance sheet at June 30, 2012. (4 Marks)

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