

CHUKA



UNIVERSITY

## UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF ARTS (ECONOMICS  
MATHEMATICS AND ECONOMICS SOCIOLOGY)

AGBM 211: FINANCIAL ACCOUNTING

STREAMS:

TIME: 2 HOURS

DAY/DATE: THURSDAY 13/04/2023

8.30 A.M. – 10.30 A.M.

**INSTRUCTIONS**

- Answer *QUESTION ONE* and any other *TWO*

**QUESTION ONE**

- a) The following trial balance was extracted from the books of James Inyangala, a sole trader in respect of the year ended 30<sup>th</sup> June 2021.

	Sh.	Sh.
Capital		9,372,500
Sales		10,662,000
Sales returns	180,500	
Trade debtors	2,250,000	
Drawings	1,500,000	
Purchases	5,236,000	
Trade creditors		750,000
Purchase return		273,500
Wages and salaries	2,350,000	
Discounts allowed	124,000	
Discounts received		213,000
Provision for depreciation 1 <sup>st</sup> July 2020		
Shop fixtures		145,000
Motor vehicles		400,000
Cash at bank	1,291,000	

Cash in hand	105,500	
Electricity	236,000	
Rates paid	124,000	
Freehold premises at cost	3,817,500	
Fixtures at cost	760,000	
Motor vehicles at cost	800,000	
Stationery	78,000	
Postage and telephone	100,000	
Insurance	30,000	
Bad debts provision 1 <sup>st</sup> July 2020		100,000
Bad debts written off	36,000	
Motor vehicle running expenses	193,000	
Stock 1 <sup>st</sup> July 2020	3,167,000	
Loan 15% interest per annum		500,000
Interest on loan	<u>37,500</u>	
	<u>22,416,000</u>	<u>22,416,000</u>

Additional information:

1. Rates are to be apportioned so that three-quarters is for the business and the rest for private premises, while Sh. 32,000 is pre-paid for the business.
2. Three-quarters of the charge for electricity is for the business while one quarter is for private use.
3. Stock on 30<sup>th</sup> June 20X8 amounted to Sh. 3,105,000.
4. Depreciation on fixtures is at 5 percent on cost and on motor vehicles at 20 percent on reducing balance. No depreciation is to be provided on freehold premises.
5. Unexpired insurance on 30 June 20X8 amounted to Sh.6,000.
6. Provision for bad debts is to be adjusted to Sh. 125,000.
7. Only half years' interest on loan has been paid.
8. James, the proprietor, had taken goods amounting to Sh. 20,000 for personal use.

**Required**

- a. Income Statement for year ended 30<sup>th</sup> June 2021. (10 marks)
- b. Statement of Financial Position as 30<sup>th</sup> June 2021. (10 marks)
- c. Financial statements are prepared with underlying basic assumptions. Discuss five fundamental assumptions recognized as underlying the preparation of financial statements. (10 marks)

**QUESTION TWO**

The following information was extracted from the books of a trading organization for the month of December 2022.

	Sh.
Balances on 1 <sup>st</sup> December 2022	
Sales ledger	624,000 (debit)
	6,420 (credit)
Purchases ledger	3,220 (credit)
	552,420(debit)
Transactions during December 2022	
Receipts form credit customers	663,040
Payments made to creditors	592,500
Credit sales	734,380
Cash sales	252,040
Credit purchases	735,520
Interest charged on debtors	300
Debtors cheques dishonoured	6,300
Discount received	28,320
Discount allowed	30,420
Returns inwards	15,640
Returns outwards	8,420
Bad debts written off	11,160
Sales ledger debits transferred to the purchases Ledger	2,400
Balances on 31 <sup>st</sup> December 2002	
Sales ledger	7,920 (credit)
Purchases ledger	4,380 (debit)

**Required**

The sales ledger and purchase ledger control accounts for the month of November 2022 and show the respective debit and credit closing balances on 30<sup>th</sup> November 2022. (20 marks)

**QUESTION THREE**

S. Mwangi's trail balance at 31<sup>st</sup> December 20X8 did not balance. He put the difference in a suspense account for the difference, prepared his trading and profit and loss account and drew the following balance sheet.

**Statement of Financial Position as 31<sup>st</sup> December 2018.**

	<b>Sh.</b>	Fixed assets	<b>Sh.</b>	<b>Sh.</b>
Capital 1.1.2018	<u>182,790</u>	Furniture and fittings	<u>14,100</u>	
Add net profit	89,100	Motor vehicles	42,900	57,000
	<u>271,890</u>			
Less drawings	75,000	Current assets:		
	196,890	Stock	94,380	
Creditors	74,250	Debtors	64,260	
Suspense account	<u>360</u>	Bank	55,860	<u>214,500</u>
	<u>271,500</u>			<u>271,500</u>

The following errors, which accounted for the difference in the suspense account were subsequently discovered:

1. A loss in the sale of an old motor vehicle Sh. 360 had been correctly entered in the motor vehicle account but had been erroneously charged to depreciation as Sh. 630.
2. Bank charges of Sh. 210 had been correctly entered in the cashbook but the double entry had not been completed in the accounts.
3. Purchase of furniture and fittings Sh. 600 had been correctly entered in the cashbook but the double entry had been completed in the accounts.
4. Sale of goods to a customer for Sh. 1,380 was correctly entered in the sales book but was entered in the customer's account as Sh. 1,920.
5. A credit note of Sh. 510 was received from a creditor and correctly entered in the return outward book but posted to the creditor's account as Sh. 570.
6. A debit balance of Sh. 3,660 in the sales ledger as 31<sup>st</sup> December 2018 had been wrongly carried down as Sh. 3,960 and included in the trial balance at this figure.

**Required:**

- a) Journal entries to correct the above errors (10 marks)
- b) Suspense account duly balanced (4 marks)
- c) Explain at least six External users of accounting information and the kind of information relevant to each (6 marks)

**QUESTION FOUR**

- a) Discuss the uses of ratios in accounting and highlight some of the limitations associated with ratios analysis (8 marks)
- b) Mr. Chris Malala has given you the following information relating to his business during the first two weeks of December.
1. Balances B/F Cash Sh. 175,000, Bank overdraft Sh. 122,000
  2. Received a cheque from S. Kiingati Sh. 49, 000 after deducting a discount of Sh. 2,500.
  3. Deposited Sh. 150,000 in the bank account.
  4. Paid Mr. A. Njuguna Sh. 52,000 by cheque after deducting a discount of Sh. 2,500.
  5. Received cash Sh. 45,000 and cheque Sh. 55,000 from Salim Brothers after a discount of Sh. 5,000.
  6. Withdrew Sh. 10,000 from bank for personal use.
  7. Bought a cash register Sh. 40,000 paying Sh. 30,000 by cheque. The balance due to paid after 60 days.
  8. Bought stationery Sh. 4,800 by cash.
  9. Paid salaries Sh. 10,000 by cheque
  10. Paid salaries Sh. 10,000 in cash and Sh. 6,900 by cheque
  11. Paid Free Area Ltd Sh. 46,500 by cheque after deducting Sh. 3,500 discount.

You are required to prepare a three-column cashbook to record the above transactions (12 marks)

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