



SCHOOL OF PROFESSIONAL STUDIES

BACHELOR OF ARTS IN LEADERSHIP MANAGEMENT

UNIT CODE/NAME: /MGT 122: FINANCIAL ACCOUNTING

January – April 2018/2019 End Semester Exam

- Time: 2 Hours

Instructions: Answer Question ONE (Compulsory) and any other TWO questions.

QUESTION ONE

(a) Brian Barmouth is a sole trader. At 30 June 2018 the following balances have been extracted from his books:

	£
Sales	47,600.00
Purchases	22,850.00
Office expenses	1,900.00
Insurance	700.00
Wages	7,900.00
Rates	2,800.00
Heating and Lighting	1,200.00
Telephone	650.00
Discounts allowed	1,150.00
Opening stock	500.00
Returns inwards	200.00
Returns outwards	150.00
Premises	40,000.00
Plant and Machinery	5,000.00

Motor Vehicles	12,000.00
Debtors	12,500.00
Bank balance	7,800.00
Creditors	3,400.00
Loan-long term loan	10,000.00
Capital	60,000.00
Drawings for the year	4,000.00
Closing stock	550.00

Required:

Construct a trial balance, from the above list of balances.

(6 Marks)

b) The following trial balance was extracted from the books of Rodney, a sole trader, at 31st December 2017:

	Shs	Shs.
Drawings/Capital	2,148	20,271
Debtors/Creditors	7,689	5,462
Purchases/Sales	62,101	81,742
Rent and Rates	880	
Light and heat	246	
Salaries and wages	8,268	
Bad debts	247	
Provision for bad debts		326
Stock in trade 31 st Dec 2016	9,274	
Insurance	172	
General Expenses	933	
Bank balances	1,582	
Motor van at cost	8,000	3,6000
Provision for depreciation		
Proceeds on sale of van		250
Motor expenses	861	
Freehold premises at cost	15,000	
Rent received		750

Provision for depreciation on buildings

5,000

117,401 117,401

The following matters are to be taken in to account:

1. Stock in trade at 31st December 2017 was Shs.9,884
2. Rates paid in advance at 31st December 2017, Shs.40
3. Rent receivable due at 31st December 2017, Shs.250
4. Lighting and heating due at 31st December 2017, sh.85
5. Provision for doubtful debts to be increased to Shs.388
6. Included in the amount for insurance Shs.172, is an item for Shs82 for motor insurance and this amount should be transferred to motor expenses.
7. Depreciation has been and is to be charged on vans at an annual rate of 20% on cost.
8. Depreciate buildings Shs.500
9. On 1st January 201 a van which had been purchased for Shs.1,000 on 1st January 2014 was sold for Shs250. The only record of matter is the credit of Shs.250 to "Proceeds of sale on van" account.

Required:

- i) Prepare a trading, profit and loss account for the year ended 31st Dec 2017 **(12 Marks)**
- ii) Prepare a statement of financial position as at that date). **(12 Marks)**

QUESTION TWO

The following transactions relate to Scott Limited:

- 2018 May 1 Bought a motor vehicle on credit from Motors Ltd for £6,790.
- 2018 May 3 A debt of £34 owing from N Smart was written off as a bad debt.
- 2018 May 8 Furniture bought by us for £490 was returned to the supplier Wood Offices, as it was unsuitable. Full allowance will be given to us.
- 2018 May 12 we are owed £150 by W Hayes. He is declared bankrupt and we received £39 in full settlement of the debt.
- 2018 May 14 we take £45 goods out of the business stock without paying for them.
- 2018 May 28 Some time ago we paid an insurance bill thinking that it was all in respect of the business. We now discover that £76 of the amount paid was in fact insurance of our private house.
- 2018 May 28 Bought Machinery £980 on credit from Xerox Machines Ltd.

Required

- a) Record the transactions in the books of prime entry. (5 Marks)
- b) Post the entries in the ledger account. (5 Marks)
- d) Extract a trial balance as at 31 May 2018. (5 Marks)

QUESTION THREE

The following details relate to Scott Enterprises

2017

- Mar 1 Balances brought forward: Cash £230; Bank £4,756.
- " 2 The following paid their accounts by cheque, in each case deducting 5 percent discounts: R Burton £140; E Taylor £220; R Harris £800.
- " 4 Paid rent by cheque £120.
- " 6 J Cotton lent us £1,000 paying by cheque.
- " 8 We paid the following accounts by cheque in each case deducting a 2 ½ per cent cash discount: N Black £360; P Towers £480; C Rowse £300.
- " 10 Paid motor expenses in cash £44.
- " 12 H Hankins pays his account of £77, by cheque £74, deducting £3 cash discount.
- " 15 Paid wages in cash £160.
- " 18 The following paid their accounts by cheque, in each case deducting 5 per cent cash discount: C Winston £260; R Wilson & Son £340; H Winter £460.
- " 21 Cash withdrawn from the bank £350 for business use.
- " 24 Cash Drawings £120.
- " 25 Paid T Briers his account of £140, by cash £133, having deducted £7 cash discount.
- " 29 Bought fixtures paying by cheque £650.
- " 31 Received commission by cheque £88.

Required

- i) Prepare a three-column cashbook from the above details (10 Marks)
- ii) Balance off the relevant discount accounts in the general ledger (5 Marks)

QUESTION FOUR

- a) Explain what is meant by materiality in relation to financial statements and state two factors affecting the assessment of materiality. **(3 marks)**
- b) Explain what makes information in financial statements relevant to users. **(5 marks)**
- c) (i) Two characteristics contributing to reliability are 'neutrality' and 'prudence'. Explain the meaning of these two terms.
(ii) Explain how a possible conflict between them could arise and how that conflict should be resolved. **(4 marks)**
- d) One of the requirements of financial statements is that they should be free from material error. Suggest three safeguards, which may exist, inside or outside a company to ensure that the financial statements are free from material error. **(3 marks)**

QUESTION FIVE

- (a) Briefly explain the following types of errors:
 - (i) Error of commission **(1 Marks)**
 - (ii) Error of principle **(1 Marks)**
 - (iii) Complete reversal of entries **(1 Marks)**
 - (iv) Compensating errors **(1 Marks)**
- (b) The trial balance of Amanda Ltd as at 30 April 2004 did not balance. On investigation, the following errors were discovered:
 - 1. A loan of Sh.2,000,000 from one of the directors has been correctly entered in the cashbook but posted to the wrong side of the loan account.
 - 2. The purchase of a motor vehicle on credit for Sh.2,860,000 had been recorded by debiting the supplier's account and crediting the motor expenses account.
 - 3. A cheque for Sh.80,000 from Ogola, a customer to whom goods are regularly supplied on credit, was correctly entered in the cashbook but was posted to the credit of bad debts recovered account in the mistaken belief that it was a receipt from Agola, a customer whose debt had been written off three years earlier.
 - 4. In reconciling the company's cash book with the bank statement, it was found that bank charges of Sh.38,000 had not been entered in the company's records.
 - 5. The totals of the cash discount columns in the cashbook for the month of April 2004 had not been posted to the respective discount accounts.

The figures were:

	Sh.
Discounts allowed	184,000
Discounts received	397,000

6. The company had purchased some plant on 1 March 2003 for Sh.1,600,000. The payment was correctly entered in the cashbook but was debited to the plant repairs account. Depreciation on such plant is provided for at the rate of 20% per annum on cost.

Required:

- (i) Journal entries with narrations to correct the above errors.
(ii) Suspense accounts showing the original difference

(10 Marks)

(1 Marks)