Scott Christian UNIVERSITY

SCHOOL OF PROFESSIONAL STUDIES

BACHELOR OF BUSINESS INFORMATION TECHNOLOGY

UNIT CODE/NAME: BBIT 112: FINANCIAL ACCOUNTING I

September- December 2019/2020 End Semester Exam - Time: 2 Hours

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

QUESTION ONE

(a) The trial balance of Amanda Ltd as at 30 April 2018 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 2018 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 2017 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:

Journal entries with narrations to correct the above errors. **(10 Marks)**

b) The trial balance of Zach Ltd. as at 3I December 2018 was as follows:

	Sh.	**Sh.**
Share capital (10,000 Sh.20 Ordinary shares)		200,000
Purchases and Sales	1,220,000	2,000,000
Debtors and Creditors	400,000	140,000
Profit and loss 1 January 2018		380,000
Sales returns	40,000	
Buildings at cost	800,000	
Plant at cost	1,000,000	

Provision for depreciation:		
Plant		400,000
Buildings		40,000
Purchases returns		80,000
Selling expenses	140,000	
Bank		160,000
10% Debentures		600,000
Stock 1 January 2018	300,000	
Provision for bad debts		20,000
Operating expenses	180,000	
Administrative expenses	140,000	
Suspense account		200,000
	4,220,000	4,220,000

Additional information:

1. Stock at 31 December 2018 was Sh.360,000.
2. Sales returns of Sh.20,000 have been entered in the sales day book as if they were sales. When this error was discovered, the debtors account had been corrected but the sales figure was not rectified.
3. 5000 new shares were issued during the year at Sh.32. The proceeds have been credited to the suspense account.
4. A fully depreciated plant which cost Sh.200,000 was sold during the year. No other entries except bank have been made. The remaining balance on the suspense account after (2 and 3) above represents the sale proceeds.
5. A debtor of Sh.20,000 has been declared bankrupt. A general provision is required at 5% of debtors.
6. Rates of Sh.30,000 paid in December covering half year to 31 March 2019 have not been entered in the books.
7. Debenture interest has not been paid.
8. Depreciation on plant is at 10% on cost and buildings at 2% on cost.
9. The directors propose to pay a dividend of Sh.2 per share and transfer Sh.20,000 to the general reserve.
10. Corporation tax at a rate of 32'/2% on profits is estimated to be Sh.90,000.

Required:

(a) Suspense account for the year ended 31 December 2018 **(3 Marks)**
(b) Statement of comprehensive income for the year ended 31 December 2018. **(10 Marks)**
(c) Statement of financial position as at 31 December 2018. **(7 Marks)**

QUESTION TWO

(a) Define the following accounting concepts and for each explain their implication in the preparation of financial Statements.
   i) The Going concern concept. **(3 Marks)**
   ii) Business entity concept. **(3 Marks)**
   iii) Materiality. **(3 Marks)**
   iv) Revenue Realization. **(3 Marks)**

(b) Two accounting concepts or conventions could clash or there could be inconsistency between them. Give two examples of such situations and explain how the inconsistency should be resolved. **(3 Marks)**

QUESTION THREE

(a) Explain the term "bank reconciliation" and state the reasons for its preparation. **(5 Marks)**
(b) Ssemakula, a sole trader received his bank statement for the month of June 2001. At that date the bank balance was Sh.706,500 whereas his cash book balance was Sh.2,366,500.

His accountant investigated the matter and discovered the following discrepancies:

1. Bank charges of Sh.3, 000 had not been entered in the cashbook.
2. Cheques drawn by Ssemakula totaling Sh.22,500 had not yet been presented to the bank
3. He had not entered receipts of Sh.26,500 in his cashbook.
4. The bank had not credited Mr. Ssemakula with receipts of Sh.98, 500 paid into the bank on 30 June 2001.
5. Standing order payments amounting to Sh.62, 000 had not been entered into the cashbook.
6. In the cash book Ssemakula had entered a payment of Sh.74, 900 Sh.79400.
7. A cheque for Sh. 15,000 from a debtor had been returned by the bank marked "refer to drawer" but had not been written back into the cashbook.
8. Ssemakula had brought forward the opening cash balance of Sh.329, 250 as a debit balance instead of a credit balance.
9. An old cheque payment amounting to Sh.44, 000 had been written back in the cashbook but the bank had already honoured it.
10. Some of Ssemakula's customers had agreed to settle their debts by paying directly into his bank account. Unfortunately, the bank had credited some deposits amounting to Sh.832, 500 to another customer's account. However, acting on information from his customers, Ssemakula had actually entered the expected receipts from the debtors in his cashbook.

Required:

(i) A statement showing Ssemakula's adjusted cash book balance as at 30 June 2001. **(6 Marks)**

(ii) A bank reconciliation statement as at 30 June 2001. **(4 Marks)**

QUESTION FOUR

On 31 December 2018. an inexperienced book-keeper working for Wanji, a sole trader, extracted a trial balance. Due to errors committed by the book-keeper, the trial balance failed to balance by Sh.369.400. He placed the difference in a suspense account as shown below:

Wanji trial balance as at 31 December 2018

	Sh.	**Sh.**
Fixed assets-cost	832,000	
Stocks		
1 January 2018	148.000	
31 December 2018		98,800
Trade debtors		76,000
Prepayments		10,000
Trade creditors	34.600	
Bank overdraft		15,200
Accruals		16,000
Drawings	359.600	
Capital		1,054,000
Sales	1,043,200	
Provision for depreciation		166,400
Purchases		733.000
Operating expenses	126.000	
Provision for doubtful debts		3,800
Discounts received	5,000	
Discounts allowed		5,800
Suspense account		369.400

2,548 400 248 400

Investigations carried out after preparing the above trial balance detected the following errors:

1. The total of the sales day book for December 2018 was overcast by Sh.25,700.
2. On 2 July 2018 the business purchased office equipment for Sh.40.000. These were debited to purchases account.
3. Depreciation on the equipment is at the rate of 10% per annum on cost and based on the period (months) of usage in the year.
4. A payment to a creditor by cheque of Sh.8.500 was erroneously credited to the creditor's account.
5. A payment of Sh.4.500 for telephone expenses was debited to telephone account as Sh.5.400.
6. An amount of Sh.15.000 received from a debtor was not posted to the debtor's account from the cash book.
7. An amount of discounts received of Sh.2.500 was debited to discounts allowed account.
8. Purchases day book for October 2018 was undercast by Sh.28,000.
9. Assume the business had reported a net profit of Sh.85,800 before adjusting for the above errors.

Required:

(a) The adjusted trial balance and the correct balance of the suspense account **(6 Marks)**
(b) Journal entries to correct the errors (Narrations not required) **(6 Marks)**
(c) Suspense account starting with the balance determined in the adjusted trial balance in (a) above. **(3 Marks)**

QUESTION FIVE

Mr J Ockey commenced trading as a wholesaler stationer on 1 May 2000 with a capital of £5,000.00 with which he opened a bank account for his business.

During May the following transactions took place.

May 1 Bought shop fittings and fixtures from store fitments Ltd for £2,000.00
May 2 Purchased goods on credit from Abel £650.00
May 4 Sold goods on credit to Bruce £700.00
May 9 Purchased goods on credit from Green £300.00
May 11 Sold goods on credit to Hill £580.00
May 13 Cash sales paid into bank account £200.00
May 16 Received cheque from Bruce in settlement of his account
May 17 Purchased goods on credit from Kay £800.00
May 18 Sold goods on credit to Nailor £360.00
May 19 Sent Cheque to Abel in settlement of his account
May 20 Paid rent by cheque £200.00
May 21 Paid delivery expenses by cheque £50.00
May 24 Received from Hill £200.00 on account
May 30 Drew cheque for personal expenses £200.00 and assistant wages £320.00
May 31 Settled the account of Green.

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 2000. **(5 Marks)**