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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2017/2018 ACADEMIC YEAR ONE**

**THIRD SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 112**

**COURSE TITLE: PRINCIPAL OF ACCOUNTING**

**EXAMINATION DURATION: 3 HOURS**

**DATE: 08/08/18 TIME: 09.00-12.00 PM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other THREE (3) questions from the remaining FOUR (4) questions**
* **Use sketch diagrams to illustrate your answer whenever necessary**
* **Do not carry mobile phones or any other written materials in examination room**
* **Do not write on this paper**

**This paper consists of SIX (6) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. Accounting information is prepared for consumption of various stakeholders. Briefly describe any five users of accounting information in each case specifying their information needs. **[10 marks]**
2. Maua Millers is a manufacturer of Wheat products in Mombasa town. The following balances were extracted from their books of account on 31st December 2017.

Dr Cr

Shs (000) Shs (000)

|  |  |  |
| --- | --- | --- |
| Capital at 1st Jan 2017 |  | 171,120 |
| Accounts payable |  | 86,000 |
| Bank and cash balance | 5,400 |  |
| Accounts receivable | 92,000 |  |
| Drawings | 60,000 |  |
| Administration expenses | 150,360 |  |
| Advertising expenses | 12,000 |  |
| Factory direct wages | 60,000 |  |
| Factory Indirect wages | 24,000 |  |
| Factory power | 36,000 |  |
| Furniture and fittings | 18,400 |  |
| Heat and Light | 16,000 |  |
| Plant and equipment | 276,800 |  |
| Motor vehicle | 144,000 |  |
| Plant Hire | 4,000 |  |
| Provision for bad debts | 3,200 |  |
| Provision for depreciation on 1st Jan 2017: Furniture and fittings |  | 9,200 |
| : Plant and equipment |  | 138,400 |
| : Motor vehicles |  | 24,000 |
| Raw materials purchased | 228,000 |  |
| Rent and rates | 20,000 |  |
| Sales |  | 829,440 |
| Selling and distribution expenses | 66,400 |  |
| Inventory at cost 1st Jan 2017: Raw materials | 8,000 |  |
| Work in progress | 16,000 |  |
| Finished goods | 24,000 |  |
|  | **1,261,360** | **1,261,360** |

**The following additional information is provided**:

(i) Accruals at 31 December 2017 were: Factory power -Sh.1, 600,000

Rent and rates - Sh. 4,000,000

There was also prepayment of Sh. 800,000 for salesmen’s motor vehicle insurance.

(ii) Inventories at 31 December 2017 were valued at cost as follows:

Raw materials Sh. 15,200,000

Work in progress Sh. 30,400,000

Finished goods Sh. 45,600,000

(iii) Depreciation is to be charged on plant and equipment, motor vehicle, furniture and fittings at the rates of 20%, 25% and 10% per annum respectively on cost.

(iv) Expenditure on heat and light, and rent and rates is to be apportioned between the factory and office in the ratio of 9:1 and 3:2 respectively.

(v) The provision for bad debts is to be made equal to 5% of accounts receivable at 31 Dec 2017.

**Required:**

1. Combined manufacturing and Income statement for the year ended 31st December 2017 **[9 marks]**
2. b) Statement of financial position as at that date **[6 marks]**

**QUESTION TWO**

The following trial balance was extracted from the books of Mazuri Ltd.as at 31st December 2017.

**Mazuri Ltd**

**Trial Balance**

**As at 31st Dec 2017**

Dr. Cr

|  |  |  |
| --- | --- | --- |
|  | Shs. | Shs. |
| Capital |  | 675,000 |
| Inventory (1.1.2017) | 52,500 |  |
| Plant and machinery (cost) | 750,000 |  |
| Provision for depreciation |  | 180,000 |
| Motor vehicles (cost) | 900,000 |  |
| Provision for depreciation |  | 345,000 |
| Purchases | 720,000 |  |
| Sales |  | 1,080,000 |
| Returns | 67,500 | 45,000 |
| Salaries and wages | 180,000 |  |
| Discounts | 16,500 | 27,000 |
| Carriage inwards | 21,000 |  |
| Loan |  | 450,000 |
| Carriage outwards | 9,000 |  |
| Postage and telephone | 18,750 |  |
| Water and electricity | 14,250 |  |
| Bad debts written off | 15,750 |  |
| Provision for doubtful debts |  | 4,500 |
| General expenses | 24,000 |  |
| Rent and rates | 27,000 |  |
| Debtors | 90,000 |  |
| Creditors |  | 180,000 |
| Bank |  | 47,250 |
| Cash | 127,500 |  |
|  | **3,033,750** | **3,033,750** |

**Additional information**

1. Inventory as at 31st Dec 2017 was valued at shs. 78,000.
2. Provision for doubtful debts is to be increased by shs. 3,000
3. Rent owing as at 31st Dec 2017 was shs. 9,000 while prepaid rates was shs. 3,000 as at the same date.
4. Outstanding electricity expense was shs. 2,250.
5. Depreciation is to be charged on reducing balance at the rate of 10% for plant and machinery and 20% for motor vehicles.

**Required**

1. Statement of comprehensive Income for the year ended 31st Dec 2017 **[9 marks]**
2. Statement of Financial Position as at that date **[6 marks]**

**QUESTION THREE**

The balances and transactions affecting the control accounts of Kahin Traders for the month of June 2017 are listed below

|  |  |
| --- | --- |
|  | Shs |
| Balance on 1st June 2017 |  |
| Debit Balances: Sales Ledger | 4,561,500 |
| Purchases | 44,000 |
| Credit Balances: Sales Ledger | 105,500 |
| Purchases Ledger | 2,245,000 |
| **Transaction During June 2017** |  |
| Purchase on credit | 9,067,500 |
| Allowances from suppliers | 314,500 |
| Receipts from customers by cheque | 13,685,000 |
| Sales on credit | 18,377,500 |
| Discount received | 552,500 |
| Payments to creditors by cheque | 7,706,500 |
| Contra Settlements | 1,523,000 |
| Bills of exchange receivable | 3,253,000 |
| Allowances to customers | 860,000 |
| Customers dishonored cheques | 244,500 |
| Cash received from credit customers | 2,100,500 |
| Discount allowed | 366,000 |
| Balance of 30th June 2017 |  |
| Sales Ledger (credit) | 68,000 |
| Purchases Ledger (debit) | 33,500 |

**Required**:

1. The Sales Ledger control accounts for the month of June 2017 **[8 marks]**
2. The Purchases Ledger control accounts for the month of June 2017 **[7 marks]**

**QUESTION FOUR**

Halima operates a beauty shop in Garissa town. Her accounts clerk maintains the business records. During the month of September 2017 she obtained the following bank statement from her bank.

Debits Credits Balance

|  |  |  |  |
| --- | --- | --- | --- |
| Balance |  |  | 168,000. Cr |
| Deposits |  | 232,800 | 400,800. Cr |
| Deposits |  | 34,900 | 435,700. Cr |
| Cheque No. 016 | 144,000 |  | 291,700. Cr |
| Cheque No. 017 | 27,200 |  | 264,500. Cr |
| Deposits |  | 50,000 | 314,500. Cr |
| Cheque No. 019 | 68,000 |  | 246,500. Cr |
| Bank charges | 1,000 |  | 245,500. Cr |
| Cheque No. 021 | 56,800 |  | 188,700. Cr |
| Unpaid cheque | 85,000 |  | 103,700. Cr |
| Deposits |  | 72,000 | 175,700. Cr |
| Cheque No. 018 | 97,000 |  | 78,700. Cr |
| Standing order- insurance | 100,000 |  | 21,300. Dr |

Her cash book (bank column only) had the following entries on 30th September 2017.

Cash book (bank column only)

|  |  |
| --- | --- |
| Shs. | Shs. |
| Balance b/f 168,000 | Cheque No. 016 144,000 |
| Deposits 232,800 | Cheque No. 017 27,200 |
| Deposits 34,900 | Cheque No. 018 97,000 |
| Deposits 72,000 | Cheque No. 019 68,000 |
| Deposits 85,700 | Cheque No. 020 52,200 |
|  | Cheque No. 021 56,800 |
|  | Cheque No. 022 63,600 |
|  | Balance c/d 84,600 |
| **593,4000** | **593,400** |

Mary hires you to explain to her the difference in amounts shown by the bank statement and the cash book. You are informed that no errors have been made in either the cash book or the bank statement.

**Required**

1. Adjusted cash book **[8 marks]**
2. Bank reconciliation statement **[7 marks]**

**QUESTION FIVE**

1. Describe any three types of discounts **[6 marks]**
2. A trial balance may balance even when there are errors. Briefly describe five errors that may not be revealed by a trial balance not to balance. **[9 marks]**