



BACHELOR OF FINANCIAL SERVICES  
END OF SEMESTER EXAMINATION  
BFS 1102: ACCOUNTING IN BUSINESS 1

Date: Tuesday, 2<sup>nd</sup> November 2021

Time: 2 Hours

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**Instructions:**

**Answer QUESTION ONE and ANY OTHER TWO QUESTIONS**

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**QUESTION ONE**

**Part A**

Michael and Leah are trading in a partnership under the name Mile Enterprises.

The following trial balance was extracted from the books of the partnership as at 31 December 2020:

	Sh. "000"	Sh. "000"
Gross profit for the year		20,000
Administrative expenses	8,000	
Capital accounts: Michael		50,000
Leah		30,000
Current accounts: Michael	1,000	
Leah		4,000
Drawings: Michael	3,000	
Leah	2,000	
Property, plant, and equipment at cost	66,000	
Provision for depreciation		18,000
Inventory	12,300	
Trade receivables	27,000	
Balance at bank	9,700	
Trade payables		7,000
	<u>129,000</u>	<u>129,000</u>

**Additional information:**

1. The partnership agreement provides for the following:
  - Interest on capital; accounts is at 5 % per annum.
  - Leah is to be paid a salary of Sh. 3 million per annum
  - Profits are to be shared between Michael and Leah in the ratio of 3:2 respectively.
2. On 1 July 2020, the partnership agreement was reviewed as follows:
  - Interest on capital accounts was increased to 10% per annum.
  - Leah was to be paid a salary of Sh 4 million per annum.
  - Profits and losses were to be shared between Michael and Leah equally.
3. Depreciation is to be provided at the rate of 10 % per annum on the cost of property, plant and equipment.
4. Allowance for bad and doubtful debts as at 31 December 2020, was 2% of trade receivables.
5. Inventory as at 1 January 2020 had been overstated by Sh. 5 million.
6. A loan of Sh 10 million advanced to the partnership by Michael on 30 June 2020 had been credited to Michael's capital account. The partners agreed on the rate of interest at 12% per annum.
7. Assume that the following arose at a uniform rate throughout the year ended 31 December 2020.
  - Gross profit
  - Administrative expenses
  - Depreciation expenses
  - Allowance for bad and doubtful debts.

**Required:**

- a) Statement of profit or loss for the year ended 31 December 2020

**(8 marks)**

b) Partners' current accounts (4 marks)

c) Statement of financial position as at 31 December 2020 (8 marks)

**(Total: 20 marks)**

### Part B

You are the Chief Finance Officer of SAWEH Ltd you recently hire some interns to assist you with bookkeeping. One of the interns approaches you and asks the meaning of the following accounting concepts. Explain using examples.

- |                                |                 |
|--------------------------------|-----------------|
| i. The 'Going concern'         | <b>2 Marks.</b> |
| ii. The 'Prudence concept'     | <b>2 Marks</b>  |
| iii. The 'Materiality concept' | <b>2 Marks</b>  |
| iv. The 'Accrual concept'      | <b>2 Marks</b>  |
| v. The 'Consistency concept'   | <b>2 Marks</b>  |

### QUESTION TWO

a) Explain two reasons why a company provides for depreciation of its non-current assets. (2 marks)

b) The non – current assets of Jambo Ltd as at 1 May 2020 were as follows:

	<b>Cost</b>	<b>Accumulated depreciation</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Land	440,000	-
Plant and equipment	700,320	270,560
Motor vehicles	517,600	168,800
Fixtures and fittings	100,000	25,600

#### **Additional information:**

1. The company uses the straight-line method of depreciation at the following rates:

Plant and equipment	10% per annum
Motor vehicles	20% per annum

Fixtures and fittings      12.5% per  
annum

2. It's the policy of the company to provide for a full year's depreciation in the year of purchase of an asset and none in the year of disposal.
3. Land was revalued at Sh 780,000,000 during the year.
4. A motor vehicle bought on 1 January 2018 for Sh 680,000 was traded in on 1 July 2020 at a value of Sh 352,000 in part exchange for a new motor vehicle costing Sh. 1,120,000.
5. Fixtures and fittings include an item which is already fully depreciated and no longer in use. Its cost was Sh 200,000.
6. On 1 January 2021, the company purchased plant and equipment at a cost of Sh 12 million.

**Required:**

- i. Provision for depreciation on plant and equipment account      **(2 marks)**
- ii. Provision for depreciation on motor vehicles account      **(2 marks)**
- iii. Provision for depreciation on fixtures and fittings account      **(2 marks)**
- iv. Non-current assets movement schedule for the year ended 30 April 2021  
**(12 marks)**

**(Total: 20 marks)**

**QUESTION THREE**

Doxy Ltd, a juice distributor has several customers and suppliers. The following information was extracted from the books of the company for the month ended 30 June 2021.

	<b>Sh</b>
Credit purchases	14,750,000
Allowance for doubtful debts as at 30 June 2021	3,200,000
Credit sales	19,000,000
Claims by Doxy Ltd for price reductions on defective goods as agreed with suppliers	539,000
Return inwards	600,000
Discounts received	378,000
Returns outward	450,000
Interest charged to credit customers	1,002,500
Discounts allowed	504,500
Receipts from credit customers	16,532,000
Payments to credit suppliers	15,302,500
Bad debts written off	403,500
Customers' cheques dishonored	4,825,500
Payable ledger credits transferred to receivable ledger	1,073,000
Receivable balance as at 1 June 2021	10,500,000
Payable balance as at 1 June 2021	4,000,000

**Additional information:**

1. As at 30 June 2021, customers' account with credit balance totalled to sh 2,250,000 while suppliers' account with debit balances totalled to sh 1,067,000.
2. An amount of Sh. 143,000 of the receivables was written off in April 2021. However, the amount was later received in the month of June 2021 and credited to the suspense account.
3. An invoice of Sh 300,000 had not been posted to the receivables control account as at June 2021. The invoice had been correctly posted in the receivables ledger.

**Required:**

- i. Receivables control account **(12 marks)**
- ii. Payables control account **(8 marks)**

**(Total:20 marks)**

## QUESTION FOUR

**Q1.** Which of the following are true of sole traders?

1. A sole trader's financial statements are private; a company's financial statements are sent to shareholders and may be publicly filed
2. Only companies, and not sole traders, have capital invested into the business
3. A sole trader is fully and personally liable for any losses that the business might make; a company's shareholders are not personally liable for any losses that the company might make

- A. 1 and 2 only
- B. 2 and 3 only
- C. 1 and 3 only
- D. 1, 2 and 3

**(1 mark)**

**Q2.** What is the role of the IFRS Interpretations Committee?

- A. To develop and issue a set of globally accepted International Financial Reporting Standards
- B. To clarify issues in the application of IFRSs where unsatisfactory or conflicting interpretations have developed.
- C. To take account of the financial reporting needs of small and medium-sized entities
- D. To provide a forum for the IASB to consult with the national accounting standard setters, academics, and other interested parties

**(1 mark)**

**Q3.** Who is responsible for the preparation of the financial statements of a company?

1. The finance department
2. The board of directors
3. The external auditors

- A. 1 only
- B. 1 and 2 only
- C. 2 only
- D. 1, 2 and 3

**(1 mark)**

**Q4.** The IASB's Conceptual framework for financial reporting gives four enhancing qualitative characteristics.

Which of the following are examples of those qualitative characteristics?

- A. Faithful representation, neutrality and business entity concept
- B. Verifiability, comparability and true and fair view
- C. Comparability, timeliness and understandability
- D. Relevance, accruals and going concern

**(1 mark)**

**Q5.** Which of the following statements is/are correct?

1. Materiality means that only items having a physical existence may be recognised as assets
2. The substance over form convention means that the legal form of a transaction must always be shown in financial statements even if this differs from the commercial effect
3. The accruals basis means that sales are recognised in the accounts as they occur and not when the cash is received

- A. 2 only
- B. 1, 2 and 3
- C. 1 only
- D. 3 only

**(2 marks)**

**Q6.** Which of the following explains the imprest system of operating petty cash?

- A. Weekly expenditure cannot exceed a set amount
- B. The exact amount of expenditure is reimbursed at intervals to maintain a fixed float
- C. All expenditure out of the petty cash must be properly authorised
- D. Regular equal amounts of cash are transferred into petty cash at intervals

**(2 marks)**

**Q7.** Which of the following are books of original entry?

1. Sales day book
  2. Cash book
  3. Supplier statements
  4. Petty cash voucher
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- A. 1 and 2 only
  - B. 1, 2 and 4 only
  - C. 1 only
  - D. All of them

**(2 marks)**

**Q8.** In the year to 31 December 20X9, Jason recorded some capital expenditure as revenue expenditure.

What is the effect on his profit for the year to 31 December 20X9 and his net assets at that date?

- | <b>Profit</b>  | <b>Net assets</b> |
|----------------|-------------------|
| A. Overstated  | Overstated        |
| B. Overstated  | Understated       |
| C. Understated | Overstated        |
| D. Understated | Understated       |

**(2 marks)**

**Q9.** Paul prepared his draft end of year accounts. However, he has now realised that he did not adjust these for a prepayment of Ksh 210,000 and an accrual of Ksh 80,000.

How will Paul's profit and net assets be affected by including the prepayment and accrual?

Profit for the year will: Net assets will:

- A. Increase by Ksh 290,000 Reduce by Ksh 290,000
- B. Increase by Ksh 130,000 Increase by Ksh 130,000
- C. Reduce by Ksh 130,000 Increase by Ksh 130,000

D. Reduce by Ksh 290,000 Reduce by Ksh 290,000

(2 marks)

**Q10.** Gamma Co prepares its financial statements for the year to 30 September each year. The company pays rent for its premises quarterly in advance on 1 February, 1 May, 1 August and 1 November each year. The annual rent was Ksh120,000 per year until 30 April 20X8. It was increased from that date to Ksh 144,000 per year. What balances were included in the statement of profit or loss and the statement of financial position for the year ended 30 September 20X8?

**Statement of profit or loss**

**Statement of financial position**

<b>Expense</b>	<b>Accrual</b>	<b>Prepayment</b>
A Ksh 130,000	nil	Ksh 12,000
B Ksh 130,000	Ksh 24,000	nil
C Ksh 132,000	nil	Ksh 12,000
D Ksh 132,000	Ksh 24,000	nil

(2 marks)

**Q11.** A company receives rent from a large number of properties. The total received the following rental payment in the year ended 30 June 2020 was Ksh 1,203,000.

The following were the amounts of rent in advance and in arrears at 30 June 2020 and 2021.

**30 June 2020 30 June 2021**

	<b>Ksh</b>	<b>Ksh</b>
Rent received in advance	71,750	78,000
Rent in arrears (all subsequently received)	53,000	46,000

What amount of rental income should appear in the company's statement of profit or loss for the year ended 30 June 2021?

- A. Ksh 1,152,250
- B. Ksh 1,189,750
- C. Ksh 1,216,250
- D. Ksh 1,253,750

**(2 marks)**

**Q12.** Which of the following statements is/are true?

1. Accrued expenses are expenses which relate to the current accounting period but have not been paid for. They are shown in the statement of profit or loss for the current period in accordance with the accruals concept.
2. Prepaid expenses are expenses which have already been paid in the current period but relate to a future accounting period. They are shown in the statement of profit or loss for the current period in accordance with the timeliness concept.

- A. 1 only
- B. 2 only
- C. Both 1 and 2
- D. Neither statement is true

**(2 marks)**

**Total: 20 marks**