



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

DATE: Thursday, 15th November 2022

TIME: 2 Hours

Instructions:

Answer QUESTION ONE and any other TWO QUESTIONS

QUESTION ONE

(a) Mercy and John are in partnership sharing profits and losses in the ratio 2:1 respectively after crediting themselves with an 8 % p.a interest on capital and a salary of Ksh. 30,000 and Ksh. 35,000 per month respectively. Their trial balance for the year ended 31/12/2021 is as follows

	Dr	Cr
	Ksh. '000'	Ksh. '000'
Plant and Machinery(at cost)	26,000	
Motor vehicle(at cost)	14,200	
Furniture (at cost)	8,400	
Purchases	86,640	
Sales		116,700
Inventory 1/1/2021	2,450	
Discount	1,270	1,180
Carriage inwards	1,230	
Carriage outwards	1,520	
Accounts receivable	9,500	
Accounts payable		4,800

Cash at Bank	6,700	
Rent and rates	1,130	
Electricity & Water	685	
Cash in hand	2920	
Bank Loan		3,700
Insurance	1,590	
Bad debts	2100	
Returns	720	495
Salaries & Wages	1,750	
Drawing : Mercy	1,420	
John	1,860	
Capital A/C :Mercy		20,800
John		16,500
Current A/C :Mercy		3,800
John		4,110
	<u>172,085</u>	<u>172,085</u>

Additional information:

1. Inventory in at 31/12/2021 amount to Ksh. 1,820,000
2. Salaries and wages in arrears amount Ksh. 125,000 while rent and rates paid in advance is Ksh. 140,000.
3. Electricity and water in accrued amounted to Shs. 118,000.
4. Depreciation is charged as follows
 - i. Plant and machinery 10% p.a , reducing balance method
 - ii. Motor vehicles 14% p.a on cost, straight line method
 - iii. Furniture 12% p.a on cost, straight line method
5. Provision for bad and doubtful debts is to be maintained at 6 % of accounts receivable

Required:

- i. Partners Statement of Comprehensive income **(7 marks)**
- ii. Partners, Profit and Loss Appropriation A/C **(3 marks)**

- iii. Partner's current A/C (4 marks)
- iv. Partnership Statement of financial position as at 31/12/2021 (6 marks)

(b) Assume that you are the Accountant of Jubilant wholesalers a sole proprietorship business. In preparing the accounts of the business you are faced with the following problems:

- i. The business has just employed a sales manager who has an experience of 30 years in a similar business
- ii Stationeries worth Shs. 500 have not been recorded in the books of accounts

Explain which accounting principle you would consider in dealing with each of the above problems (4 marks)

(c) Explain meaning of contra entry as used in preparation of cash book (2 marks)

(d) The users of financial statements are those groups identified as having reasonable right to the information and whose information needs should be recognized. Explain four groups interested in financial statement of a business enterprise. (4 marks)

QUESTION TWO

(a) Mr Levi started a new business with Shs. 2,460,000 cash on May 2021. During May he carried out the following transactions: -

- | | |
|----------------------|---|
| 1st May | Deposited Shs. 829,000 in a bank account. |
| 2nd May | Bought goods worth Shs 542,000 cash |
| 3rd May | Sold goods for Shs 783,000 cash |
| 9th May | Paid Rent Shs. 90,700 Cash |
| 10 th may | bought goods on credit worth sh.274,000 from Queens Ltd |
| 15 th may | Sold goods on credit worth sh.183,200 to Mums Ltd |
| 18 th May | Received from Mums ltd Shs.. 140,200 cash |
| 19 th May | Paid Queens ltd Shs. 98,000 by cheque |

Required

(i) Record the transactions in the relevant ledger accounts and balance off the accounts

(10 marks)

(ii) Extract a trial balance

(2 marks)

(b) Control accounts are essential In large business organisation with huge volumes of credit sales and purchases Explain three advantages of control accounts

(3 marks)

QUESTION THREE

(a) The cash book bank column of James for the month December 2021 is as follows:

Date	Cheque. No	Details	Amount (Shs.)	Date	Cheque No.	Details	Amount (Shs.)
2/12	018	Lois	34,000	1/12		Balance b/f	30,000
10/12	119	Roy	38,000	5/12	651	Benson	56,000
18/12	125	James	36,000	12/12	652	Dorris	38,000
22/12	173	Jack	24,000	20/12	653	Joseph	20,000
				20/12	654	Onesmus	<u>24,000</u>

The bank provided the following bank statement as at 31/12/21

Date	Cheque no.	Details	Debit(Shs.)	Credit(Shs.)	Balance(Shs.)
1/12		Balance b/f	20,000		(30,000)
2/12	018			34,000	?
5/12	651		56,000		?
10/12	119			38,000	?
11/12		Ledger fees	4,900		?
12/12	652		38,000		?
18/12		Interest income		6,800	?
19/12		ABC Insurance	2,000		?
22/12		CIC ltd	9,000		<u>?</u>
31/12		Balance			<u>?</u>

Required:

- (i) Calculate the balance as per the cash book (1 marks)
 - (ii) Prepare adjusted cash book (6 marks)
 - (iii) Prepare a bank reconciliation statement (3 marks)
- (b) Using illustrations, explain four_ methods of estimating depreciation (4 Marks)

QUESTION FOUR

- (a) Jugss Ltd, a Jugs ‘ manufacturer has several customers and suppliers. The following information was extracted from the books of the company for the month ended 30 April 2021.

Shs.

Credit Balance on 1April 2021 - Sales ledger	627,000
Purchases ledger	809,000
Debit Balance on 1 April 2021: Sales ledger	1,270,000
Purchases ledger	510,000
Credit Balance on 30 April 2021: Sales ledger	378,000
Debit Balance on 30 April 2021: Purchases ledger	452,000
Credit Purchases	7,920,000
Credit sales	11,390,000
Cheque received from customers	3,280,000
Cash received from customers	2,390,000
Cheque payments to suppliers	1,810,000
Cash payments to suppliers	642,000
Returns inwards	505,000
Returns outwards	412,000
Discounts Received	202,000
Discounts Allowed	187,000
Bad debts written off	315,000

Contra entry to receivables ledger from payables ledger	418,000
Refunds to customers	96,000
Dishonoured cheques from customers	177,000

Required

(i) Prepare receivables control account (6 marks)

(ii) Prepare payables control account (5 marks)

(b) Explain four reasons why a company provides for depreciation of its non-current assets (4 marks)

QUESTION FIVE

(a) Using illustration distinguish between revenue and capital expenditure (4 marks)

(b) The following errors were found in the books of Juice Ltd; a Soft Drinks Company

1. A machine bought for shs 170,000 cash had been debited to the purchases account.
2. Goods sold to Jane for shs 260,000 on credit were debited to the account of Jean
3. A purchase invoice from Alex for shs 225,000 was omitted
4. Goods sold on credit to Benson for shs 370,000 were entered in the sales day book as shs730,000:
5. The salaries and wages account was overcast by shs 84,000 and rent received account had also been overcast by shs 84,000.
6. A cash payment of sh. 40,000 for electricity was debited to cash in hand account a/c and credited to electricity account

Required

(i) Identify the errors (3 marks)

(ii) Pass the necessary journal entries to correct the above errors (8 marks)