



BACHELOR OF COMMERCE / BACHELOR OF FINANCIAL SERVICES / BACHELOR OF
SCIENCE IN SUPPLY CHAIN AND OPERATIONS MANAGEMENT
END OF SEMESTER EXAMINATION
BCM 1101/ BFS 1102/ SCM 1103: ACCOUNTING IN BUSINESS 1

Date: Tuesday, 15th December 2020

Time: 2 Hours

Instructions:

Answer QUESTION ONE and ANY OTHER TWO QUESTIONS

QUESTION ONE

- a. The following trial balance was extracted from the books of Chimmandah who operates a sole-proprietor in Jentayu as at 30th June 2020.

	Dr	Cr
	shs'000'	shs'000'
Sales		713,625
Purchases	411,000	
Inventory as at 1 June 2020	108,250	
Carriage inwards	2,625	
Carriage outwards	4,400	
Returns inwards	5,875	
Returns outwards		4,225
Wages	118,750	
Insurance	8,000	
Advertising	5,125	
Motor expenses	2,400	
Capital		724,775
Drawings	29,000	
Premises	390,000	
Equipment	83,500	
Motor vehicles	196,250	

Account receivables	81,625	
Account payables		71,900
Cash at Bank	39,000	
Cash on hand	18,625	
Sundries expenses	<u>10,100</u>	=
	<u>1,514,525</u>	<u>1,514,525</u>

Additional information:

- (a) Depreciation on properties is to be charged as follows:
- Premises at 2% on cost
 - Motor vehicles at 25% using the straight-line method
 - Equipment at 10% using reducing balance method
- (b) The insurance shown in the trial balance represent the amount that was paid during the year. During the year ending 30th June 2020 insurance that was prepaid amount to shs. 2m.
- (c) Amount owing for wages during the year ending 30th June 2020 amount to shs. 4m.
- (d) Inventory at the close of business was valued at shs. 142,250,000

Required: prepare the following statements:

- i) The statement of profit or loss for the year ending 30th June 2020 **(8 marks)**
- ii) The statement of financial position as at 30th June 2020 **(12 marks)**
- b. Explain the meaning of the following accounting concepts.
- i. The 'Going concern' **(2 Marks)**
 - ii. The 'Prudence concept' **(2 Marks)**
 - iii. The 'Materiality concept' **(2 Marks)**
 - iv. The 'Accrual concept' **(2 Marks)**
 - v. The 'Consistency concept' **(2 Marks)**

(Total: 30 marks)

QUESTION TWO

- Which of the following correctly describes the term 'debit note'?
 - A. It is issued by a supplier to a customer to demand payment in full for goods supplied
 - B. It is issued by a customer to a supplier to request a credit note
 - C. It is issued by a customer when goods are delivered
 - D. It is issued by a customer to a supplier to cancel an invoice received **(1 mark)**
- What is a 'trade discount'?
 - A. A reduction in the amount of an invoice given by the supplier if a customer pays promptly
 - B. A price reduction which a supplier applies to a selection of goods on special offer
 - C. A refund which a supplier agrees with an individual customer after an invoice has been sent at full price
 - D. A reduction in the invoice price by a supplier because of the terms of trade agreed with an individual customer **(1 mark)**
- The bookkeeper of a business makes the following entries in the books of account:

DR Office premises Ksh 500,000

CR Payables Ksh 500,000

These entries record which of the following business transactions?

- A. The business has taken out a bank loan to refurbish the head office
- B. The business has paid an outstanding invoice for repairs to office premises
- C. The business has purchased a non-current asset on credit
- D. The business has purchased a non-current asset for cash

(2 marks)

4. NOROX Co purchases goods with a list price of Ksh 10,000,000 subject to a 5% trade discount. NOROX Co is allowed 2.5% cash discount for payment within 30 days from invoice date. Assuming the discount is taken, how much will NOROX pay? (Ignore tax).

- A. Ksh 9,750,000
- B. Ksh 10,237,500
- C. Ksh 9,262,500
- D. Ksh 9,500,000

(2 marks)

5. Brian starts a business with Ksh 5000,000 cash, buying inventory Ksh 1000,000 from cash and paying business expenses of Ksh 100,000. Inventory is purchased on credit for Ksh 500,000. Following these transactions, what is the capital of Brian 's business?

- A. Ksh 3,900,000
- B. Ksh 4,900,000
- C. Ksh 5,000,000
- D. Ksh 5,400,000

(2 marks)

6. The following balances have been taken from the trial balance of Jentayu Ltd. What is the trial balance total on the debit side?

	Ksh
Rent paid	180,000
Capital	1,500,000
Purchases	1,000,000
Sales	1,200,000
Wages	500,000
Sundry expenses	100,000
Cash	920,000

- A. Ksh 2,600,000
- B. Ksh 2,900,000
- C. Ksh 4,200,000
- D. Ksh 2,700,000

(2 marks)

7. Which of the following is an example of an error of commission (assuming a control account is not kept)?

- A. A receipt of Ksh 2500 from Jane Ouma entered in Francis Mwaboza account as a credit and debited to cash
- B. A purchase of cleaning materials recorded as DR cash Ksh 5,000, CR cleaning materials Ksh 5,000
- C. An invoice for Ksh 130,000 is lost and not recorded at all
- D. An invoice for Ksh 250,000 sales is posted as Ksh 205,000

(2 marks)

8. Which of the following errors would be a possible reason for a trial balance failing to agree?
- A. Sales Ksh 500,000 entered correctly, but entered as Ksh 150,000 in the receivables ledger control account
 - B. A purchase of Ksh 55000 on credit not being recorded
 - C. Cash wages being recorded as debit: cash Ksh 25000, credit: wages Ksh 25000
 - D. An asset purchase Ksh 75,000 being recorded as debit: machinery repairs Ksh 75,000, credit: cash Ksh 75,000. **(2 marks)**
9. Which of the following correctly records discount received?
- (i) DR discount received
 - (ii) CR discounts received
 - (iii) DR suppliers' accounts
 - (iv) CR suppliers' account
- A. (ii), (iii)
 - B. (i), (iv)
 - C. (ii), (iv)
 - D. (i), (iii) **(2 marks)**
10. You receive a cheque from a customer in payment which is banked. The cheque is then returned as unpaid. What is the correct accounting entry for this (assuming you take no other action)?
- A. Debit your cash book and observe a debit on your bank statement
 - B. Credit your cash book and observe a credit on your bank statement
 - C. Identify a debit on your bank statement and make a credit entry in the cash book
 - D. Identify a credit on your bank statement and make a debit entry in the cash book **(2 marks)**
11. If a purchase return of Ksh 5800 has been wrongly posted to the debit of the sales returns account, but has been correctly entered in the supplier's account, the total of the trial balance would show:
- A. The credit side to be Ksh 5,800 more than the debit side
 - B. The debit side to be Ksh 5,800 more than the credit side
 - C. The credit side to be Ksh 11,600 more than the debit side
 - D. The debit side to be Ksh 11,600 more than the credit side **(2 marks)**

(Total 20 marks)

QUESTION THREE

- (a) Differentiate between a petty cash-book and a three – column cash-book **(5 marks)**
- (b) Briefly explain why it is important for a business entity to prepare a bank reconciliation statement. **(3 marks)**
- (c) You have recently been employed in a medium size company and deployed in the accounts department. Your head of section has given you the following extract from the cash-book for the month of April 2020:

Receipts during the month	Sh. 2,938,000	Balance brought forward (1.4.2020)	Sh. 1,522,000
Balance carried forward (30/4/2020)	<u>1,108,000</u>	Payments during the month	<u>2,524,000</u>
	<u>4,046,000</u>		<u>4,046,000</u>

The head of section further informs you that all receipts are banked intact and all payments are made by Cheque. On investigation you discover the following:

1. Bank charges and commissions amounting to Sh. 272,000 entered on the bank statement had not been entered in the cashbook.
2. Cheques drawn amounting to Sh. 534,000 had not been presented to the bank for statement.
3. Cheques received totaling Sh. 1,524,000 had been entered in the cashbook and paid into the bank, but had not been credited by the bank until May 2020.
4. A Cheque for Sh. 44,000 had been entered as receipts in the cashbook instead of a payment.
5. A Cheque for Sh. 50,000 had been debited by the bank by mistake.
6. A check received for Sh. 160,000 had been returned unpaid. No adjustment had been made in the cashbook.
7. All dividends received are credited direct to the bank account. During the month of April 2020, dividends totaling Sh. 124,000 were credited by the bank and no entries had been made in the cashbook.
8. A Cheque drawn for Sh. 12,000 had been incorrectly entered in the cashbook as Sh. 132,000.
9. The balance brought forward should have been Sh. 1,422,000.
10. The bank statement as at 30 April 2020 showed an overdraft of Sh. 2,324,000.

Required:

(i) The adjusted cashbook as at 30 April 2020. **(6 marks)**

(ii) Bank reconciliation statement as at 30 April 2017. **(6 marks)**

(Total: 20 marks)

QUESTION FOUR

1. 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

(2 marks)

2. 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)

4. Which TWO of the following are important fundamental assumptions for financial statements according to the IASB's Conceptual framework for financial reporting?

- 1. Relevance
- 2. Going concern
- 3. Faithful representation
- 4. Accruals

- A. 1 and 2 only
- B. 2 and 3 only
- C. 3 and 4 only
- D. 1 and 3 only

(2 marks)

5. Which of the following are books of prime entry?

- 1. Sales daybook.
- 2. Cash book.
- 3. Supplier statements.
- 4. Petty cash voucher.

- A. 1 and 2 only
- B. 1, 2 and 4 only
- C. 1 only
- D. All of them

(2 marks)

6. Which of the following is responsible for developing and issuing International Financial Reporting Standards (IFRSs)?

- A. IFRS Foundation
- B. IFRS Interpretations Committee
- C. International Accounting Standards Board (IASB)
- D. IFRS Advisory Council

(1 marks)

7. If the total debits exceed the total credits in a T-account, does the account have a debit or a credit balance?

- A. Credit balance
- B. Debit balance

(2 marks)

8. Which of the following items reconciling the balance on the bank ledger account to the balance shown on the bank statement are referred to as timing differences?

1. Bank charges not recorded in the cash book
2. Interest charged not recorded in the cash book
3. Outstanding lodgements
4. Unpresented cheques

- A. 1 and 2
- B. 3 and 4
- C. 2 and 3
- D. 1 and 4

(2 marks)

9. The debit side of a company's trial balance totals Ksh 800 more than the credit side. Which one of the following errors would fully account for the difference?

- A. Ksh 400 paid for plant maintenance has been correctly entered in the cash book and credited to the plant asset account
- B. Discount received Ksh 400 has been debited to discount allowed account
- C. A receipt of Ksh 800 for commission receivable has been omitted from the records
- D. The petty cash balance of Ksh 800 has been omitted from the trial balance

(2 marks)

10. In preparing a company's bank reconciliation statement at 31 March 2020, the following items are causing the difference between the cash book balance and the bank statement balance:

1. Bank charges Ksh 380
2. Error by bank Ksh 1,000 (cheque incorrectly debited to the account)
3. Lodgements not credited Ksh 4,580
4. Unpresented cheques Ksh 1,475
5. Direct debit Ksh 350
6. Cheque paid in by the company and dishonoured Ksh 400

Which of these items will require an entry in the cash book?

- A. 2, 4 and 6
- B. 1, 5 and 6
- C. 3, 4 and 5
- D. 1, 2 and 3

(2 marks)

11. 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 financial position 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)

12. Which of the following appears on the credit side of a purchase ledger control account:

- A. Purchases and other expenses
- B. Cash paid
- C. Discounts received
- D. Returns outwards to suppliers

(1 marks)

Total 20 marks

QUESTION FIVE

a) Demka 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 2020.

	Sh
Credit purchases	14,750,000
Allowance for doubtful debts as at 30 June 2020	3,200,000
Credit sales	19,000,000
Claims by Demka 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 2020	10,500,000
Payable balance as at 1 June 2020	4,000,000

Additional information:

1. As at 30 June 2020, customers' account with credit balance totaled to Shs 2,250,000 while suppliers' account with debit balances totaled to Shs 1,067,000.
2. An amount of Sh. 143,000 of the receivables was written off in April 2020. However, the amount was later received in the month of June 2020 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 2020. The invoice had been correctly posted in the receivables ledger.

Required:

- i. Receivables control account **(10 marks)**
- ii. Payables control account **(10 marks)**

(Total: 20 marks)