



STRATHMORE INSTITUTE
DIPLOMA IN BUSINESS CREATION AND ENTREPRENEURSHIP
END OF SEMESTER EXAMINATION
UNIT CODE: DE 1302

TITLE: FUNDAMENTALS OF ACCOUNTING

DATE 14th January 2022

Time: 2 HOURS

Instructions

1. Attempt question one (**Compulsory**) plus any other **two** questions
2. State all the assumptions made
3. Marks allocated to each question are shown at the end of each question

Question One: (Compulsory)

- a) State and explain any four causes of the differences in the balance as per the cashbook (bank column) and the bank statement. **(4 Marks)**
- b) Explain Meaning and the accounting treatment of provision for doubtful debts and bad debts **(4 marks)**
- c) The trial balance of John Mwalimu Andrew ombati on 31st May 2021 refused to balance and was as follows:

	Sh. ;000'	Sh. ;000'
Capital		100,000
Motor vehicles	16,000	
Equipment	20,600	
Inventory (30 th April 2020)	24,000	
Purchases \$ sales	338,000	540,000
Land and buildings	140,000	
Receivables and payables	56,000	64,000
Discount allowed \$ received	1,200	2,500
wages and salaries	74,000	
Returns inwards and outwards	300	400
Drawings	1,400	
Insurance	1,600	
General Expenses	5,600	
Bank	24,000	
Suspense account	4,200	
	<u>706,900</u>	<u>706,900</u>

Additional information:

1. Closing inventory was valued at sh. 28,000,000
2. After a thorough scrutiny the following errors were discovered:
 - Sales were under cast by sh. 20,000,000
 - Discount allowed was overcast by sh. 200,000
 - Returns inwards credited to returns outwards account was Sh. 200,000
 - Purchases were under cast by sh. 10,000,000
 - Accounts payables were overcast by sh. 14,000,000

- Bank charges omitted from the books of account amounted to sh. 1,000,000

Required:

- i. Journal entries to correct the above errors (6 Marks)
 - ii. Suspense account duly balanced (2 marks)
 - iii. Income statement for the year ended 31st May 2021 (7 Marks)
 - iv. Statement of financial position as at 31st May 2021 (7 marks)
- (Total 30 marks)*

Question Two:

- a) Citing an example in each case, briefly explain five types of bookkeeping errors which are disclosed by trial balance. (5 Marks)
- b) Mohammed set up a business and in the first year of trading of 2020 the following transactions occurred:
 - January:* Introduced \$10,000 capital by cheque.
 - February:* He bought supplies worth \$4,000 and paid by cheque.
 - March:* He bought a delivery van for \$2,000 and paid by cheque.
 - April:* He bought \$1,000 of purchases on credit.
 - May:* He sold goods for \$1,500 and receives a cheque of that amount.
 - June:* He sold all his remaining goods for \$5,000 on credit.
 - July:* He paid \$800 to his supplier by cheque.
 - August:* He paid rent of \$200 by cheque.
 - December:* He withdrew \$100 for living expenses from the business bank account.

Required:

- (i) Prepare relevant ledger accounts duly/fully balanced (7 Marks)
 - (ii) Trial balance as at 31st December 2020 (3 Marks)
- (Total 15 Marks)*

Question Three:

- (a) Differentiate between discount received and discount allowed and their treatment in a three column cashbook (4 Marks)
- (b) On 31st December 2020 the cash book (bank Column) of Lilian showed a debit balance of sh. 81,000. However on the same date her bank statement showed a credit balance of sh. 67,000. Going through her records she found out the following:
 - i. A cheque received on 29th December 2020 for sh. 6,000 entered in the cash book is missing in the bank statement.
 - ii. A cheque paid to Sarah Mutuko for sh. 7,000 on 25th December 2020 had not been presented.
 - iii. A cheque received from Wiper Stores on 20th December 2020 for sh. 6,000 and entered into the cash book was returned dishonoured.
 - iv. Bank charges amounting to sh. 1,000 had not been entered into the cash book
 - v. The bank received directly sh. 10,000 from Equitto Limited as dividends on 18th December on behalf of Lilian.
 - vi. A cheque payment of sh. 20,000 to Olivia had been entered in error sh. 2,000 in the cash book.

Required

- 1) Prepare the Updated Cash book (6 marks)
 - 2) The bank reconciliation as at 31st December 2020. (5 Marks)
- (Total 15 Marks)*

Question Four

- (a) Explain the accounting equation in accounting. **(3 Marks)**
 (b) The following balances were extracted from the books of Shadow limited for the month of January 2021.

	Shs'000'
Balances as at 1st January 2021:	
Trade Receivables Ledger	
-Debit	51,000
- Credit	2,050
Trade Payables Ledger	
-Debit	600
- Credit	30,750

Transactions During the month

Discount allowed	4,110
Refunds to customers for overpayments	330
Cash receipts from credit customers	33,750
Bills of exchange receivable	20,800
Contra settlement	19,240
Payment to creditors by cheque	80,575
Discount received	10,900
Credit sales	241,500
Receipts from customers by cheques	106,550
Purchases on credit	135,000
Customers dishonored cheques	3,075

Balances as at 31st January 2021

Trade receivables ledger (Credit)	1,050
Trade payables ledger (debit)	435

Required:

- i. Accounts receivable control account for the month ended 31st January 2021. **(6 Marks)**
 - ii. Accounts Payable control account for the month ended 31st January 2021. **(6 Marks)**
- (Total 15 Marks)**

Question Five

- (a) Identify any four users of the accounting information and the nature of their information requirements. **(4 Marks)**
 - (b) Explain giving examples the distinguishing features of Accruals, Prepayments, and how each of this item is to be included and shown in the financial statements of a company. **(4 Marks)**
 - (c) Explain the difference between an asset and a liability giving examples where possible. **(4 marks)**
 - (d) State any three reasons for the preparation of control accounts. **(3 Marks)**
- (Total 15 Marks)**