



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

DATE: 15th December 2021

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

- a) Explain any four reasons cashbook (bank Column) balance normally differs with the bank statement balance **(6 Marks)**
- b) State any four items that you expect to be included partnership deed. **(4 Marks)**
- c) Khalif Mohammed is a merchant operating in Mombasa. His trial Balance for the year ended 31/12/20 is as follows:

	Dr.	Cr.
	<u>Ksh. '000'</u>	<u>Ksh. '000'</u>
Motor vehicles	26,500	
Furniture	4,000	
Stock (1/1/2020)	2,000	
Sales		82,200
Purchases	58,000	
Returns	4,000	1,200
Discounts	3,000	800

Bank	1,500	
Receivables and Payables	16,500	14,000
Bad debts	1,000	
Provision for Doubtful debts		500
Motor vehicles expenses	1,300	
Rent	500	
Salaries & wages	700	
Electricity & Water	1,600	
Telephone	400	
Carriage inwards	200	
CFC Loan		2,500
Carriage outwards	1,300	
Drawings	2,000	
Capital	<u> </u>	<u>23,300</u>
	<u>124,500</u>	<u>124,500</u>

Additional information

1. Stock as at 31/12/2020 amounted to Ksh. 2,500,000
2. Provision for bad and doubtful debts is set at 5% of current debtors.
3. Motor vehicle expenses prepaid amount to Ksh. 150,000, rent paid in advance amount to Ksh. 120,000 and while salaries and wages accrued was Ksh. 210,000.
4. Unpaid telephone amount to Ksh. 65,000
5. Prepaid electricity & water amount to Ksh. 80,000.
6. Depreciation is provided on motor vehicles and Furniture at 10% p.a and 15% p.a respectively on cost.

Required: Prepare

- i. Income statement for year ended 31/12/2020 **(10 marks)**
- ii. Statement of financial position as at that date. **(10 marks)**

Total 30 Marks

Question Two

- a) Mohamed started a new business on 1/5/2020 with shs. 350,000 cash. During May he carried out the following transactions:-

1 st May	Deposited Shs. 90,000 in a bank account.
2 nd May	Bought goods worth Shs 65,000 cash
3 rd May	Sold goods for Shs 140,000 cash
9 th May	Paid rent sh. 30,000 by cheque
10 th may	Bought good on credit worth shs. 105,000 from Alice
15 th May	Paid Shs.50,000 cash to Alice

Required: Draw the relevant accounts, balance off the accounts and extract a trial balance
(10 marks)

- b) Distinguish between provision for doubtful debts and bad debts. (2 marks)
 c) Explain using an example the meaning of the term contra entry as used in the preparation of the cashbook (3 Marks)

Total 15 marks

Question Three

- a) Explain any four types of errors which can be disclosed by the trial balance
(6 Marks)
- b) Abraham Taha's balances his cashbook at the end of every month and compares it with his bank statement for reconciliation. On 30th June 2021, the balances did not agree. The cash book bank column showed an overdraft of sh. 1,496,000. The debit balance of the bank statement as at 30th June 2018 was sh. 3,061,600.

After inspecting his books he discovered the following issues:

- 1) Cheques totalling to sh. 784,000 had been entered in the cash book but they had not been presented to the bank as at 30th June 2021.
- 2) Payment for goods worth sh. 30,240 from debtors through electronic funds transfer had not been entered in the cashbook.
- 3) A standing order for a credit purchase of a motor vehicle of sh. 71,200 was processed through the bank on 27th June 2021 but had not been entered in the cash book.
- 4) Bank charges of sh. 12,000 were included in the bank statement but had not been recorded in the cash book.
- 5) A cheque payment to supplier for sh. 200,320 was incorrectly entered in the cashbook as a receipt.
- 6) A cheque for sh. 16,000 received from a debtor and deposited with the bank was returned stamped 'account closed.'

- 7) Cheques received and entered in the cash book but not yet credited in the bank amounted to sh. 1,880,000.

Required: Prepare

- i. An updated/ adjusted cash book as at 30th June 2021. **(6 Marks)**
ii. Bank reconciliation Statement as at 30th June 2021. **(3 marks)**
Total 15 marks

Question Four

- a) Explain the meaning and accounting treatment giving an example of the following accounting concepts:
i) Accruals and Prepayments **(3 Marks)**
ii) Dual aspect or duality concept **(2 Marks)**
b) The trial balance of a sole trader who had employed an intern accountant failed to agree and credit side exceeded the debit side by sh. 2,100,000. After a thorough scrutiny the following errors were discovered:
1. Sales were under-cast by sh. 10,000,000
2. Discount allowed was over-cast by sh 100,000
3. Returns inwards (Sales returns) credited to returns outwards (Purchases returns) account was shs 100,000
4. Purchases were undercast by shs 5,000,000
5. Accounts payable were overcast by shs. 7,000,000
6. Bank charges omitted from the books amounted to sh 500,000

Required: Prepare

- 1) Journal entries to rectify the errors above **(6 Marks)**
2) A suspense account duly (Fully) balanced **(2 Marks)**
Total 15 marks

Question Five

- a) Differentiate between the partners current accounts and capital accounts .(**3 Marks**)
b) The following information relates to Maalim Ltd a dealer of fast selling house hold goods for the year ended 30th April 2021
1. Balances as at 1st May 2020:

	Sh.
Sales Ledger	24,000 (Cr)
Purchases Ledger	156,000(Cr)
Purchases Ledger	8,000(Dr)
Sales Ledger	198,000(Dr)

2. Total sales for the year included cash sales of sh. 2,100,000 and credit sales of sh. 5,400,000.

3. Total purchases for the year were sh. 4,340,000 out of which credit purchases were sh. 2,998,000.
4. During the year, the company received a total of sh. 6,540,000 from both cash and credit customers and made total payments of sh. 3,860,000 for both cash and credit purchases.
5. Discount allowed to all credit customers amounted to sh. 145,600 while discount received from credit suppliers amounted to sh. 115,800
6. Bad debts written off amounted to sh. 350,000
7. A balance in the purchases ledger of sh. 140,000 was set-off against the sales ledger.
8. Credit notes issued to customers amounted to sh. 145,600 and debit notes issued by suppliers of Ouma Ltd amounted to sh. 360,000
9. The balances as at 30th April 2021 were:

	Dr (Sh.)	Cr (Sh.)
Sales Ledger balance	?	60,000
Purchases Ledger balance	75,000	?

Required: Prepare

- i.** Sales Ledger Control account for the year ended 30th April 2021 **(6 Marks)**
 - ii.** Purchases Ledger Control account for the year ended 30th April 2020 **(6 Marks)**
- Total 15 marks***