



# **MAASAI MARA UNIVERSITY**

**REGULAR UNIVERSITY EXAMINATIONS**

**2021/2022 ACADEMIC YEAR**

**FIRST YEAR FIRST SEMESTER**

**SCHOOL OF BUSINESS & ECONOMICS**

**BACHELOR OF COMMERCE**

**COURSE CODE: BCM 1103**

**COURSE TITLE: FOUNDATIONS OF ACCOUNTING  
1.**

**DATE: 1<sup>ST</sup> APRIL, 2022**

**TIME: 1430-1630**

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## **INSTRUCTIONS TO CANDIDATES**

Answer question **ONE** and any other **THREE** questions

*This paper consists of 6 printed pages. Please turn over*

### Question one

- a) Discuss five qualities of good accounting information. **(5 Marks)**
- b) Discuss three reasons for preparing an income statement. **(3 Marks)**
- c) Explain two advantages of the historical cost accounting. **(3 Marks)**
- d) The net assets of Alltese, a trader, at 1 January 2020 amounted to \$128,000. During the year to 31 December 2020 Alltese introduced a further \$50,000 of capital and made drawings of \$48,000. At 31 December 2020 Alltese's net assets totaled \$184,000. compute Alltese's total profit for the year ended 31 December 2020. **(5 Marks)**
- e) Identify the accounting principle violated in each of the following instances: **(6 Marks)**
- i. An motor vehicle purchased on hire purchase was not recognised as a business asset until the final instalment was paid
  - ii. An accountant stopped using straightline depreciation method and adopted reducing balance method without giving any explanation
  - iii. An accountant never made a provision for bad debts despite the fact that there was a high likelihood of default among some debtors
- f) Indicate and give reasons the amount of revenue that should be recognized in the year ended 31 May 2016 in each of the following independent cases:
- i. Net credit sales for 2015 amounted to Sh.1.5 million, three-fourths of which were collected in 2015. Past experience indicates that about 97% of all credit sales are eventually collected. **(4 Marks)**
  - ii. Cash of Sh.350,000 is received from a customer during 2016 in payment for equipment that is to be manufactured and shipped to the customer during 2017. **(4 Marks)**

### Question two

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 cashbook for the month of April 2020:

	<b>Sh.</b>		<b>Sh.</b>
Receipts during the month	2,938,000	Balance brought forward (1.4.2020)	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 payment.
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 a receipt in the cashbook instead of a payment.
5. A cheque for Sh. 50,000 had been debited by the bank by mistake.
6. A cheque received for Sh. 160,000 had been returned unpaid. No adjustment had been made in the cashbook.
7. All dividends receivable 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 cash book 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. **(5 Marks)**
- ii. Bank reconciliation statement as at 30 April 2020. **(5 Marks)**

**Question three**

Dathryn Foch keeps her petty cashbook on the imprest system, the imprest being Sh.25. For the month of April 2021 her petty cash transactions were as follows:

	<b>Sh.</b>
Apr 1 Petty cash balance	1.13
“ 2 Petty cashier presented vouchers to cashier and obtained cash to restore the imprest	23.87
“ 4 Bought postage stamps	8.50
“ 9 Paid to Coutney Sisters a creditor	2.35
“ 11 Paid bus fares	1.72
“ 17 Bought envelopes	0.70
“ 23 Received cash for personal telephone call	0.68
“ 26 Bought petrol	10.00

**Required;**

- i. Enter the above transactions in the petty cashbook and balance the petty cashbook at 30 April, bringing down the balance on 1 May. **(8 Marks)**
- ii. On 1 May Dathryn Foch received an amount of cash from the cashier to restore the imprest. Enter this transaction in the petty cashbook. **(2 Marks)**

#### Question four

On 31 December 2021 an inexperienced book-keeper working for Wanjima, a sole trader, extracted a trial balance. Due to errors committed by the book-keeper, the trial balance failed to balance by Sh.369,400. He placed the difference in a suspense account as shown below:

#### Wanjima trial balance as at 31 December 2021

	Sh.	Sh.
Fixed assets-cost	832,000	
Inventory		
1 January 2021	148,000	
31 December 2021		98,800
Trade debtors		76,000
Prepayments		10,000
Trade creditors	34,600	
Bank overdraft		15,200
Accruals		16,000
Drawings	359,600	
Capital		1,054,000
Sales	1,043,200	
Provision for depreciation		166,400
Purchases		733,000
Operating expenses	126,000	
Provision for doubtful debts		3,800
Discounts received	5,000	
Discounts allowed		5,800
Suspense account		369,400
	2,548,400	2,548,400

Investigations carried out after preparing the above trial balance detected the following errors:

1. The total of the sales day book for December 2021 was overcast by Sh.25,700.
2. On 2 July 2021 the business purchased office equipment for Sh.40,000. These were debited to purchases account.
3. Depreciation on the equipment is at the rate of 10% per annum on cost and based on the period (months) of usage in the year.
4. A payment to a creditor by cheque of Sh.8,500 was erroneously credited to the creditor's account.
5. A payment of Sh.4,500 for telephone expenses was debited to telephone account as Sh.5,400.
6. An amount of Sh.15,000 received from a debtor was not posted to the debtor's account from the cash book.
7. An amount of discounts received of Sh.2,500 was debited to discounts allowed account.
8. Purchases day book for October 2021 was undercast by Sh.28,000.

9. Assume the business had reported a net profit of Sh.85,800 before adjusting for the above errors.

**Required:**

- i. The adjusted trial balance and the correct balance of the suspense account. **(4 Marks)**
- ii. Journal entries to correct the errors (Narrations not required). **(6 Marks)**

**Question five**

The following information has been extracted from the books of Mitoro Traders Limited for the month of April 2020.

**Balances as at 1 April 2020:**

	<b>Sh.</b>
Sales ledger - Debit balances	838,000
- Credit balances	184,000
Purchases ledger -Debit balances	196,000
- Credit balances	598,000
<b>Transactions during the month:</b>	
Sales on credit	8,784,000
Purchases on credit	7,849,000
Returns inwards	248,000
Returns outwards	179,000
Cheques received from trade debtors	2,968,000
Cash paid to trade creditors	4,674,000
Cheques paid to trade creditors	1,393,000
Bad debts written-off	139,000
Discounts allowed to trade debtors	162,000
Discounts received from trade creditors	231,000
Credit sales off-set against credit purchases	356,000
Credit purchase of a motor vehicle posted in the purchases ledger	598,000
Dishonoured cheques from trade debtors	193,000
Cash received to replace dishonoured cheques from trade debtor	106,000
An invoice to trade debtors of Sh.174,000 posted as	147,000

**Balances as at 30 April 2020:**

Sales ledger credit balances	123,000
Purchases ledger debit balances	177,000

**Required:** The sales ledger control account for the month ended 30 April 2020.

**(10 Marks)**

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