



MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS
2018/2019 ACADEMIC YEAR
FIRST YEAR SECOND SEMESTER**

**SCHOOL OF BUSINESS AND
ECONOMICS**

BACHELOR OF COMMERCE

COURSE CODE: BCM 1103

**COURSE TITLE: FOUNDATION OF
ACCOUNTING**

DATE: 16TH APRIL, 2019

TIME: 0830 - 1030HRS

INSTRUCTIONS TO CANDIDATES

- ***Answer question ONE (compulsory) and any other THREE***

- **Question one carries 25 marks**
- **All other questions carry 15 marks**

This paper consists of 6 printed pages.

Please turn over

QUESTION ONE

a) Explain the following accounting concepts:

- Business entity
- Accruals
- Revenue realization
- Substance over form
- Conservatism
- Going concern

(6 Marks)

b) Classify the following business costs as either capital expenditure or revenue expenditure.

(4 Marks)

- Wages paid to workers engaged in installing a new machine.
- Cost of buying a “second-hand” motor vehicle.
- Legal costs of collecting debts.
- Cost of painting a new building.
- Cost of partitioning a building.
- Cost of replacing a motor vehicle engine.
- Wages of computer operators.
- Wages for casual laborers installing cabinets in Director’s office

c) Mr Kawawa had the following transactions for the month ended 31st December, 2014.

1/12- Started business with a cheque of sh 20,000.

6/12 - Bought goods for sale for cash sh 6,000.

8/12 - Paid rent for premise sh 2,000

26/12 - Sold goods for sh 10,000.

Required:

a) Enter the following transactions in the books of Mr. Kawawa and balance off the accounts.

(7 Marks)

b) Using relevant examples, explain four factors that cause depreciation on non-current assets.

(4 Marks)

c) Analyze four errors that do not affect the agreement of a trial balance.

(4 Marks)

QUESTION TWO

Kazibwe, a businessman does not maintain a complete set of books for his business transactions. The following is a summary of his cash transactions for the year ended December 31, 2015.

Receipts	Kshs
Balance b/d	79,500
Cash Sales	1,457,500
Cash from credit transactions	249,100
Payments:	
Payments to suppliers	874,500
Salaries	318,000
Cash purchases	124,550
Drawings by Kazibwe	238,500

Purchase of equipment	39,750
Insurance	7,950
Rates	21,200
General expenses	12,720

Additional information:

a) Kazibwe's assets and liabilities were as follows

	1/1/2015	31/12/2015
Business premise (cost)	795,000	795,000
Equipment	92,750	132,500
Stock	116,600	111,300
Debtors	233,200	310,000
Creditors	164,300	219,950
Prepaid insurance	-	2,120
Prepaid rates	-	5,300
Accrued wages	-	14,575

b) Fixed assets are to be depreciated at the rate of 10%.

Required:

- i. Income statement for the year ended 31st December, 2015.
(9 Marks)
- ii. Balance Sheet as at 31st December, 2015.
(6 Marks)

QUESTION THREE

- i. As at 30th June 2013, the following information was available from the records of SGR Limited.
- ii. Acheque of sh 2,720,000 drawn on 30th June was presented to the bank for payment on 16th July, 2013.
- iii. Cash book balance at the close of business on 30th June, was a debit of sh 2,276,000.
- iv. The cash book had been overstated by sh 160,000 on the debit side.
- v. There was no trace in the cashbook of a standing order for sh 960,000 paid on the bank on 7th May, 2013.
- vi. The bank had charged sh 64,000 as commission but the figure had not been passed through the cash book.
- vii. The bank statement reflected a credit balance of sh 3,840,000 as at 30th June, 2013.
- viii. Short-banking and over-banking amounted to sh 140,000 and sh 80,000 respectively.
- ix. Money banked on June 29, 2013 sh 432,000 was credited by bank on July6, 2013.
- x. Sh 2,360,000 representing a cheque which had been banked on 28th May 2013 had been returned unpaid and debited on the bank statement on 5th June, 2013. However this transaction had not been notified to SGR Limited by the bank.
- xi. A banking of sh 3,200,000 had been erroneously entered in the cash book as sh 320,000.

Required:

a) Show the corrected cashbook balance.

(7 Marks)

b) Reconcile the bank balance with the corrected cash balance.

(8 Marks)

QUESTION FOUR

a) The trial balance of Nyaguthie enterprises prepared as at 30th April, 2016 failed to balance. The difference was posted to a suspense account. On investigation, the following errors were revealed.

- i. Payment of sh 4,900 to Demo had been entered in the account of Dome.
- ii. Purchase of goods sh 49,000 had been entered in the purchases account as sh 94,000.
- iii. Payment for motor expenses sh 12,000 had been entered in motor vehicles account.
- iv. Payment of rent sh 24,000 had only been entered in the cashbook.
- v. Required:
- vi. Prepare journal entries to correct the above errors
(9 Marks)

b) State the merits of maintaining control accounts.
(6 Marks)

QUESTION FIVE

Mr. Mutwiri opened a business in Meru town at the beginning of the year. During the first month of operation the following transactions were completed.

2014.

January 1 Deposited sh 20,000 in the bank account in the name of the business

2 Bought sh 6,000 supplies for the shop

3 Paid sh 5,000 rent for the month of January

5 He furnished his store installing new fixtures which the suppliers sold to him at sh 12,000. This amount was to be paid in three equal instalments at the end of January, February and March.

10 Paid sh 1,250 to an assistant for working during the business grand opening.

29 Receipts from cash sales during two weeks period ended 29th January amounted to sh 19,300.

31 Paid first instalment on fixtures

31 He withdrew sh 11,000 cash for his personal expenses.

Required

a) General journal entries to record the above transactions. (8

Marks)

b) Ledger accounts duly balanced as at January 31, 2014. (7

Marks)