JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

UNIVERSITY EXAMINATIONS FOR DIPLOMA COURSE IN BUSINESS ADMINISTRATION
END OF SEMESTER EXAMINATION FOR 2016 ACADEMIC YEAR

KENDU BAY LEARNING CENTRE

COURSE CODE: BBM 2122
COURSE TITLE: INTRODUCTION TO ACCOUNTING

INSTRUCTIONS:
1. Answer question ONE and any other two
2 . Candidate are advised not to write on the question paper.
3. Candidates must hand in their answer booklet to the invigilator before leaving the exam room

QUESTION ONE

1. a. Discuss the accounting equation. (4mks)

   b. Describe the accounting cycle. (8marks)

   c. i. What advantages are there in preparing a trial balance when you are about to prepare a profit and loss account and balance sheet. (2marks)

   ii. If a trial balance fails to agree, what steps would you take in order to find the cause of the difference? (1marks)

   iii. On 1st October 2010, the owner of Rachuonyo Enterprises Ltd decided that he will boldly go and keep his records on a double entry system. His assets and liabilities at that date in sh. were:

Fixtures and Equipment	20000
Stock including weapons	15000
Balance at Equity Bank	17500
Cash	375
Creditors: Nyabuto	3175
Oburu	200
Komala	500

His transactions during October were as follows;
1. Sold materials at original cost of sh. 500 to Bidii Ltd for cash sh. 5000
2. Bought weapons on credit from Generation Ltd sh. 2500
3. Sold stock to Kinda Investment at original cost of sh. 250 on credit amounting to sh. 1500
4. Bought fixtures and fittings from Mchuuzi at sh. 3500
5. Paid the balance owed to Nyabuto at 1st October less 5% cash discount
6. Paid Generations Ltd full amount due by cheque
7. Received full amount due from Kinda Investment by cheque
8. Paid Mchuuzi by chque after deducting 20% trade discount
9. Paid by bankers order 10000 for repairs to the enterprise vehicle following disagreement over amount owing to Mchuuzi on materials.

Required: Open the enterprise's ledger account at 1st October recorded all transaction for the month. Balance the ledger account and prepare a trial balance as at 31st October. (15mks)

QUESTION TWO

2. a. Discuss the characteristics of partnerships. (3mks)

   b. Brick and Stone trade in partnership profit and losses in the proportions 3:2 respectively. The following list of balances at 3rd September 2011 has been extracted from the books of Bricks and Stone. (In Kshs)

Stationery	3500	Carriage Inwards	1700
Sales	320000	Carriage Outwards	2400
Purchases	202100	Drawings – Brick	3600 Credit

Stock in hand at 1st October	23000	- Stone	2400 Credit
Rent and Rates	10300	Debtors	9000
Light and Heat	8700	Fixtures and Fittings – at cost	26000
Telephone	2900	- provision for depreciation	11200
Motor expenses	5620	Motor Vehicle – at cost	46000
Salaries and wages	36100	- provision for depreciation	25000
Discount Allowable	950	Capital account balances at 1st Oct. 2010	
Discount Receivable	370	Brick	33000
Creditors	8400	Stone	17000
		Bank balance	7700

The following additional information is provided
1. Sh. 10000 is to be transferred on 1st uly 2011 from Brick's capital account to a newly opened Brick loan account. The term of the loan applied a rate of 10% per annum.
2. Stone is to be credited with a salary at the rate of sh. 12000 per annum from 1st April 2011.
3. Stock in hand at 30th September 2011 has been valued at a cost of sh. 32000.
4. Telephone charges accrued due at 30 September 2011 amounted to sh. 400 and rent of sh. 600 prepaid at that date.
5. During the year ended 30 September 2011 Stone has taken goods costing sh. 1000 for his own use.
6. Depreciation is to be provided at the following annual rates on the straight line basis:
   Fixtures and fittings   10%   Motor Vehicles   20%.

Requirement:
a) Prepare a profit and loss account for the year ended 30 September 2011.
b) Prepare an appropriation of profit account for the year ended 30 September 2011.
c) Prepare a balance sheet as at 30 September 2011.
d) Prepare a current account for the year ended 30 September 2011. (12marks)

QUESTION THREE

3. a) Discuss the advantages of Cash Flow Accounting. (3marks)

b) The income statement for the year 2006 and the balance sheets as at 31st December 2005 for Winam Company Ltd are as shown below. Winam Company Income Statement for the year ended31st December 2006.

Income Statement for the year ended 31st December 2006 (in thousands)

Revenue			3075
Cost of sales			2255
Gross Profit			280
Less Expenses: Distribution expenses		190	
Administration expenses		225	
Other expenses		52	
Interest payable		28	(495)
Net Profit before tax			325

Less Taxation	(73)	
Profit after tax	252	
Dividends paid to shareholders	(101)	
Retained profit for the year	151	

Winam Company Ltd Balances sheet as at 31st December (in thousands)

	2006	2006
Non-current assets: Intangible assets	154	154
Tangible assets; Property, Plant and Equipment	1180	1300
	1334	1454
Current Assets: Inventories	122	178
Trade receivables	207	272
Cash and Cash Equivalents	78	82
	407	532
Current Liabilities: Trade payables	276	288
Creditors for taxation	26	37
	302	325
Working Capital (net current assets)	105	207
Total assets less current liabilities	1439	1661
Share Capital	1020	1190
Reserves – retained profits	39	190
Share premium	95	127
Shareholders' Equity	1154	1507
Non Current Liabilities: Long term loans	285	154
	1439	1661

The following information relate to year 2006:
- The company paid sh. 250000 for new equipment
- No noncurrent assets were disposed of during the year
- No new term loans were arranged during the year

Required: Prepare a cash flow statement for Winam Company Ltd. (12marks)

QUESTION FOUR

4. Mr. Kobia is a businessman operating a retail business in town. Due to the size of his business, he is not able to employ a qualified accountant on a permanent basis. The following information was extracted from the books of the business as at 31st October 2010.

Freehold property (costs)	600000	Stock	390000
Motor vehicles (NBV)	750000	Trade debtors	500000
Furniture and Fittings (NBV)	240000	Bank Overdraft	60000
Accruals	15000	Trade Creditor	380000

| 10% Loan | 600000 | Provision for doubtful debts | 25000 |

The following transactions took place during the financial year 31st October 2011.

1. Sales and purchases on credit amounted to Ksh. 2080000 and 1900000 respectively.
2. The following transactions were carried out through the bank account

Sales- cash	720000	Payment of trade creditors	1940000
Purchases- cash	240000	Purchase of furniture ½ years on May 1st 2003	200000
Lighting	65000	Payment on loan on 30th April 2003	100000
Salaries and wages	160000	Collections from trade debtors	1890000
General Expenses	35000	Proceeds from sale of Motor Vehicle	120000
Drawings	60000		

3. The business depreciates Motor Vehicles at 20% per annum on a residual balance basis. A full year's depreciation is provided on a motor vehicle acquired in the course of the year and no depreciation is provided on a motor Vehicle disposed of =f in the course of the year. The motor vehicle sold in the year had been purchased at Ksh. 250000 and an accumulated depreciation of Ksh 122000 had been provided on it at the time of disposal.
4. The basis received discounts of sh. 40000 and allowed discount of sh. 70000nduring the year.
5. Loan interest paid was for one half year upto 30th April 2003.
6. Furniture is depreciated at 10% per annum on cost and in proportion to the period used in the year. The additional furniture was purchased on 1st May 2011 while the cost of furniture held on 31st October 2010 was Ksh. 400000.
7. Bad debts of Ksh. 20000 were written off. Provision for doubtful debts is to be maintained at 5% of the debtor's balance at the end of the year.
8. Accruals are in respect of lighting and on 31st October 2011 then amount accrued was Ksh. 19000.
9. Kobia's business obtains a nominal gross profit of 25% on selling price.

Requirement: Prepare a Trading Profit and Loss account and a balance sheet as at 31st October 2011. (15mks)