

**JARAMOGI OGINGA ODINGA UNIVERSITY OF
SCIENCE AND TECHNOLOGY**

BACHELOR OF SCIENCE IN AGRI-BUSINESS MANAGEMENT

SECOND YEAR FIRST SEMESTER EXAMINATIONS

JANUARY-APRIL 2017 SEMESTER (DRAFT EXAMINATION)

BBM 3212: BUSINESS ACCOUNTING

INSTRUCTION TO CANDIDATES

TIME: 2 HOURS

1. Answer Question ONE (COMPULSORY) and Any Other TWO Questions.
2. Question ONE carries 30 Marks, while other Questions each carry 20 Marks.

QUESTION ONE

a) Discuss the information needs of the following users of financial accounting information:

- (i) Owners
- (ii) Lenders
- (iii) Employees
- (iv) Managers
- (v) Suppliers

(10 Marks)

b) A business depreciates its plant and machinery at a rate of 20% per annum, straight-line method. From the following details, draw up the plant account, depreciation expense account and the provisions for depreciation account for each of the years 2014, 2015 and 2016. You are also required to draw up the extracts of the balance sheet as at the end of each year.

2014: Bought plant costing Kshs.90,000 on 1st January.

2015: Bought plant costing Kshs.60,000 on 1st January

2016: Bought plant costing Kshs.55,000 on 1st January. (10 Marks)

c) (i) Briefly explain the rules of double entry regarding:

1. Real Accounts
2. Personal Accounts and
3. Nominal Accounts

(3 Marks)

(ii) Winam Wholesalers maintains a Petty Cash Book .The following transactions were made in the month of June 2016. Prepare a Petty Cash Book for the transactions.

2016		Kshs.
June 1	Received for petty cash payments	5,000
June 2	Paid for Postage	400
June 5	Paid for Stationery	250
June 8	Paid for Advertisements	500
June 12	Paid for Wages	200
June 16	Paid for Carriage	150
June 20	Paid for Conveyance	220
June 25	Paid for Travelling Expenses	800
June 27	Paid for Postage	500
June 28	Wages for Office Cleaner	100
June 30	Wages for Telegrams	200
June 30	Sent Registered notice to Landlord	30

NOTE: The petty cash book used group expenditures as follows:

- (i) Postage and Telegrams
- (ii) Carriage
- (iii) Printing and Advertisement
- (iv) Travelling Expenses
- (v) Wages
- (vi) Stationery
- (vii) Sundries

(7 Marks)

QUESTION TWO

Kibuye Traders, a sole proprietorship makes up accounts to 31st December each year. The balance sheet as at 31st December 2016 showed the following position:

	Kshs.
Freehold Shop	1,760,000
Stock	534,300
Debtors	450,400
Cash	280,100
Creditors	543,000
Loan	800,000
Capital	1,681,800
Notes	

(a) Debtors Consisted of:	Kshs.
E	260,000
F	98,700
G	53,600
H	38,100
	<u>450,400</u>
	<u><u>450,400</u></u>

(b) Creditors Consisted of:	Kshs.
M	284,000
N	199,000
O	<u>60,000</u>
	543,000

The following transactions took place during January 2017.

2017

- Jan 3 G settled their account in full.
- Jan 5 Paid Kshs.84,700 to N
- Jan 8 F returned as faulty goods with an invoice value of Kshs.26,400.
- Jan 12 Sold goods to G on credit, an invoice value of Kshs.70,600
- Jan 18 Purchased goods from P on credit, invoice value Kshs.74,600.
- Jan 19 E paid their account subject to a discount of 2% fro prompt payment.
- Jan 24 Paid O subject to 1.5% discount for early settlement.
- Jan 28 Bought goods from O on credit with invoice value of Kshs.20,300.
- Jan 31 Returned goods to P invoice value of Kshs.7,600

REQUIRED:

- a) Ledger relating to al the above matters **(15 Marks)**
- b) Trail balance as at 31st January 2017. **(5Marks)**

QUESTION THREE

The following trail balance was extracted from the books of Victoria Enterprises as at 31st December 2016.

	Kshs.	Kshs.
Capital January 1 2016		3,165,620
Purchases	923,600	
Sales		1,968,160
Purchases Returns		5,600
Sales Return	16,160	
Discount Allowed	18,200	14,080
Discounts Allowed		
Wages & Salaries	622,000	
Rates	49,000	
Insurance	35,600	
General Expenses	81,200	
Trade Debtors	368,00	
Trade Creditors		322,400
Bank Overdraft		80,400
Stock in trade 1 January 2016	122,000	
Land and Building at Cost	1,700,000	
Plant and Machinery at Cost	1,230,000	
Motor Vehicle at Cost	562,000	
Drawings	208,400	
Cash in Hand	40,000	
Provision for Depreciation		
• Motor Vehicle	<u> </u>	<u>112,400</u>
• Plant and Machinery	<u> </u>	<u>307,500</u>
	5,975,160	5,975,160

Notes

- (i) Stock in trade on 31st December 2016 amounted to Kshs.148,400.
- (ii) Rates paid in advance as at 31st December 2016 was Kshs.7,000.
- (iii) Debtors include an irrecoverable amount of Ksh. 5,600.
- (iv) A 5% provision for doubtful debts is to be made on the recoverable debtors.

- (v) Depreciation is to be provided for on reducing balance at the following rates:
 - a) Motor Vehicle 20%
 - b) Plant and Machinery 25%
- (vi) Included in the wages and salaries is an amount of kshs.62,000 paid to the domestic workers of the proprietor.
- (vii) Outstanding wages and salaries as at 31st December 2016 amounted to Kshs.24,800.

REQUIRED:

- a) Trading, Profit and Loss Account for the year ended 31st December 2016. **(14 Marks)**
- b) A balance sheet as at 31st December 2016. **(6Marks)**

QUESTION FOUR

- a) The bank statement of Watu Traders showed a balance of Kshs.264,300 while the bank column of the Cash Book showed a balance of Kshs.247,500 as at 31st October 2016. On investigation, the following items were not properly recorded in the books:-
 - (i) Cheques drawn by the trader amounting to Kshs.114,400 had not been presented to the bank.
 - (ii) Cheques and cash amounting to Kshs.155,600 banked on 30th October 2016 had not been credited by the bank.
 - (iii) Bank charges amounted to Kshs.12,500. They had not been posted in the cash book.
 - (iv) Standing orders of Kshs.25,000 have been paid by the bank but have not been posted in the cash book.
 - (v) The credit side of the cash book undercasted by Kshs.9,000.
 - (vi) Instruction to transfer Kshs.150,000 from the savings account to the current account has not been effected in the cash book.

- (vii) A cheque of Kshs.18,500 banked on 28th October 2016 had been dishonoured but the information was not received by the trade until 3rd November 2016.
- (viii) A cheque of Kshs.74,000 drawn by the trader had been posted as Kshs.47,000 in the cash book.

REQUIRED:

- i. Adjusted Cash Book **(5 Marks)**
- ii. Bank Reconciliation Statement as at 31st October 2016. **(6 Marks)**
- b) Briefly explain the basic accounting cycle. **(9 Marks)**

QUESTION FIVE

- a) The agreement of a trial balance is not a conclusive proof as to the absolute accuracy of the books of account. It only gives an indication of the arithmetical accuracy. Using examples, explain errors that cannot be revealed by a trial balance. **(10 Marks)**
- b) Accounting statements are prepared in conformity with accounting concepts and conventions. Briefly explain the main accounting concepts and conventions. **(10 Marks)**