

**SCHOOL OF BUSINESS**

**UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF  
INTERNATIONAL TOURISM FIRST YEAR SECOND SEMESTER**

**MAIN CAMPUS**

**COURSE: BBM 3121 INTRODUCTION TO ACCOUNTING**

**DURATION: 2 HOURS**

**APRIL 2017**

**INSTRUCTION**

**1. Answer Question ONE and Any Other TWO Questions.**

**QUESTION ONE (30 MARKS)**

**a)** A cash flow statement is a statement which provides a detailed explanation for the changes in a firm's cash during a particular period by indicating the firm's sources and uses of cash during that period. Identify the major sources and uses of cash.

**(6 Marks)**

**b)** The following balances were extracted from the books of JOHO Enterprises, a sole proprietorship run by Mr. John Hongo, as at 30<sup>th</sup> June 2016.

<b><u>Particulars</u></b>	<b><u>Kshs.</u></b>
Sales	120,000
Purchases	55,000
Opening Stocks	15,000
Return Inwards	2,000
Return Outwards	6,000
Carriage Inwards	4,000
Carriage Outwards	1,000
Debtors	50,000
Creditors	60,000
Capital	200,000
Salaries	12,000
Rent & Rates	4,000
Cash	30,000
Stationery	1,000
Equipment	50,000

Bank	62,000
Motor Vehicle	120,000
Bills Received	22,000
Bills Payable	42,000

**Additional Information:**

	<b><u>Kshs.</u></b>
(i) Stock on 30 <sup>th</sup> June 2016 was	12,000
(ii) Outstanding Expenses were	
a) Salaries	15,000
b) Stationery	6,000
(iii) Rent paid in advance amounted to	3,000
(iv) Provide for bad debts at the rate of 10% on Debtors	
(v) Depreciation is to be provided at the following rates	
a) Motor Vehicle at 25% on cost	
b) Equipment at 12% on cost	

**REQUIRED:**

**Prepare:-**

- (i) Trading, Profit and Loss Account for the year ended 30<sup>th</sup> June 2016. **(14 Marks)**
- (ii) Balance Sheet as at 30<sup>th</sup> June 2016. **(10 Marks)**

## QUESTION TWO (20 MARKS)

- a) The following transactions were recorded in the books of Lolwe Enterprises, a sole proprietor, during the month of January 2017.

<u>Particulars</u>	<u>Kshs.</u>
Jan.1: Started business with cash	450,000
Jan.1: Paid into bank (opened an account)	250,000
Jan.2: Purchased goods for cash	150,000
Jan.3: Purchased furniture paying by cheque	50,000
Jan.5: Sold goods for cash	85,000
Jan.8: Sold goods on credit to Wako	40,000
Jan.10: Purchased goods on credit from Amilo	70,000
Jan.12: Goods returned to Amilo worth	10,000
Jan.15: Goods returned by Wako	2,000
Jan.18: Cash received from Wako	37,600
and discount allowed to him	400
Jan.21: Withdrew from the bank for private use	10,000
: Withdrew from the bank for use in the business	5,000
Jan.25: Paid telephone rent for one year	4,000
Jan.28: Cash paid to Amilo in full settlement of his account	59,400
Jan.30: Paid for: Stationery	2,000
: Rent	10,000
: Salaries of Staff	25,000

### REQUIRED:

- (i) Post the above transactions in the Ledger Accounts balancing off the accounts. **(16 Marks)**
- (ii) Prepare a Trial Balance of the above transactions **(4 Marks)**

## QUESTION THREE (20 MARKS)

- a) Explain the main causes of difference in cashbook balance of a trader and his bank statement balance, giving examples. **(6 Marks)**
- b) The following is the cashbook (Bank column only) of Victoria Enterprises for the period of March 2017

## CASHBOOK

Particulars	Kshs.	Particulars	Kshs.
Bal. b/d	14,070	Payments	155,200
Receipts	150,730	Bal. c/d	9,600
	<b>164,800</b>		<b>164,800</b>

On scrutiny of the bank statements you find that:

- a) The bank statement shows an overdrawn balance of Kshs.1, 240.
- b) Bank charges of Kshs.350 shown on the bank statement have not been entered in the cashbook.
- c) A cheque drawn for Kshs.470 has been entered as a receipt.
- d) A cheque for Kshs.180 has been returned by the bank not written back in the cashbook.
- e) The opening balance should have been Kshs.14, 700.
- f) The cheques paid to the suppliers for Kshs.2, 140, Kshs.3, 700 and Kshs.300 have not yet been presented to the bank.
- g) The last pay-in-slip of the month showing deposit of Kshs.15,420 has not yet been credited by the bank.
- h) The bank has debited a cheque for Kshs.720 by mistake to the Company's account.

**REQUIRED:**

- (i) Rewrite the cashbook for the month of March 2017. **(7 Marks)**
- (ii) Prepare a statement reconciling the adjusted balance in the cashbook with the balance as per bank statement. **(7 Marks)**

### QUESTION FOUR (20 MARKS)

a) The agreement of a Trial Balance is not a conclusive proof as to the absolute accuracy of the books of accounts. It only gives an indication of the arithmetical accuracy. Using examples, explain Errors that cannot be revealed by a trial balance.

**(8 Marks)**

b) Accounting statements are prepared in conformity with accounting principles which comprise both accounting concepts and conventions. Briefly explain the main accounting concepts and conventions.

**(12 Marks)**

### QUESTION FIVE (20 MARKS)

Electric Ltd is an expanding private company in the electric trade. Accounts prepared include the following information.

#### Profit Statement for the Year Ended 31<sup>st</sup> December

	<u>2015</u>	<u>2016</u>
	<u>Kshs (000)</u>	<u>Kshs (000)</u>
Sales	2,000	3,200
Less: Cost of Goods Sold	<u>1,100</u>	<u>1,800</u>
Gross Profit	900	1,400
Less: Trading Expenses	<u>450</u>	<u>550</u>
Trading Profit	450	850
Less: Debenture Interest	<u>25</u>	<u>25</u>
Net Profit Before Taxation	425	825
Less: Corporation Tax	<u>160</u>	<u>320</u>
Net Profit After Taxation	265	505
Less: Ordinary Share Dividends	125	175
Undistributed Profit for the year	<u><b>140</b></u>	<u><b>330</b></u>

**Balance Sheet as at 31<sup>st</sup> December**

Sources of Capital	2015 Kshs (000)	2016 Kshs (000)	Uses of Capital	2015 Kshs (000)	2016 Kshs (000)
Ordinary Shares	500	500	Fixed Assets at Cost	1,000	1,400
Undistributed Shares	350	680	Less Depreciation	200	250
10% Debentures	250	110		<b>800</b>	<b>1,150</b>
			<b>Current Assets</b>		
			Stock	400	550
			Debtors	250	320
			Cash	<u>80</u>	<u>730</u>
				-	900
			Less: Current Liabilities		
			Creditors	145	200
			Taxation	160	320
			Proposed Dividends	125	175
			Bank Overdraft	-	(430)
	<b>1,100</b>	<b>1,290</b>		<b>1,100</b>	<b>1,290</b>

**REQUIRED:**

(a) Calculate the following ratio for each of the financial years.

(i) Return On Capital Employed (R.O.C.E)

(ii) Asset Turnover

(iii) Gross Profit Percentage

(iv) Net profit Percentage

(v) Current Ratio

(vi) Quick Ratio

**(12 Marks)**

(b) Comment on the current position of Electric Ltd with the aid of the accounting ratios in (a) above and any other information that you consider to be relevant. **(8Marks)**