



# MACHAKOS UNIVERSITY

University Examinations for 2022/2023 Academic Year

SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM  
MANAGEMENT

DEPARTMENT OF BUSINESS ADMINISTRATION AND FINANCE

FIRST YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE (FINANCE OPTION)

BAC 100: FUNDAMENTALS OF ACCOUNTING 1

DATE:

TIME:

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## INSTRUCTIONS

Answer Question One and Any Other Two Questions.

Show all your workings

### QUESTION ONE (COMPULSORY) (30 MARKS)

- a) State and describe the basic accounting equation that underlie the preparation of final accounts. (4 marks)
- b) Explain the meaning of the following terms as used when recording business transactions. (8 marks)
- i) Capital expenditure
  - ii) Owner's equity
  - iii) Accounting cycle
  - iv) Double entry concept
- c) Cashier George had sh.320 0n 1<sup>st</sup> June 2022.He maintains a petty cashbook on the imprest system with a cash float of sh.38.000 which was reimbursed on 30<sup>th</sup> June. The following transactions took place in June 2022.

		Ksh.
June 1	Paid Casual worker	1,800
June 2	Printing Letter heads	4,100
June 5	Alina motors-motor repairs	6,700

June 8	Cleaning materials	400
June 8	Brown envelopes	1,100
June 13	Petrol	2,200
June 15	Window -cleaning	800
June 17	Paper clips	300
June 19	Glue and tape	200
June 25	Lucky-casual worker	1,900
June 27	Copy paper	800
June 30	H. motors -motor repairs	8,300

Prepare George's cashbook with analysis columns of office expenses, motor expenses, cleaning expense and casual labour. (8 marks)

d) The balances and transactions of Bella Traders for the month of July are as follows;

<b>Balances on 1 June 2020</b>	<b>Sh. '000'</b>
Sales ledger	83, 000, (debit)
	1,500 (credit)
Purchase ledger	50,400 (credit)
	800 (debit)
<b>Transactions during the month of June 2020</b>	<b>Sh. '000'</b>
Purchases on credit	164,200
Allowances from suppliers	5,600
Discounts allowed	6,500
Refund to customers for overpayments	390
Receipts from customers by cheques	250 000
Sales on credit	340,700
Cash received from credit customers	40,800
Customer's cheques dishonored	4,400
Discounts received	9,900

Payments to creditors by cheques	138,000
Allowances to customers	15,500
Bill of exchange receivable	56,500
Contra settlement	26,400
<b>Balances on 30 June 2020</b>	<b>Sh. '000'</b>
Sales ledger	1,200(credit)
Purchase ledger	700(debit)

**Required:**

- i. Sales ledger control account as at 30<sup>th</sup> June 2020 (5 marks)
- ii. Purchase ledger control account as at 30<sup>th</sup> June 2020. (5 marks)

**QUESTION TWO (20 MARKS)**

On January 1, 2020, Amos started a stationery business as with Ksh. 300,000 cash of which he paid Ksh. 130,000.00 into a newly opened bank account.

His other transactions for the month of January are given below.

January 2020	Ksh.
3. Bought goods by paying cheque	35,000
4. Bought goods on credit	20,000
5. Bought office tables and chairs and paid by cheque	12,000
6. Sold goods for cash	2,500
7. Sold goods to Joy on credit	6,250
8. Cash sales, paid into Bank account	3,500
9. Bought cash register for office use by cheque	16,000
10. Paid cash into bank	4,000
11. Joy returned goods which were defective	1,250
12. Joy settled her account by cheque	5,000
13. Amos carried some stationery from the business for domestic use	500
14. Purchased stationery paid by cheque	2,500

Prepare:

- i) Relevant ledger accounts to record the above transactions (15 marks)
- ii) Extract a Trial balance as at 31<sup>st</sup> January 2020. (5 marks)

**QUESTION THREE (20 MARKS)**

- a) The following are cash transactions relating to Zora business for the month of March 2015.

March.

16. Balance B/f; Cash in hand Ksh.6 500 cash at bank Ksh. 100,800
17. Paid transport in cash Ksh.. 2 000
18. Issued a cheque to creditor Yena, settling an invoice for Ksh.. 50,200, deducting 5% cash discount
19. Sold goods for cash Ksh. 20 000 less 2 % cash discount
20. Deposited cash with bank, Ksh. 15 000
21. Received a cheque from Njeri Ksh.30 200, after deduction of 2% cash discount
22. Paid wages in cash Ksh. 1 800
23. Paid telephone bill by cheque Ksh. 5 200
24. Withdrew cash from bank for office use, Ksh. 7500
25. Issued a cheque for Ksh. 5,000 to KCB bank as part repayment of a loan.
26. Received a cheque of Ksh. 4,950 (after deduction of 1% cash discount) from Stella
30. Paid supplier TM by cheque Ksh.. 2,600 less 2% cash discount
30. Deposited all cash into the bank except sh. 2000.

Prepare Zora's three-column cashbook duly balanced. (12 marks)

- b) Wanjiru stores made the following credit purchases in the month of October 2017

- October 2 Credit purchases from H. Been Invoice No 121 sh. 3,000  
October 4 Credit purchases from M. Soa Invoice No. 614 sh. 5,000  
October 11 Credit purchase from K. John invoice No. 143 sh. 6,000  
October 15 Credit purchases from H. Been Invoice No. 164 sh. 4 000  
October 26 Credit purchases from K. John Invoice No. 113 sh. 5,000  
October 31 Credit sales to M. Soa invoice No. 781 sh.6 000

**Required;**

For the month of October 2017; prepare the,

- i) Purchase Journal. (2 marks)
- ii) Purchases ledger account (3 marks)
- iii) Creditors ledger accounts showing the above transactions. (3 marks)

**QUESTION FOUR (20 MARKS)**

- a) You were preparing the accounts of Mwangi, a sole proprietor for the year 2021. The trial balance fails to balance by a debit deficit of Ksh.2 000. The following errors are later discovered
- i) Discount received Ksh. 400 was only recorded in the cash book.
  - ii) Complete omission of drawing by cheque Ksh.600.
  - iii) Credit Purchase from Mumbere suppliers' sh.1300 was recorded in supplier mwende account.
  - iv) Sales overcast sh. 2 800
  - v) Cash paid to creditors sh.1 200 was entered in the cashbook only.
  - vi) Sh. 600 drawn from the bank was not recorded in the books
  - vii) Purchased goods sh,7 500 recorded in the books as Shs. 5700
  - viii) Rates overcast sh. 2 000
  - ix) Investment income under cast by sh. 400.
  - x) Cash paid by debtor Faith sh.600 was debited in her account and credited in the cash account.

**Prepare:**

- a) i) Journal entries to correct the above errors. (11 marks)
- ii) Suspense account duly balanced. (5 marks)
- b) Describe the four basic accounting assumptions used when recording business events (4 marks)

**QUESTION FIVE (20 MARKS)**

The following trial balance was extracted from the accounting records of Rona Stores on 31<sup>st</sup> December 2019:

**Rona Stores**  
**Trial balance**  
**As at 31<sup>st</sup> December 2019**

	<b>Dr.</b>	<b>Cr.</b>
	<b>Shs..</b>	<b>Shs.</b>
Plant and machinery at cost	250 000	
Motor vehicles at cost	80 000	
Provision for depreciation: Plant/machinery		20 000
Motor vehicles		16 000
Sales		600 000
Purchases	360 000	

Sales returns	40 000	
Purchases returns		20 000
Inventory (1.1.2019)	25 000	
Discounts	5 000	3 400
Carriage outwards	3 000	
Carriage inwards	2 500	
Salaries	60 000	
Telephone	7 500	
Electricity	8 600	
Rent and rates	5000	
General expenses	7 900	
Accounts payables		46 600
Accounts receivable	55 000	
Provision for bad debts		1 000
Bad debts written off	1 500	
Capital		308 000
Cash at bank	63 000	
Cash in hand	26 000	
Drawings	15 000	
<b>TOTAL</b>	<b>1015 000</b>	<b>1 015 000</b>

Additional information:

- a) Unpaid expense amounts: Rent sh. 3,000  
Electricity sh. 600.
- b) Rates sh.1000 relate to year 2020
- c) Provision for bad debts is to be increased to sh.1 300
- d) Depreciation to be charged on cost: 10% on plant and equipment.  
20% on vehicles.
- e) Inventory -31<sup>st</sup> December 2019, shs. 22 500.

**Prepare:**

- i) Income statement for the year ended 31.12.2020. (12 marks)
- ii) Statement of financial position as at 31.12.2020. (8 marks)