



GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS MAY - AUGUST 2018 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: BCAC 101

COURSE TITLE: FINANCIAL ACCOUNTING II

DATE: 7th AUGUST 2018

TIME: 8.00 AM – 11.00 AM

INSTRUCTIONS TO CANDIDATES

1. SECTION A IS **COMPULSORY**.
2. SECTION B: ANSWER ANY OTHER **THREE** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

CAUTION: *All exam rooms are under CCTV surveillance during the examination period.*

SECTION A: COMPULSORY

Question One

(a) There are many ways in which Accounting Information is useful to different parties.

Explain these ways

[6 marks]

(b) Donald Brown, a sole trader, extracted the following trial balance on 31 December 2017.

TRIAL BALANCE AS AT 31 DECEMBER 2017

	Debit	Credit
	£	£
Capital at 1 January 2017		26,094
Debtors	42,737	
Cash In Hand	1,411	
Creditors		35,404
Fixtures and fittings at cost	42,200	
Discounts allowed	1,304	
Discounts received		1,175
Stock at 1 January 2017	18,460	
Sales		491,620
Purchases	387,936	
Motor Vehicles at cost	45,730	
Lightning and heating	6,184	
Motor expenses	2,862	
Rent	8,841	
General expenses	7,413	
Balance at bank		19,861
Provision for depreciation		
Fixtures and fitting		2,200
Motor vehicles		15,292
Drawings	<u>26,568</u>	
	<u>591,646</u>	<u>591,646</u>

The following information as at 31 December is also available:

a) £218 is owing for motor expenses.

b) £680 has been prepaid for rent.

c) Depreciation is to be provided of the year as follows:

 Motor vehicles: 20% on cost

 Fixtures and fittings: 10% reducing balance method

d) Stock at the close of business was valued at £19,926.

Required

- i) Prepare Donald Brown's statement of comprehensive incomes for the year ended 31 December 2017. [12marks]
- ii) His statement of financial position as at that date. [10 marks]

The following is the receipts and payments account of the Friendship Club for the year ended 31 December 2016:

	£		£
Balance at bank			
31 December 2015	102	Bar purchases	4,434
Entrance fees	42	Wages	416
Subscriptions: 2015	25	Rent	186
2016	305	Heating and lighting	128
2017	35	Postage and stationery	33
Bar Sales	5,227	Insurance	18
Sale of investments	750	General expenses	46
		Payments on account of new furniture	450
		Balance at bank, 31 December 2016	<u>775</u>
	<u>6,486</u>		<u>6,486</u>

The following information is also supplied:

(1)	31 December 2015	31 December 2016
Bar stock, at cost	272	315
Creditors for bar purchases	306	358
Rent due	18	36
Heating and lighting expenses due	16	19
Subscriptions due	25	40
Insurance paid in advance	5	7

- 2) On 31 December 2015, the club held investments which cost £500. During the year ended 31 December 2016, these were sold for £750.
- 3) Furniture was valued at £300 on 31 December 2015. On June 2016, the club purchased additional furniture at a cost of £520. Depreciation of all furniture is to be provided for at the rate of 10% per annum.

Required:

- (a) Prepare an income and expenditure account for the year ended 31 December 2016 **[8 marks]**
- (b) Prepare a statement of financial position as at that date. **[4 marks]**

SECTION B: ANSWER ANY THREE QUESTIONS

Question Two

A business started trading on 1 January 2001. During the two years ended 31 December 2001 and 2002 the following debts were written off to the Bad Debts Account on the dates stated:

31 August 2001	W Best	£850
30 September 2001	S Avon	£1,400
28 February 2002	L J Friend	£1,800
31 August 2002	N Kelly	£600
30 November 2002	A Oliver	£2,500

On 31 December 2001 there had been a total of debtors remaining of £405,000. It was decided to make a provision for doubtful debts of £5,500.

On 31 December 2002 there had been a total of debtors remaining of £473,000. It was decided to make a provision for doubtful debts of £6,000.

You are required to show:

- i. The Bad Debts written off Account and the Provision for Doubtful Debts Account for each of the two years. **[12 marks]**
- ii. The relevant extracts from the Balance Sheet as at 31 December 2001 and 2002. **[8 marks]**

Question three

Define the following terms as used in Business.

- (i) Depreciation **[2 marks]**
- (ii) Provision **[2 marks]**
- (iii) Initial capital **[2 marks]**

- (iv) Intangible assets [2 marks]
- (v) Drawings [2 marks]
- (b) Outline 4 circumstances under which the capital of a business may change [4 marks]
- c) According to the laws of Kenya, an organization is expected to prepare financial statements at the end of each accounting period. Identify these financial statements that are a must prepare and at least two statements that are prepared voluntarily [6 marks]

Question Four

A company starts in business on 1 January 2015, the financial year end being 31 December.

You are to show:

- a. The plant account. [3 marks]
- b. The provision for depreciation account. [6 marks]
- c. Depreciation account [4 Marks]
- d. Statement of financial position extract [3 marks]
- e. Statement of comprehensive incomes extract [4 marks]

The machinery bought were:

2015	1 January	1 plant costing £8,000
2016	1 July	2 plant costing £5,000 each
	1 October	1 plant costing £6,000
2017	1 April	1 plant costing £2,000

Depreciation is at the rate of 10 per cent per annum, using the straight-line method, plant being depreciated for each proportion of a year.

Question five

- a) Give atleast five types of errors not disclosed by a trial balance [10 marks]
- b) Give the journal entries needed to record the corrections of the following. Narratives are required. [10 marks]

Extra capital of £ 10,000 paid into the bank had been credited to Sales account.

Goods taken for own use £ 700 had been debited to General Expenses.

Private insurance £ 89 had been debited to Insurance account.

A purchase of goods from C Kelly £ 857 had been entered in the books as £ 587.

Cash banked £ 390 had been credited to the bank column and debited to the cash column in the cashbook.

Cash drawings of £ 400 had been credited to the bank column of the cashbook.

Returns inwards £ 168 from M McCarthy had been entered in error in J Charlton's account.

A sale of a motor van £ 1,000 had been credited to Motor Expenses.