

LAIKIPIA



UNIVERSITY

UNIVERSITY EXAMINATIONS

2ND SEMESTER 2023/2024 ACADEMIC YEAR

FIRST YEAR EXAMINATION FOR THE DEGREE OF
BACHELOR OF SCIENCE IN ECONOMICS AND
STATISTICS

BUST 121: FUNDAMENTALS OF FINANCIAL ACCOUNTING

STREAM:

TIME: 2 HRS

DAY: MONDAY [11.30-1.30 P.M]

DATE: 15/04/2024

THIS QUESTION PAPER CONSISTS OF FOUR (4) PAGES

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Answer question **one** and any other **two** questions

QUESTION ONE

(a) Explain any five functions of accounting. **(10 Marks)**

(b) ABC Enterprises runs a small scale business in down town. The following information was extracted from their books for the period ended on 31st December 2023.

	DR. Kshs (000)	CR. Kshs (000)
Land and buildings	9,000	
Motor vehicles	8,000	
Sales		40,500
Fixtures	2,000	
Stock (1/1/2023)	3,000	
Purchases	24,000	
Advertising	1,000	
Commissions	2,000	
General expenses	1,500	
Insurance	1,000	
Creditors and Debtors	6,000	6,000
Cash	2,500	
Electricity	1,500	
Salaries and wages	2,000	
Water	2,000	
Telephone	2,000	
Capital		<u>21,000</u>
	<u>67,500</u>	<u>67,500</u>

NB: Inventory at 31/12/2023 was valued at Ksh. 4,000,000

Required:

(i) Prepare statement of income for the year ended 31st December, 2023 **(10 Marks)**

(ii) Prepare the statement of financial position as at 31st December 2023. **(10marks)**

QUESTION TWO

a) Explain four benefits of preparing bank reconciliation statements **(8 marks)**

b) A trainee accountant for Modern Enterprises which is a sole trader in Limuru Kenya has prepared the following summary of the Cash book for the month of March 2016.



Cash Book:	DR.		CR.
	Kshs		Kshs
Opening Balance B/f	561,000	Payments	4,189,000
Receipts:	<u>3,748,000</u>	Closing balance b/d	<u>120,000</u>
	<u>4,309,000</u>		<u>4,309,000</u>

Additional Information

While checking the cashbook against the bank statement, you find the following discrepancies:

- (i) Bank charges of Kshs 8,000 shown in the bank statement have not been entered in the cashbook.
- (ii) The bank has debited a cheque of Kshs 37,000 in error to the accountants of Modern Enterprises.
- (iii) Cheques totaling Kshs 96,000 have not yet been presented to the bank for payment.
- (iv) Dividends received of Kshs 42,000 have been credited on the bank statement but not yet recorded in Modern Enterprises' cashbook.
- (v) There were cheques received of Kshs 484,000, which were entered in the cashbook but not yet credited by the bank.
- (vi) A cheque for Kshs 17,000 has been returned by the bank marked "Refer to drawer" but no entry relating to this has been made in the Modern Enterprises books.
- (vii) The opening balance in the cashbook should have been Kshs 651,000 and not Kshs 561,000 as shown in the cashbook.
- (viii) The bank statement shows that there is an overdraft at 31st March 2016 of Kshs 198,000.

Required:

- i) Updated cashbook. **(6 Marks)**
- ii) Prepare a bank reconciliation statement for the period. **(6 Marks)**

QUESTION THREE

- a) Highlight four benefits of control accounts. **(4 Marks)**
- b) Tropical Enterprises Limited keeps sales and purchases control accounts in the general ledger. The transactions for the month ended 30th April 2023 were as follows:

	Kshs
Credit balances on 1 st April 2023: Sales ledger	154,000
: Purchases ledger	569,000
Debit balances on 1 st April 2023: Sales ledger	956,000
: Purchases	196,000
Credit balances on 30 th April 2023: Sales ledger	178,000



Debit balances on 30 th April 2023: Purchases	189,000
Credit purchases	2,450,000
Credit sales	4,563,000
Cheques received from debtors	3,140,000
Cash received from debtors	1,367,000
Cheque payments to creditors	1,994,000
Cash payments to creditors	352,000
Bad debts written off	68,000
Discounts received	104,000
Discounts allowed	169,000
Contra to sales ledger from purchases ledger	234,000
Refunds to debtors	62,000
Returns outwards	138,000
Returns inwards	231,000

Required, Prepare:

- (a) Sales ledger control account **(8 Marks)**
(b) Purchases ledger control **(8 Marks)**

QUESTION FOUR

- a) Explain four qualitative characteristics of financial statements. **(8 marks)**
b) Explain the following accounting concepts:
i) The going concern concept
ii) The accruals concept
iii) The consistency concept
iv) The prudence concept
v) Substance over form
vi) Revenue Realization Principle. **(12 marks)**

