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KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR
FIRST YEAR, FIRST SEMESTER EXAMINATION
FOR THE BACHELOR OF BUSINESS IN INFORMATION TECHNOLOGY
KBA 2107 ACCOUNTING FOR BUSINESS

Date: 13TH AUGUST 2024
Time: 2:30PM – 4:30PM

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

Ken operates a coffee selling business under trade name Kencoffee Traders. At the beginning of 2024 Ken invited you to audit the accounts and prepare financial statement for tax and financing purposes. The following initial trial balance as at 31 December 2023 was presented to you by the accounting assistant.

	Debit	Credit
	Sh	Sh
Capital		5,943,000
Sales		10,066,000
Allowance for doubtful debts		35,900
Discounts	82,800	63,000
Purchases	4,885,000	
Carriage Inward	283,600	
Carriage outward	306,400	
Returns	202,100	482,400
Salaries and wages	1,387,000	
Bad debts	32,000	
Other operating expenses	1,060,000	
Interest expense	280,000	
Cash in hand	19,000	
Cash at bank	731,700	
Short term loan		400,000
Long term loan		1,600,000
Inventory 1 January 2023	563,400	
Trade receivables and payables	922,000	714,500
Drawings	216,000	
Land and Building	6,600,000	
Furniture and Equipment at cost	1,100,000	
Accumulated depreciation on furniture and equipment 1.1.2023		595,000
Motor vehicle at cost	2,400,000	
Accumulated depreciation on Motor vehicle at 1.1.23		1,171,200
	21,071,000	21,071,000

In the course of your audit, the assistant gave you the following additional information

- Stock take revealed that inventory at at 31 December 2023 has value of Sh 596,700
- Prepaid insurance of Sh 7,500 and electricity owing amounting to Sh 9,900. Insurance and electricity expenses are included in other operating expenses.
- The accountants agreed with auditor to adjust allowance for doubtful debts to 3% of the trade receivables balance at year end.
- The cash at bank balance was not equal to the balance in the bank statement
- Depreciation was as follows: Furniture and equipment 12.5% straight line
: Motor vehicles 20% reducing balance

You are required to prepare.

- Statement of profit or loss for the year ended 31 December 2023 **(10 Marks)**
- Statement of financial position as at 31 December 2023 **(10 Marks)**
- Highlight FOUR possible reasons why the cash at bank balance in the above trial balance is not equal to the balances in the bank statement as at 31 December 2023 **(4 Marks)**
- Identify THREE external users of above financial statements and explain how the financial statements meet their information needs **(6 Marks)**

QUESTION TWO (20 MARKS)

- The following summarized Trial balance totals were obtained from the books of Abdi Wholesalers as at 30 June 2024 which had failed to agree and the difference placed under suspense account as follows

	Debit Sh	Credit Sh
Trial balance totals	718,500	700,500
Suspense account		18,000
	718,500	718,500

On closer scrutiny the following errors were discovered:

- Additional furniture bought for Sh 10,000 was entered in the purchases account
- Sales were undercast by Sh 21,000
- Cash receipt from debtor of Sh 6,000 had not been posted to the account of the debtor.
- Cash drawings of Sh 7,500 were omitted from the books
- Goods bought on credit for Sh 12,000 were entered in the account of a creditor as Sh 21,000.

Required

- Journal entries to correct the above errors **(5 Marks)**
 - Suspense account duly balanced **(3 Marks)**
 - Discuss the benefit of correcting errors in financial statements once they are discovered. **(2 Marks)**
 - Identify and explain two fundamental qualities of good financial statements that may have been lacking above balances. **(4 Marks)**
- The main goal of financial accounting is to prepare financial statements that is useful to primary and secondary users to make economic decisions. Discuss three main objectives of preparing financial statements. **(6 Marks)**

QUESTION THREE (20 MARKS)

- a) During the year ended 31 December 2023, Gabriel & Francis Certified Public Accountants audited the books of Tana Tea company and found the following.
- The liabilities exceeded total assets by Sh 50 million casting doubt of the company to continue operating beyond the next twelve months
 - In order for the company to be seen to make profits, the accountants recognized sales of goods which the customers had not taken ownership.
 - The accountants had not provided for debt losses despite evidence of some debtors being unable to settle their debts.
 - Some invoices for expenses already incurred but not paid for in the month of December had not been entered into the books of accounts.
 - In calculating depreciation for motor vehicle the accountants had used a different depreciation rate from what they had used the previous year.
 - Revenue which had been left out in previous year had been posted to the current year.
- For each of the above cases identify the concepts and conventions that has been violated.

(6 Marks)

- b) During the year ended 2022 the bank statement of Bole Enterprises showed a balance of Sh 913,400 while the cash book showed a debit balance of Sh 895,000. On further investigation the following was discovered.
- The bank statement had bank charges worth Sh. 6,000 and Interest charges of Sh.15,000 which not posted into the cash book.
 - Cheques given to suppliers worth Sh 85,000 which had not been presented to the bank.
 - Cheques received from customers worth Sh 45,600 which had not been banked.

Required

- Updated cash book **(3 Marks)**
 - Bank reconciliation statement **(4 Marks)**
- c) Highlight three advantages of adopting international accounting standards and international financial reporting standards in preparation of financial statements **(3 Marks)**
- d) When ledgers are posted correctly the totals of the debit side and the credit side of the trial balance is expected to tally. Due to certain circumstances the totals may fail to tally. Explain two reasons why the totals may fail to tally. **(4 Marks)**

QUESTION FOUR (20 MARKS)

- a) Nekesa trading as Nekesa Enterprises had the following cash and bank transactions for the month of August 2023.
- Aug 1 Balances brought forward: cash debit Sh 52,000 debit and bank Sh 465,000 debit
- Aug 2 Sold goods to the following customers on credit Brian Sh 120,000, Perris Sh 60,000, Hillary Sh 48,000, Beth Sh 28,500
- Aug 3 Sales made and paid direct to the bank Sh 85,000 by customers
- Aug 5 Paid rent by cash Sh 24,000
- Aug 6 Purchased goods from the following on credit Paul Sh 50,000, George Sh 114,000 Bannes Sh 46,000
- Aug 8 Withdrew cash from the bank for business use sh 40,000
- Aug 14 Paid wages cash sh 54,000
- Aug 10 Cash sales Sh 126,000
- Aug 10 Deposited Sh 134,000 cash into bank account

Aug 12 Received cheques from the following debtors. Brian Sh 90,000 less discount allowed Sh 2,000, Perris Sh 42,900 less discount allowed Sh 900
 Aug 13 Paid the following creditors by cheques. Paul Sh 36,000 less 5% discount , Bannes Sh 40,000 less 5% discount
 Aug 15 Received a cheque of Sh 28,000 from Beth after deducting Sh 500 discount.
 Aug 20 Bought fixtures Sh 43,000 by cheque
 Aug 24 Bought for a pick-up by cheque sh Sh 500,000
 Aug 30 Cash sale Sh 98,000
 Aug 30 Bought stationery paying by cash Sh 5,600
 Aug 31 Took cash Sh 90,000 for personal use

Required

- i) Three column cash book (12 Marks)
- ii) Sales Day book/Journal (2 Marks)
- iii) Purchases day book/Journal (2 Marks)
- iv) Highlight the importance of preparing the above cash book (4 Marks)

QUESTION FIVE (20 MARKS)

- a) Financial accounting goes through recording, classifying, summarizing and reporting cycles. The recording stage involves recording transactions in books of original entry from the source documents. Identify and explain Three major source documents used in financial accounting.

(6 Marks)

- b) The following transactions relate the business of Megan who started the business on 1 September 2023.

Sept 1. Started a business with Sh 800,000 in the bank and Sh 40,000 cash
 Sept 3. Bought goods by cheque Sh 200,000
 Sept 5. Cash sale Sh 300,000
 Sept 6. Sh 310,000 cash was deposited into the business bank account
 Sept 6. Paid rent by cheque Sh 40,500
 Sept 11. Sold goods on credit to Ben Sh 110,000
 Sept 17. Paid wages by cash Sh 25,000
 Sept 18. Bought goods on credit from Charles sh 75,000
 Sept 20. Ben Returned goods of Sh 4,000
 Sept 21. Bought pick up by cheque sh 400,000
 Sept 26. Received cheque from Ben Sh 96,000
 Sept 30. Paid Charles Sh 70,000 by cheque.

Required

- i) Ledger accounts and balance off the accounts (10 Marks)
- ii) Trial balance as at 30 September 2023 (4 Marks)