

THE KENYA SCHOOL OF LAW



DIPLOMA IN LAW (PARA-LEGAL STUDIES)

1<sup>ST</sup> YEAR TERM III EXAMINATION

BOOK KEEPING & ACCOUNTING I

9<sup>TH</sup> APRIL, 2015

DURATION: 2 HOURS

**Instructions to Candidates**

- (a) Answer Question **ONE** and **ANY OTHER THREE** Questions
- (b) Question **ONE** carries **25 Marks**
- (c) All other questions carry **15 Marks** each

PLEASE TURN OVER

**Question One:**

Ouma Musa carries on a business dealing with the sale of household goods. Its total balances for the year ended 31<sup>st</sup> December, 2013 are as follows:

	Dr. '000'	Cr. '000'
Motor Vehicles	3,000	
Fixtures	2,000	
Stock at 1.1.13	1,000	
Sales		15,000
Purchases	7,000	
Rent	1,000	
Salaries and Wages	1,000	
Electricity	500	
Telephone	400	
Motor vehicle expenses	500	
Discounts	600	500
Returns	1,000	500
Debtors	4,000	
Creditors		3,000
Cash	2,000	
Bad debts	500	
Provision for bad debts		500
Drawings	1,000	
Capital		<u>6,000</u>
	<u>25,500</u>	<u>25,500</u>

**Additional information:**

Rent outstanding at the end of the year amount is Shs. 200,000

Salaries and wages paid in advance amount to Shs. 10,000

Accrued electricity is Shs.50,000

Prepaid telephone bills is Shs. 100,000

Stock as at 31<sup>st</sup> December, 2013 amounted to Shs. 3,000,000

Provision for bad and doubtful debts is to be set at 10% of debtors

Depreciation is to be provided on motor vehicles and fixtures at 10% and 20<sup>th</sup> respectively on cost.

**Required**

- a) Income Statement and Balance Sheet (statement of financial position) as at 31<sup>st</sup> December, 2013  
(20 Marks)
- b) Explain the main branches of accounts and their relevance to legal profession.  
(5 marks)

**Question Two:**

- a) What are the main sources of depreciation of plant and equipment?  
 b) XYZ Limited account of plant and machinery as at 1<sup>st</sup> January, 2013 stood at Sh. 11,000,000 while accumulated depreciation stood at Sh.4,000,000. It is the company's policy to charge depreciation at 10% per annum on cost prorated to time on all assets and no charge in the year of disposal. The following transactions took place:

Purchases	Item	Amount	
1 <sup>st</sup> January, 2013	Machine X	Shs. 3,000,000	
30 <sup>th</sup> June, 2013	Machinery Y	Shs.4,000,000	
Disposals	Item	Original cost sales proceed Date of purchase	
1 <sup>st</sup> April, 2013	Machine A	900,000	30 <sup>th</sup> June, 2009
30 <sup>th</sup> June, 2013	Machine B	1,200,000	1 <sup>st</sup> September, 2011

**Other Transactions:**

- a) Machinery bought on 30<sup>th</sup> June, 2010 at Shs 1,000,000 was completely damaged on 1<sup>st</sup> April, 2003. The insurance company paid Shs. 700,000.  
 b) The machinery bought on 30<sup>th</sup> June, 2001 at Ssh.1,000,000 was exchanged for a new one costing Shs.1,200,000 on 31<sup>st</sup> June, 2013. The company paid Shs.400,000 in exchange.

**Required:**

- a) Machinery account and depreciation account  
 b) Accumulated depreciation account and disposal account.

(15 marks)

**Question Three:**

Jabali Musa started a retail shop on 1<sup>st</sup> January 2014 with capital of Sh. 3,500,000. During the month he carried out the following transactions:

January 2	Put Shs. 2,800,000 of the cash into the bank account
January 3	Bought goods for cash Shs.150,000
January 4	Bought goods on credit from Nyahururu Shs.360,000, M. Kisoi Shs.490,000, P. Otieno 110,000 and Mutoko Shs.340,000.
January 5	Bought stationery on credit from Seal Honey Sh. 170,000.
January 6	Sold goods on credit to Wakundi Shs. 90,000 Pinto Gama Sh. 150,000, Hasan Miko Shs.190,000 Petro Sh.160,000.
January 8	Paid electricity by cheque Sh. 55,000.
January 10	Bought furniture on credit from Supreme Ltd Sh. 480,000.
January 11	Paid salaries and wages in cash Sh. 120,000.
January 14	Returned goods to M. Kisoi Shs.40,000, P. Otieno Shs.60,000.
January, 15	Bought motor vehicle by cheque Shs. 70,000

January, 16	Acquired a loan from Shiru Loli by cheque Shs. 600,000.
January, 18	Goods returned to Jabali Musa by Wakamandi Shs. 20,000, Hassan Miko Sh. 90,000
January, 21	Cash sales Shs. 90,000.
January 24	Sold goods on credit to: Pinto Gama Shs. 100,000; Patero Shs.340,000; Muuguzi Shs.115,000.
January, 26	Paid the following by cheque; Kisozi Shs. 450,000; P. Otieno Shs. 50,000.
January, 29	Received cheque from Muuguzi shs. 115,000, Pinto Gama Shs. 250,000
January, 30	Received a further loan from Shailoki by cash Kshs. 200,000.
January, 30	Received Shs. 50,000 cash from Petero.

**Required:**

All the accounting entries and a trial balance as at 31<sup>st</sup> January, 2014.

(15 Marks)

**Question Four:**

- a) Explain at least five users of accounting information including the detail of information they require and for what purpose. (5 Marks)
- b) Explain at least four limitations of financial information. (4 Marks)
- c) (i) What is an accounting policy (2 Marks)
- (ii) Explain two uses of a trial balance and two uses of a balance sheet. (4 Marks)

**Question Five:**

- a) During the month of January, Ted Drew, a lawyer carried out the following transactions.
- i) Invested Shs. 4,000 to open his practice
- ii) Bought supplies (stationery, form, pencils e.t.c) for cash Shs.300.
- iii) Bought furniture from Rohanson Furniture company on account Sh. 2,000
- iv) Received Sh. 2,500 in fees earned during the month.
- v) Paid office rent for January Ssh.500
- vi) Paid salary for part time help Shs. 200
- vii) Paid Sh.1,200 to Rohanson Furniture company on account.
- viii) After taking inventory at the end of the month, Drew finds that he had used Shs. 200 worth of supplies.
- ix) Withdrew Sh. 400 for personal use.

**Required:**

Analyze the transactions and confirm the accounting equation remains equal

(11 Marks)

- b) Differentiate between the following terms as applied in book keeping.
- i) Accrual and cash basis
  - ii) Nominal and real account

(4 Marks)

**Question Six:**

- a) The following information related to rent and rates accounts for the year ended 31<sup>st</sup> December, 2005;
- i) Rent payable Sh.6,000
  - ii) Rates of Sh.4,000 per annum are payable by instalments.
  - iii) As at 1<sup>st</sup> January, 2005 rent of Shs. 1,000 had been prepaid in 2004
  - iv) On 1<sup>st</sup> January, 2005 rates of Shs. 400 were owed.
  - v) During 2005 rent of Shs. 4,500 was paid.
  - vi) During 2005 rates of Shs. 5,000 were paid
  - vii) On 31<sup>st</sup> December, 2005 rent of Shs. 500 was owing.
  - viii) On 31<sup>st</sup> December, 2005 rent of Shs. 500 was owing.
  - ix) On 31<sup>st</sup> December, 2005 rates of Shs. 600 and been prepaid.

**Required:**

Rent and rates account duly balanced off with the balances to be carried down to 2006.

(7 Marks)

- b) A business started on 11<sup>th</sup> January 2012 and its financial year ends on 31<sup>st</sup> December annually. A table of the debtors, bad debts written off and provision for bad debts is to be estimated out of debtors balance each year.

Year	Debtors	Bad debts
31 <sup>st</sup> December, 2012	6,000	423
31 <sup>st</sup> December, 2013	7,000	510
31 <sup>st</sup> December, 2014	7,750	604
31 <sup>st</sup> December, 2015	6,500	610

**Required:**

- i) Provision for bad debts accounts (4 Marks)
- ii) Income statement extract for the years 31<sup>st</sup> December, 2012 to 31<sup>st</sup> December, 2015. (2 Marks)
- iii) Balance sheet extract for the years 31<sup>st</sup> December, 2012. (2 marks)