

BAF1101 FINANCIAL ACCOUNTING I CAT

DO ALL THE QUESTION

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QUESTION ONE

(a) Briefly explain the following types of errors:

(i) **Error of commission** - An accounting error of commission occurs when an item is entered to the correct type of account but the wrong account. For example is cash received of 3,000 from Customer A is credited to the account of Customer B.

(2 marks)

(ii) **Error of principle** - An error of principle in accounting occurs when the bookkeeping entry is made to the wrong type of account. For example, if a 1,000 sale is credited to the sundry expenses account instead of the sales account. (2 marks)

(iii) **Complete reversal of entries** - Complete reversal of entries errors occur when the correct amount is posted to the correct accounts but the debits and credits have been reversed. For example if a cash sale is made for 400 and posted incorrectly (2 marks)

(iv) **Compensating errors** - A compensating error occurs when two or more errors cancel each other out. (2 marks)

(b) The trial balance of Amanda Ltd as at 30 April 2018 did not balance. On investigation, the following errors were discovered:

1. A loan of Sh.2,000,000 from one of the directors has been correctly entered in the cashbook but posted to the wrong side of the loan account.
2. The purchase of a motor vehicle on credit for Sh.2,860,000 had been recorded by debiting the supplier's account and crediting the motor expenses account.
3. A cheque for Sh.80,000 from Ogola, a customer to whom goods are regularly supplied on credit, was correctly entered in the cashbook but was posted to the credit of bad debts recovered account in the mistaken belief that it was a receipt from Agola, a customer whose debt had been written off three years earlier.
4. In reconciling the company's cash book with the bank statement, it was found that bank charges of Sh.38,000 had not been entered in the company's records.
5. The totals of the cash discount columns in the cashbook for the month of April 2018 had not been posted to the respective discount accounts.

The figures were:

	Sh.
Discounts allowed	184,000
Discounts received	397,000

6. The company had purchased some plant on 1 March 2017 for Sh.1,600,000. The payment was correctly entered in the cashbook but was debited to the plant repairs account. Depreciation on such plant is provided for at the rate of 20% per annum on cost.

Required:

- (i) Journal entries with narrations to correct the above errors.
- (ii) Suspense accounts showing the original difference

(15 MARKS)

Cash Book		
Loan 2,000,000	Bal	C/d 2000,000
Error 2,000,000		

Loan A/c	
Cash 200,000	Suspense 200,000
Bal	Error 2,000,000

	Dr	Cr
Cash book	2,000,000	
Loan A/c		2,000,000

Being recorded wrongly in the loan A/c has been corrected.

2.

Motor vehicle expenses A/c		Suppliers A/c	
Suspense 2,860,000	Supplier 2,860,000	M.V Expen. 2,860,000	Suspense
	2,860,000		

	Dr	cr
Motor Vehicle Expense A/c	2,860,000	
Supplies A/c		2,860,000

3.

Suspense entry made to correct the wrong posting of the amount 2,860,000 from the wrong side to the correct side of the various accounts.

Bad Debt		Creditors	
-Bank A/c		Ogola A/c	
		Bank 80,000	

Being to correct the wrong posting from bad debt recorded to the credit account in relation to Ogola's payments.

4.

Bank Statement

	Dr	cr
Bank A/c	38,000	
Cash A/c		38,000
Suspense	38,000	

Being to record a transaction has been omitted.

5.

Discount received A/c	Discount Allowed A/c
Creditors 397,000	Debtor 184,000

Being to correct entry and place them in the correct company record.

6.

1 st Mar 2017	Cost	Dep	Netbook Value
	1,600,000	320,000	1,280,000
	20%		

Plant
Purchase

Purchase A/c	
1,600.000	

Plant repair A/c	
	320,000

Being to post the plant bought in the right A/c from the plant repair A/c

Suspense A/c			
Loan	2,000,000	Cash	
M.V		Loan	2,000,000
Supplier	2,860,000	Supplier	
Creditor	80,000	Motor Vehicle	2,860,000
Bank	38,000	Dr	39,700
DA	184,000	cr	278,000
Plant	16,000		
	<u>5,178,000</u>		<u>5,178,000</u>

Question Two

The following balances were extracted from the books of Bashara Kabwa Enterprises, a wholesale business, as at 31 October 2018:

Drawings	660,000
Trade receivables	990,000
Purchases	2,303,840
Sales returns	79,420
Capital	4,101,100
Trade payables	330,000
Sales	4,691,280
Purchases returns	120,340
Discount received	93,720
Provision for depreciation: Motor vehicles	176,000
Fixtures and fittings	63,800
Allowances for doubtful debts	44,000
15% bank loan	220,000
Salaries and wage	1,034,000
Discount allowed	54,560
Bank balance	568,260
Cash in hand	26,400
Electricity expenses	103,840
Rent and rates	54,560
Freehold premises (cost)	1,569,700
Fixtures and fittings (cost)	334,400
Motor vehicles (cost)	462,000
Stationery	34,320
Postage and telephone expenses	44,000
Insurance premiums	13,200
Bad debts written off	15,840
Motor vehicle expenses	84,920
Inventory (1 November 2017)	1,393,480
Interest on bank loan	16,500

Additional information:

1. The value of inventory as at 31 October 2018 was Sh. 1,036,400
2. Sales includes Sh. 300,000 worth of goods sold by Bashara Kabwa Enterprises agents, who are allowed 15% commission on such sales. This transaction has not been recorded in the books.
3. Depreciation is to be provided as follows:

- Fixtures and fittings – 10% per annum on reducing balance basis.
 Motor vehicle – 15% per annum on straight line basis.
4. Annual insurance premium amounted to Sh. 12,000.
 5. As at 31 October 2017, there was a balance of Sh. 65,000 received from a customer in cash.
 6. Salaries and wages were in arrears of Sh. 35,000
 7. The Electricity bill for the month of October of Sh. 14,500 was received on 5 November 2018.
 8. An allowance of 5% is to be maintained for doubtful debts.
 9. Goods worth Sh. 48,840 had been distributed to potential customers as free samples.

Required:

- a) Income statement for the year ended 31 October 2018
- b) Statement of Financial position as at 31 October 2018 (15 MARKS)

Biashara Kubwa Enterprises
Statement of Financial Position as at 31st Oct 2018

	sh	sh	sh
<u>Non-current Assets</u>			
Free hold premises		1,569,000	
Fixtures & Fittings		334400	
Motor vehicle		462000	2,366,100
<u>Current Assets</u>			
Bank balance	568260		
Cash in Hand	26400+65000		
Stock	1336400		
	1336400	1996060	
Debtor			
<u>Current Liabilities</u>			
15% bank loan	220,000		
Creditors	(75,000)	-(255,000)	
Net current Assets			1,682,060
Net Assets			3828160
			4048160
Capital			4,101,000
Net profit			(682450)
Drawings			(660,000)
Loan			2,758,550
15% bank loan			220,000
			2978,550
		35,000	
Accrued Expense	14500		

Allowance for dutiful debt	2,200	
Free sample (Advertising)	48,840	-1,788,370
Motor vehicle expense	84920	1,873,290
Net loss		(682450)

Biashara Kubwa Enterprises
Income Statement for the year ended 31st Oct 2018

	sh	sh	sh
Sales			4,691,280
Less sales returns			(79,420)
			<u>4,611,860</u>
Less cost of sales			
Opening stock		1393480	
Add purchases	2,303,840		
Trade receivable	990,000		
Purchase returns	(120340)	<u>3173500</u>	
Goods available for sale		4,566,980	
Less closing stock		(1,036,400)	<u>(3,530,580)</u>
Gross profit			1,081,280
Add other incomes			
Discount received		93720	
Bad debt written off		<u>15840</u>	109,560
Less expenses			
Trade payables		330,000	
Salaries & Wages		1,304,000	
Discount allowed		54,560	
Electricity expense		108,840	
Rent & rates		54560	
Postage & telephone expense		44,000	
Insurance Premium		13200	
Interest on bank loan		16500	
Commission allowed		45,000	
Depreciation		27,170	