**BAF1101 FINANCIAL ACCOUNTING I CAT**

**DO ALL THE QUESTION**

**BIT 2019/44664 WILFRED GITHUKA GACHUGI**

**QUESTION ONE**

1. 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)

1. 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 fro 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 |

* 1. 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 A/c

Loan 2,000,000 Bal C/d 2000,000 Cash 200,000 Suspense 200,000

Error 2,000,000 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.

1st Mar 2017 Cost Dep Netbook Value

1,600,000 320,000 1,280,000

20%

Plant

Purchase

Purchase A/c Plant repair A/c

1,600.000 320,000

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

5,178,000 5,178,000

**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.

1. Annual insurance premium amounted to Sh. 12,000.
2. As at 31 October 2017, there was a balance of Sh. 65,000 received from a customer in cash.
3. Salaries and wages were in arrears of Sh. 35,000
4. The Electricity bill for the month of October of Sh. 14,500 was received on 5 November 2018.
5. An allowance of 5% is to be maintained for doubtful debts.
6. Goods worth Sh. 48,840 had been distributed to potential customers as free samples.

**Required:**

1. Income statement for the year ended 31 October 2018
2. Statement of Financial position as at 31 October 2018 (15 MARKS)

**Biashara Kubwa Enterprises**

**Statement of Finanacial Position as at 31st Oct 2018**

**sh sh sh**

**Non-current Assets**

Free hold premises 1,569,000

Fixtures & Fittings 334400

Motor vehicle 462000  2,366,100

**Current Assets**

Bank balance 568260

Cash in Hand 26400+65000

Stock  1336400

1336400 1996060

Debtor

**Current Liabilities**

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)

4,611,860

Less cost of sales

Opening stock 1393480

Add purchases 2,303,840

Trade receivable 990,000

Purchase returns (120340) 3173500

Goods available for sale 4,566,980

*Less* closing stock (1,036,400) (3,530,580)

Gross profit 1,081,280

Add other incomes

Discount received 93720

Bad debt written off 15840 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