



KISII UNIVERSITY

UNIVERSITY EXAMINATIONS

**SECOND YEAR EXAMINATION FOR THE AWARD OF THE
DEGREE OF BACHELOR OF LAW
SECOND SEMESTER, 2021/2022
(JUNE - SEPTEMBER, 2022)**

LLBK 228: TRUST ACCOUNTS AND ACCOUNTING FOR LAWYERS

STREAM: LLBK 2 S2

TIME: 2 HOURS

DAY: MONDAY, 12:00 – 2:00 P.M.

DATE: 12/09/2022

INSTRUCTIONS

- 1. Do not write anything on this question paper.***
- 2. Answer Question ONE [Compulsory] and any other THREE Questions.***
- 3. Illustrate your answer with relevant cases and statutory provisions where applicable.***

QUESTION ONE:

“The historical cost convention looks backwards but the going concern convention looks forwards.”

Required:

- Explain clearly what is meant by:
 - The historical cost convention [2 Marks]
 - The going concern convention. [2 Marks]
- Briefly explain why it is important for a business entity to prepare a bank reconciliation statement. [3 marks]
- “Qualitative characteristics are the attributes that make information provided in financial statements useful to users.” Briefly explain the four main qualitative characteristics of financial statements with reference to shareholders of a company. [6 marks]
- Give two purposes of control accounts. [2 marks]

The following trial balance has been drawn up from the accounts of Endpages bookshop.

Endpages Bookshop
Trial balance as at 31 December 2021

	Dr sh.000	Cr sh. 000
Sales		
Purchases	103,500.	151,500.
Salaries and wages	18,700.	
Office expenses	2,500.	
Insurance	1,100.	
Electricity	600.	
Stationery	2,400.	
Advertising	3,500.	
Telephone	800.	
Rates	3,000.	
Discount allowed	100.	
Discount received		
Rent received		200.
Returns inwards	1,500.	2,000.
Returns outwards		
Stock at 01 Jan 2001	46,000.	3,500.
Premises	80,000.	
Stock as at 31 Dec 2001	41,000. 5,000.	
Fixtures and fittings	4,800.	
Debtors and Creditors	200.	7,500.
Cash in Hand		12,000.
Cash in bank	14,000.	11,000.
Capital		
Drawings		
Stock as at 31 Dec 2001	<u>328,700.</u>	<u>41,000.</u> <u>328,700.</u>

Required

Prepare a Trading and profit and loss account for the year ended 31 December 2021 and a balance sheet as at that date.

(10 marks)

QUESTION TWO

Mr. J Ockey commenced trading as a wholesaler stationer on 1 May 2021 with a capital of sh.5, 000. With which he opened a bank account for his business.

During May the following transactions took place.

May 1 Bought shop fittings and fixtures from store fitments Ltd for sh.2, 000?
May 2 Purchased goods on credit from Abel sh.650.
May 4 Sold goods on credit to Bruce sh.700.
May 9 Purchased goods on credit from Green sh.300.
May 11 Sold goods on credit to Hill sh.580.
May 13 Cash sales paid into bank account sh.200.
May 16 Received cheque from Bruce in settlement of his account
May 17 Purchased goods on credit from Kay sh.800.
May 18 Sold goods on credit to Nailor sh.360.
May 19 Sent Cheque to Abel in settlement of his account
May 20 Paid rent by cheque sh.200.
May 21 Paid delivery expenses by cheque sh.50.
May 24 Received from Hill sh.200. On account
May 30 Drew cheque for personal expenses sh.200. and assistant wages sh.320.
May 31 settled the account of Green.

Required

- a) Post the entries in the ledger accounts ,Balance the ledger accounts where necessary and [10Marks]
- b) Extract a trial balance as at 31 May 2021. [5 Marks]

QUESTION THREE:

- a) Explain any five source documents (books) of original entry. [5 Marks]
- b) A cashier in a firm starts with Sh.2, 000 in the month of March (that is the cash float). In the following week, the following payments are made:

	Sh.
1 st March – bought stamps for	80
2 nd March – paid bus fare for	120
2 nd March – cleaning materials	240
3 rd March – bought fuel	150
3 rd March – cleaning wages	300
4 th March – bought stamps	200
4 th March – paid L. Thompson (creditor)	400

On the 5th of March the cashier requested for a refund of the cash spent and this amount was reimbursed back.

Required:

Prepare a detailed petty cash book showing the balance to be carried forward to the next period and the relevant expense accounts, as they would appear on the General Ledger [10 Marks]

QUESTION FOUR.

- a) Stokes sets up a new business. Before he actually sells anything he has bought motor vehicles of sh.3, 000, premises of sh.7, 000, stock of goods sh.2, 000. He still owes sh.800 in respect of them. He had borrowed sh.4, 000 from D Evans. After the events just described and before trading starts, he had sh.300 cash in hand and sh.600 cash at bank. **You are required to calculate the amount of his capital.** [5 Marks]
- b) Using suitable examples, explain the meaning of the following terms:
- (ii) Accounting policies. [2 marks]
 - (iii) Accounting bases [2 marks]
- c) Briefly explain why the following parties may be interested in the financial statements of an organisation:

- (i) Employees [2 mark]
- (ii) The Government. [2 marks]
- (iii) The public. [2 marks]

QUESTION FIVE.

- (a) Differentiate between a petty cashbook and a three-column cashbook. [5 marks]
- (b) (c) You have recently been employed in a medium size company and deployed in the accounts department. Your head of section has given you the following extract from the cashbook for the month of April 2003:

	Sh.		Sh.
Receipts during the month	2,938,000	Balance brought forward (1.4.2003)	1,522,000
Balance carried forward (30.4.2003)	<u>1,108,000</u>	Payments during the month	<u>2,524,000</u>
	<u>4,046,000</u>		<u>4,046,000</u>

The head of section further informs you that all receipts are banked intact and all payments are made by cheque. On investigation, you discover the following:

1. Bank charges and commissions amounting to Sh. 272,000 entered on the bank statement had not been entered in the cashbook.
2. Cheques drawn amounting to Sh. 534,000 had not been presented to the bank for payment.

3. Cheques received totaling Sh. 1,524,000 had been entered in the cashbook and paid into the bank, but had not been credited by the bank until May 2003.
4. A cheque for Sh. 44,000 had been entered as a receipt in the cashbook instead of a payment.
5. A cheque for Sh. 50,000 had been debited by the bank by mistake.
6. A cheque received for Sh. 160,000 had been returned unpaid. No adjustment had been made in the cashbook.
7. All dividends receivable are credited direct to the bank account. During the month of April 2003. Dividends totaling Sh. 124,000 were credited by the bank and no entries had been made in the cashbook.
8. A cheque drawn for Sh. 12,000 had been incorrectly entered in the cash book as Sh. 132,000.
9. The balance brought forward should have been Sh. 1,422,000.
10. The bank statement as at 30 April 2003 showed an overdraft of Sh. 2,324,000.

Required:

- (i) The adjusted cashbook as at 30 April 2003. [5 marks]
- (ii) Bank reconciliation statement as at 30 April 2003. [5 marks]