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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2019/2020 ACADEMIC YEAR
FIRST YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)**

Date: 16th August, 2019
Time: 2.00 – 4.00pm

KAC 100 - PRINCIPLES OF ACCOUNTING I

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Define the following accounting concepts and for each explain their implication in the preparation of financial statements.
- (i) The Going concern concept. (2 marks)
 - (ii) Business entity concept. (2 marks)
 - (iii) Materiality. (2 marks)
 - (iv) Realization. (2 marks)
- b) Mr. Ockey commenced trading as a wholesaler stationer on 1 May 2019 with a capital of Shs 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 Shs 2,000 |
| May 2 | Purchased goods on credit from Abel Shs 650 |
| May 4 | Sold goods on credit to Bruce Shs 700 |
| May 9 | Purchased goods on credit from Green Shs 300 |
| May 11 | Sold goods on credit to Hill Shs 580 |
| May 13 | Cash sales paid into bank account Shs 200 |

May 16	Received cheque from Bruce in settlement of his account
May 17	Purchased goods on credit from Kay Shs 800
May 18	Sold goods on credit to Nailor Shs 360
May 19	Sent Cheque to Abel in settlement of his account
May 20	Paid rent by cheque Shs 200
May 21	Paid delivery expenses by cheque Shs 50
May 24	Received from Hill Shs 200 on account
May 30	Drew cheque for personal expenses Shs 200 and assistant wages Shs 320
May 31	settled the account of Green.

Required

- i) Record the transactions in the books of prime entry. **(6 marks)**
- ii) Post the entries in the ledger accounts. **(12 marks)**
- iii) Extract a trial balance as at 31 May 2019. **(4 marks)**

QUESTION TWO (20 MARKS)

- a) Explain the meaning of cash book and state what it shows at the end of an accounting period **(4 marks)**
- b) The accountant of Mamba Sports Club has extracted the following information from the books of account for the year ended 31 March 2019:

Mar	1	Balances brought forward: Cash Shs 230; Bank Shs 4,756.
"	2	The following paid their accounts by cheque, in each case deducting 5% discounts: R Burton Shs 140; E Taylor Shs 220; R Harris Shs 800.
"	4	Paid rent by cheque Shs 120.
"	6	J Cotton lent us Shs1, 000 paying by cheque.
"	8	We paid the following accounts by cheque in each case deducting a 2 ½% cash discount: N Black Shs 360; P Towers Shs 480; C Rowse Shs 300.
"	10	Paid motor expenses in cash Shs 44.
"	12	H Hankins pays his account of Shs 77, by cheque Shs 74, deducting Shs 3 cash discount.
"	15	Paid wages in cash Shs 160.

- “ 18 The following paid their accounts by cheque, in each case deducting 5% cash discount: C Winston Shs 260; R Wilson & Son Shs 340; H Winter Shs 460.
- “ 21 Cash withdrawn from the bank Shs 350 for business use.
- “ 24 Cash Drawings Shs 120.
- “ 25 Paid T Briers his account of Shs 140, by cash Shs 133, having deducted Shs 7 cash discount.
- “ 29 Bought fixtures paying by cheque Shs 650.
- “ 31 Received commission by cheque Shs 88.
- i. Prepare a three-column cashbook and balanced it off **(1 marks)**
- ii. Draw the relevant discount accounts in the general ledger. **(4 marks)**

QUESTION THREE (20 MARKS)

- a. Briefly explain the following types of errors:
- i. Error of commission . **(2 marks)**
- ii. Error of principle. **(2 marks)**
- iii. Complete reversal of entries . **(2 marks)**
- iv. Compensating errors. **(2 marks)**
- b. The trial balance of Amanda Ltd as at 30 April 2019 did not balance. On investigation, the following errors were discovered:
- i. 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.
- ii. 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.
- iii. 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.
- iv. In reconciling the company’s cashbook with the bank statement, it was found that bank charges of Sh.38, 000 had not been entered in the company’s records.
- v. The totals of the cash discount columns in the cashbook for the month of April 2019 had not been posted to the respective discount accounts.

The figures were:

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

- vi. The company had purchased some plant on 1 March 2018 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. **(10 marks)**
- (ii) Suspense accounts showing the original difference. **(2 marks)**

QUESTION FOUR (20 MARKS)

- a) Explain the advantages of maintaining control accounts. **(6 marks)**
- b) The following balances were extracted from the books of Katee Ltd. for the month of April 2019:

	Sh.'000
Debit balances (1 April 2019): Sales ledger	1,428,000
Purchases ledger	10,500
Credit balances (1 April 2019): Sales ledger	40,500
Purchases ledger	553,800
Discounts received	142,500
Discounts allowed	209,700
Purchase (including cash purchases of Sh.152,000)	1,334,000
Cash sales	618,000
Credit sales	2,068,200
Credit notes issued to customers for returned goods	75,000
Sales ledger debit balances off-set against purchases ledger	36,900
Payment to creditors	1,159,200
Interest charged by creditors on overdue accounts	69,000
Receipt from customers	1,578,000
Bad debts written off	37,200
Customer's unpaid cheques	26,100
Interest charged to customers on overdue accounts	96,100

Debt collection expenses charged to debtors	10,800
Credit notes received from suppliers	26,700
Balances as at 30 April 2019: Purchases ledger (debt)	14,400
Sales ledger (credit)	50,700

Required:

- i. Sales ledger control account for the month ended 30 April 2019. (7 marks)
- ii. Purchases ledger control account for the month ended 30 April 2019. (7 marks)

QUESTION FIVE (20 MARKS)

Mutiso Mwema started his business in Gikomba as a carpenter on 1 January 2018 and he has not kept proper books of account. He engages you to examine his records and prepare appropriate accounts. From your examination of the records and from interviews with Mr. Mwema you ascertain the following information:

- i) On starting the business on 1 January 2018, he put Sh.120, 000 into a business bank account. On the same day, Mr. Mwema brought into the firm his pickup and reckoned that it was worth Sh. 66,000 then. He estimated that it will have another useful life of three years.
- ii) To increase his working capital he borrowed Sh.40, 000 at 15% interest per annum on 1 April 2018 from his sister but no interest has yet been paid.
- iii) On 1 January 2018, Miss Wambua was employed as a typist/clerk at a salary of Sh.72, 000 per annum.
- iv) Drawings were Sh.1, 800 per week from the business account for private use during the year.
- v) He purchased timber worth Sh.196, 000 out of which Sh.15, 800 left in the workshop on 31 December 2018. He had also spent Sh.96, 000 on some equipment at the commencement of the business which he estimates will last him five years.
- vi) Electricity bills received up to 31 October 2018 came to Sh.24, 000. Motor vehicle expenses were Sh.18, 200 while general expenses amounted to Sh.27, 000 for the year. The insurance premium for the year 31 March 2019 was Sh.16, 000. All these expenses have been paid by cheque.
- vii) Rates for the year to 31 March 2019 came to Sh.3, 600 but they had not yet been paid.

viii) Miss Wambua sent out invoices to customers for Sh. 617,800 but only Sh.508, 000 had been received by 31 December 2018. Debts totalling Sh.1, 700 were abandoned during the year as bad. Other customers for jobs too small to invoice have paid Sh.72, 600 in cash for work done of which Sh.56, 000 was banked. Mr. Mwema used Sh. 7,500 of the difference to pay for his family's foodstuff, bought Kenya Charity Sweepstake tickets worth Sh.2, 400 and Miss Wambua used the rest of general expenses, except for Sh.3, 010 which was left over in the drawer in the office on 31 December 2018.

ix) You agree with Mr. Mwema that he will pay you Sh. 5,500 for accountancy fee.

Required:

Prepare an income statement for the year ended 31 December 2018. **(12 marks)**

Statement of financial Position as at 31st December 2018. **(8 marks)**