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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: 5th December, 2019
Time: 8.30am – 10.30am

KAC 100 - PRINCIPLES OF ACCOUNTING I

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Explain any three key qualities of good accounting information. (6 Marks)
- b) Differentiate between the business entity and going concern principles in accounting and materials concept. (6 Marks)
- c) Mr. Tumbo commenced trading as a wholesaler stationer on 1 May 2018 with a capital of Sh.5, 000.00 with which he opened a bank account for his business. During May the following transactions took place.
- May 1 sold goods on credit to Hiram sh 2 000
 - May 2 Purchased goods on credit from Abel Sh.650.00
 - May 4 Sold goods on credit to Bruce Sh.700.00
 - May 4 goods returned by Bruce amounted to 50.00
 - May 9 Purchased goods on credit from Green Sh.300.00
 - May 11 Sold goods on credit to Hill Sh.580.00
 - May 13 Cash sales paid into bank account Sh.200.00
 - May 17 Purchased goods on credit from Kay Sh.800.00
 - May 18 Sold goods on credit to Nail for Sh.360.00
 - May 19 Sent Cheque to Abel in settlement of his account
 - May 20 Paid rent by cheque Sh.200.00

Required:

Prepare the necessary journal entries to record the transactions. (10 Marks)

- d) The following details for the year ended 31 March 2013 are available. Draw up the trading account of R Sings for that year.

Stocks: 1 April 2012	16,523	
Returns inwards	1,372	
Returns outwards	2,896	
Purchases	53,397	
Carriage inwards	1,122	
Sales	94,600	
Stocks: 31 March 2013	14323	(8 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 (14 Marks)
- ii) Draw the relevant discount accounts in the general ledger. (2 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:
- 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.
 - 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.
 - 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.
 - 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.
 - 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:

- Journal entries with narrations to correct the above errors. (10 Marks)
- Suspense accounts showing the original difference (2 Marks)

QUESTION FOUR (20 MARKS)

- Explain the advantages of maintaining control accounts. (6 Marks)
- 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 (debit)	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)

Danson commenced his business of making furniture on 1 April 2000. Due to his limited accounting knowledge he has not maintained proper books of account. You have been engaged to examine his records and prepare appropriate accounts there from. You perform an examination of the records and from interviews with Danson you ascertain the following information.

1. At the commencement of business on 1 April 2016, he deposited Sh 1,200,000 into business bank account. On the same day he brought into the firm his pickup and estimated that it was worth Sh 660,000 and then that from 1 April 2016 it will have useful life of three years.
2. To increase his working capital he borrowed Sh 400,000 at 15% interest per annum on 1 July 2016 from his sister but no interest has yet been paid.
3. On 1 April 2016, Sally was employed as a clerk at a salary of Sh. 720,000 per annum.
4. He had drawn Sh 18,000 per week from the business account for private use during the year.
5. He purchased timber worth Sh 1,960,000 out of which Sh 158,000 worth of stock was retained in the workshop on 31 March 2017. He also spent Sh 960,000 on the purchase of some equipment at the commencement of the business which he estimates will last him five years.
6. Electricity bills received up to 31 January 2017 were Sh 240,000. Bills for the remaining two months were estimated to be Sh 48,000. Motor vehicle expenses were Sh 182,000 while general expenses amounted to Sh 270,000 for the year. Insurance premium for the year to 30 June 2017 was Sh 160,000. All these expenses have been paid by cheque.
7. Rates for the year to June 2017 were Sh 36,000 but these had not been paid.
8. Sally sent out invoices to customers for Sh 6,178,000 but only Sh 5,080,000 had been received by 31 March 2017. Debt totaling to Sh 17,000 were abandoned during the year as bad. Other customers for jobs too small to invoice have paid Sh 726,000 in cash for work done of which Sh 560,000 was banked. Dancan used Sh 75,000 of the difference to pay for his family's foodstuff, bought Kenya Charity Sweepstake tickets worth 24,000 and Sally used the rest on general expenses except for Sh 30,100 which was left in the office on 31 March 2017.
9. You agree with Kimeu that he will pay you Sh 55,000 for accountancy fee.

Required:

- i) Profit and loss account for the year ended 31 March 2017. (10 Marks)
- ii) Balance sheet as at 31 March 2017. (10 Marks)