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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2016/2017 ACADEMIC YEAR
FIRST YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date:

Time: 9.00am –

KAC 100 - PRINCIPLES OF ACCOUNTING I

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Explain the following accounting concepts;
- i) Prudence (2 Marks)
- ii) Going concern (2 Marks)
- b) Explain any three purposes of accounting. (6 Marks)
- c) Liz Amani started wholesale business on 1st January, 2015. The following trial balance was extracted from the books of her business on 31th December, 2015.

	DR. (Sh.)	CR. (Sh.)
Capital		1,000,000
Purchases	400,000	
Fixtures and fittings (cost)	85,000	
Motor lorry (cost)	250,000	
Sales		650,000
Discount allowed and received	500	450
Rent paid	15,500	
Rent received		550
Insurance	35,400	
Transport	28,100	
Electricity	2,500	
Debtors and creditors	250,000	84,450
Rates	1,500	
Stock 1.1.2011	38,000	
Salaries & wages	22,000	
Bad debts	4,400	
Drawings	1,500	
Bank balance	590,000	
Cash balance	11,050	
	<u>1,735,450</u>	<u>1,735,450</u>

Additional information;

1. Provide for depreciation on fixtures & fittings at 2% p.a. on cost and on motor lorry at 5% p.a. on cost.
2. Unsold stock on 31.12.2015 was sh. 22,000
3. Of electricity paid, sh. 200 was in advance; and for rates sh. 100 in advance.
4. Sh. 1,600 was outstanding in respect of insurance.

Required;

- i) Prepare the income statement for the year ended 31st December, 2015. (12Marks)
- ii) Prepare the statement of financial position as at 31st December, 2015. (8 Marks)

QUESTION TWO (20 MARKS)

Enter the following transactions in the three column cash book, balance off at the end of the month and show the relevant discounts account as they would appear in the general ledger.

2016

- March 1 Balances brought forward: cash sh. 62,000; Bank sh.714, 200.
- March 2 The following paid their accounts by cheque, in each case deducting 5% cash discounts: Grace sh. 26,000; Mibey sh. 32,000; Wafula sh. 42,000 (all amounts are pre- discount).
- March 4 Paid rent by cheque sh. 43,000
- March 8 Paid the following by cheque in each case deducting 2.5% cash discount: Omariba sh. 72,000; Ochieng sh. 96,000; Wario sh. 160,000 (all amounts are pre- discount).
- March 10 Paid motor expenses in cash sh. 8,100
- March 12 Wairobi paid his account of sh.90, 000 by cheque sh. 88,000 deducting sh.2, 000cash discount.
- March 15 Paid wages in cash sh. 5,800.
- March 21 Cash withdrawn from the bank sh. 40,000 for business use.
- March 24 Cash drawings sh. 20, 000.
- March 25 Paid James his account of sh. 16,000 by cash less 5% cash discount.
- March 29 Bought fixtures paying by cheque sh. 72,000.
- March 31 Received commission by cheque sh. 12,000

QUESTION THREE (20 MARKS)

- a) Explain three purposes for which control accounts are prepared in a business organization. (3 Marks)

- b) XML Ltd. Maintains control accounts in its business records. The balances and transactions relating to the company's control accounts for the month of December, 2015 are listed below:

Balance at 1 December 2015	Sh.	
Sales ledger	6,185,000	(Debit)
	52,500	(Credit)
Purchases ledger	16,500	(Debit)
	4,285,000	(Credit)
Transactions during December 2015:		
Sales on credit	8,452,000	
Purchases on credit	5,687,500	
Returns inwards	203,500	
Returns outwards	284,000	
Bills of exchange payable	930,000	
Bills of exchange receivable	615,000	
Cheques received from customers	7,985,000	
Cheques paid to suppliers	4,732,000	
Cash paid to suppliers	88,500	
Bill payable dishonoured	400,000	
Bill payable dishonoured	10,000	
Cash received from credit customers	153,000	
Cash discount allowed	302,000	
Bill receivable dishonoured	88,500	
Balance as at 31 December 2008		
Sales ledger	44,000	(Debit)
Purchases ledger	23,500	(Credit)

Required;

Prepare the sales ledger and the purchases ledger control accounts for the month of December 2008 and derive the respective debit and credit closing balances on 31 December 2015.

(17 Marks)

QUESTION FOUR (20 MARKS)

- a) Define depreciation and explain three causes of depreciation.
(4 Marks)
- b) A business buys a machine for sh. 1,000,000. The business estimates that the machine will be used for 5 years. After exactly 2½ years, however, the asset is suddenly sold for sh. 500,000. The business always provides a full year's depreciation on cost in the year of purchase and no depreciation in the year of disposal.

Required;

Write up the machine account, provision for depreciation account and machine disposal account for each of years 1, 2 and 3.

(6 Marks)

- c) Jura's cash book showed an overdraft of sh.10, 480 on 31 December 2011. On the same date, bank statement showed a credit balance of sh. 3,800.
The following differences were discovered on investigation;
- i) Cheques totaling sh. 3,060 returned by his bank as 'Refer to Drawer' had not been entered in the cash book.
 - ii) Ledger fees, sh.sh. 1,800 and cheque book charges sh. 240 debited by the bank have not been entered in the cash book.
 - iii) Cheques totaling sh. 26,100 received from debtors and lodged on 31 December 2011 were credited by the bank on 4 January 2012.
 - iv) Payments by cheques amounting to sh. 49,380 to creditors made during December 2011 were not reflected in the bank statement.
 - v) Dividends amounting to sh. 2,100 were received and credited by the bank but no entry was made in the cash book.
 - vi) Three payments of sh. 2,000 each made by the bank as per standing order to his landlord have not been recorded in the cash book.

Required;

- a) Prepare adjusted cash book (6 Marks)
- b) Prepare bank reconciliation as at that date (4 Marks)

QUESTION FIVE (20 MARKS)

While extracting the trial balance of J. Mawingu as at 31 December 2009 it was observed that the total debits exceeded the total credits by sh. 23,000. Investigations revealed the following errors;

- i) Sales had been overcast by sh. 1,500
- ii) Returns outwards account had not been credited with an amount of sh. 6,132
- iii) A payment by a debtor of sh. 15,000 by a direct bank transfer had not been entered in the debtor's account
- iv) A cash purchase of sh. 232 had been recorded in the cash book only
- v) Sh. 2,200 received from a debtor had been debited to his account.

Required;

- a) Prepare the necessary journal entries to correct the errors (narration is not required). (10 Marks)
- b) Prepare suspense account duly balanced as it would appear after the correction of the above errors. (10 Marks)