



ALUPE UNIVERSITY

OFFICE OF THE DEPUTY VICE CHANCELLOR

ACADEMICS, RESEARCH AND STUDENTS' AFFAIRS

UNIVERSITY EXAMINATIONS

2022 /2023 ACADEMIC YEAR

FIRST YEAR FIRST SEMESTER REGULAR EXAMINATION

**FOR THE DEGREE OF BACHELOR OF BUSINESS
MANAGEMENT AND BACHELOR OF EDUCATION
BUSINESS STUDIES**

COURSE CODE: BBM 112/ EDB100

COURSE TITLE: PRINCIPLES OF ACCOUNTING

DATE: 14/12/2022

TIME: 9.00-12.00PM

INSTRUCTION TO CANDIDATES

- SEE INSIDE

QUESTION ONE (30 MARKS)

a. The accounting profession has for a long time relied on certain accounting conventions to guide accounting practice and concepts. Yet the application of the same conventions has been the source of criticism of the quality and relevance of information contained in financial reports. These conventions include:

- (a) The business entity principle.
- (h) The historical cost principle.
- (c) The monetary principle.
- (d) The matching principle.
- (e) The conservatism principle.

Required:

For each of the principles listed above:

- (i) Explain its meaning. (6 marks)
- (ii) Justify its use. (5 marks)
- (iii) Explain any weaknesses associated with its use. (5 marks)

(Total: 11 marks)

b. Mark Swaleh retired from employment on 30 April 2015 and was paid retirement benefits amounting to shs 216,500. With this money Mr. Swaleh started a business in Nairobi on 1 June 2015.

His transactions for the month were as follows:

- June: 1 started business with shs 216,500 in cash
- 2 opened a bank account depositing shs 168,000
- 4 paid by cheque six Month rent in advance shs 72,000
- 8 Bought furniture by cheque shs 24,000
- 15 Purchased goods for sale shs 19,500 by cheque
- 18 Withdrew shs 3,500 from the bank for office use
- 21 Sold goods for cash shs 28,800
- 23 Deposited into the bank shs 42,300
- 25 Purchsed goods on credit from J. Barkarey with credit terms of 2/10 net 30 for shs 21,000
- 26 Sold goods for shs 36,000 receiving payment by cheque
- 27 Sold goods on crdit to T. Kings for shs 14,300
- 28 Paid wages in cash shs 7,400
- 28 Paid transport in cash shs 2,400
- 29 withdrew from bank for personal use shs 12,000
- 30 Paid electricity shs 4,800 in cash and insurance premium shs 15,000 by cheque
- 30 Received shs 13,800 cash from T. Kings in full settlement of amounts due from him

Required:-

A three column cash book to record the transactions in the month of June 2015 bringing down balances to 1st July 2015 **(10 marks)**

c). Citing an example in each case, briefly explain four types of bookkeeping errors which are not disclosed by a trial balance **(5 marks)**

d). Using examples explain what is meant by prime costs. **(4 marks)**

QUESTION TWO (20 MARKS)

Rita Roy runs a wholesale business selling children's clothing. Her trial balance for the year ended 30th September, 2014 was as follows:

	Shs '000'	shs '000'
Land and buidings	28,000	
Motor Vehicles	21,000	
Inventory (1 st October, 2013)	10,500	
Sales		184,450
Purchases;	98,000	
Returns inward and returns outward	7,000	3,500
Discounts allowed and discounts received	5,250	9,800
Rent	700	
Furniture and fixtures	14,000	
Trade receivables ad trade payables	17,500	14,000
Telephones expenses	1,050	
Allowance for doubtful debts		1,050
Bad debts written off	7,000	
Electricity	1,050	
Carriage inwards	700	
General expenses	10,500	
Salaries and wages	14,000	
Drawings	7,000	
Capital		32,500
Carriage outwards	1,050	
Bank balance	<u>1,000</u>	
	<u>245,300</u>	<u>245,300</u>

Additional information

1. Inventory as at 30th September 2014 was valued at shs 7,000,000
2. Allowance for doubtful debts is to be increased by 10% .

3. Rent accrued as at 30 September 2014 amounts to shs 525,000
4. Electricity and telephone bills prepaid as at 30th September 2014 amount to shs 175,000 and shs 525,000 respectively
5. General expenses accrued as at 30th September 2014 amount to shs 700,000
6. Depreciation is provided on motor vehicles and furniture and fixtures at 15% per annum on cost

Required

- i. Income statement for the year ended 30th September 2014 **(10 marks)**
- ii. Statement of financial position as at 30th September 2014 **(10 marks)**

QUESTION THREE (20MKS)

XMLtd. Maintains control accounts in its business records. The balances and transactions relating to the company's control accounts for the month of December 2014 are listed below:

Balance at 1 December 2014	6,185,000(debit)
Sales ledger	52,500 (credit)
Purchases ledger	16,500 (debit)
	4,285,000 (credit)
Transactions during December 2014:	
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
Bills payable dishonored	400,000
Charges on bill payable dishonored	10,000
Cash received from credit customers	153,000
Bad debts written –off	64,500
Cash discounts allowed	302,000
Bills receivable dishonored	88,500
Balances at 31 st December 2014:	
Sales ledger	44,000 (credit)
Purchases ledger	23,500 (debit)

Required:

Post the trade receivables ledger control accounts for the month of December 2014 (20 marks)

QUESTION FOUR (20MKS)

The following was extracted from the books of Adam Odhiambo. A sole trader as at 31st August 2011.

	Shs '000'
Freehold land at cost	28,500
Plant and machinery at cost	8,200
Motor vehicle at cost	4,800
Office equipment at cost	2,000
Returns inwards	1,200

Returns outwards	900
Drawings	9,100
Inventory (1 September 2010)	1,650
Discount allowed	850
Discount received	910
Salaries and wages	6,600
Rent and rates	3,600
Bad debts written off	500
Allowances for doubtful debts (1 September 2010)	250
Trade receivables	6,200
Trade payables	5,100
Postage and stationery	230
Electricity	840
Advertising	1,100
Insurance	740
Carriage inwards	360
Carriage outwards	270
15% bank loan	1,000
Loan interest paid	75
Accumulated depreciation:	
Plant and machinery at cost	3600
Motor vehicle	2000
Office equipment	500
Capital	48,355
Purchases	33,300
Sales	51,800
Bank and cash balance	4,300

Additional information

- i. Inventory as at 31st August 2011 was valued at shs 2,200,000
- ii. Salaries and wages outstanding amounted to shs 400,000
- iii. Insurance paid in advance was shs 40,000
- iv. Allowance for doubtful debts is to be decreased to shs 200,000
- v. During the year Adam Odhiambo took good worth shs 360,000 from the business for his own use

Depreciation is to be provided as follows:

Asset	Rate per annum
Plant and machinery	15% on reducing balance method
Office equipment	10% on straight line method
Motor vehicle	25% on straight line method

Required

- a) Income statement for the year ended 31st Aug 2011 (10 marks)
- b) Statement of financial position as at 31st Aug 2011 (10 marks)

QUESTION FIVE (20 MARKS)

D Moody has the following assets and liabilities as on 31 April 2022:

	shs
Creditors	15,800
Equipment	46,000
Motor Vehicle	25,160
Stock	24,600
Debtors	23,080
Cash at bank	29,120
Cash in hand	160

During the first week of May 2022 Moody:

- a. Bought extra equipment on credit for shs 5,520.
- b. Bought extra stock by cheque shs 2,280.
- c. Paid creditors by cheque shs 3,160.
- d. Debtors paid shs 3,360 by cheque and shs 240 by cash.
- e. Moody put in extra shs 1,000 cash as capital.

Required:

- a. Determine the capital as at 1st May 2022.
- b. Draw up a balance sheet after the above transactions have been completed.
