



MUEO

# **MOI UNIVERSITY**

OFFICE OF THE CHIEF ACADEMIC OFFICER

## **UNIVERSITY EXAMINATIONS**

### **2018/2019 ACADEMIC YEAR**

*FIRST YEAR END OF SEMESTER EXAMINATIONS*

## **FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE:**            **BBM 112**

**COURSE TITLE:**        **PRINCIPLES OF ACCOUNTING I**

**DATE:** 4<sup>TH</sup> DECEMBER, 2018

**TIME:** 2.00 PM - 5.00 PM

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### **INSTRUCTION TO CANDIDATES**

- SEE INSIDE

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**BBM 112: PRINCIPLES OF ACCOUNTING I**  
**EXAMINATION FOR FIRST SEMESTER 2018/2019 ACADEMIC YEAR**  
**INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER THREE QUESTIONS**

**QUESTION ONE**

- a) Define the term bank reconciliation statement and indicate its three main functions.

**(5 marks)**

The following trial balance was extracted from the books of Muema, a sole trader, operating within Machakos Town, at 31<sup>st</sup> December 2016:

	Shs	Shs.
Drawings/Capital	2,148	20,271
Debtors/Creditors	7,689	5,462
Purchases/Sales	62,101	81,742
Rent and Rates	880	
Light and heat	246	
Salaries and wages	8,268	
Bad debts	247	
Provision for bad debts		326
Inventory on 31 <sup>st</sup> Dec 2015	9,274	
Insurance	172	
General Expenses	933	
Bank balances	1,582	
Motor van at cost/Provision for depreciation	8,000	3,6000
Proceeds on sale of van		250
Motor expenses	861	
Freehold premises at cost	15,000	
Rent received		750
Provision for depreciation on buildings		<u>5,000</u>
	<u>117,401</u>	<u>117,401</u>

The following matters are to be taken in to account:

1. Inventory at 31<sup>st</sup> December 2016 was Shs.9,884
2. Rates paid in advance at 31<sup>st</sup> December 2016, Shs.40
3. Rent receivable due at 31<sup>st</sup> December 2016, Shs.250
4. Lighting and heating due at 31<sup>st</sup> December 2016, sh.85
5. Provision for doubtful debts to be increased to Shs.388
6. Included in the amount for insurance Shs.172, is an item for Shs82 for motor insurance and this amount should be transferred to motor expenses.

7. Depreciation has been and is to be charged on vans at an annual rate of 20% on cost.
8. Depreciate buildings Shs.500
9. On 1<sup>st</sup> January 2016 a van which had been purchased for Shs.1,000 on 1<sup>st</sup> January 2013 was sold for Shs250. The only record of matter is the credit of Shs.250 to "Proceeds of sale on van" account.

**Required:**

Muema's income statement for the year ended 31<sup>st</sup> December 2016 and Statement of financial position as at that date (20 marks)

(Total: 25 marks)

**QUESTION TWO**

- a. Explain the purposes of a trial balance (5 marks)
  
- b. The following transactions took place during the month of May 2016 for Bor a sole trader.

May	1	Started business with capital in cash 700,000
"	2	Paid rent by cash 20,000.
"	3	Kamau lent Bor 50,000 by cheque.
"	4	Bor paid Kimutai by cheque of 6,500.
"	5	Cash sales of 8,900.
"	7	Milly paid us by cheque of 6,200.
"	9	Bor paid Salami in cash of 3,200.
"	11	Cash sales paid direct into the bank 6,530.
"	15	Wanyonyi paid Bor in cash of 5,650.
"	16	Bor took 6,500 out of the cash till and paid it into the bank account.
"	19	Bor repaid Kamau 11,000 by cheque.
"	22	Cash sales paid direct into the bank 5,660.
"	26	Paid motor expenses by cheque 1,120.
"	30	Bor withdrew 11,000 cash from the bank for business use.
"	31	Bor paid wages in cash 9,700.
"	31	Bor banked all the cash in hand leaving 2,000

**Required**

Prepare a two column cash book for the month of May 2016

(10 marks)

(Total: 15 marks)

**QUESTION THREE**

1. Differentiate between management accounting and financial accounting [2 marks]
2. Discuss the four main qualitative characteristics of financial information [4 marks]
3. Highlight the stages in the accounting cycle [6 marks]
4. Write short notes on the following accounting concepts
  - i. Realization
  - ii. Substance over form
  - iii. Prudence[3 marks]

[Total: 15 marks]

#### QUESTION FOUR

- b) Talez Ltd. has two accounts "A" and "B" with different banks. On 31 March 2015 the cash book showed a balance of Sh.200,000 in Account "A" and an overdraft of Sh. 90,000 in account "B". However the bank statements obtained on the same day showed different balances for the two accounts. Further investigation reveals the following information: -
- i. A deposit of Sh.60,000 made into account "A" on 1 March 2015 has been entered in the cash book in account "B".
  - ii. A withdrawal of Sh.20,000 from account "A" on 3 March 2015 has been debited in the cash book in account "B".
  - iii. Cheques of Sh.25,000 and Sh.30,000 deposited in account "A" on 9 March 2015 were entered in the cash book in account "B". The second cheque has been dishonored by the bankers. The entry for this dishonored cheque has been entered in the cash book in account "B".
  - iv. Cheques for Sh.40,000 and Sh.500,000 drawn on accounts "A" and "B" respectively on 30 March 2015 were not paid by the banks until 5 April 2015.
  - v. Incidental charges of Sh.400 and Sh.1,000 charged in the accounts "A" and "B" respectively have not been entered in the cash book.
  - vi. The bank has credited an interest of Sh.2,000 for account "A" and has debited bank charges of Sh.1,500 to account "B". These transactions have not been entered in the cash book.
  - vii. Deposits of Sh.200,000 and Sh.140,000 made into the accounts "A" and "B" respectively have not yet been credited by the bank.
  - viii. Dividends amounting to Sh.8,000 had been paid direct to the bank in account "B".
  - ix. A cheque for Sh.3,500 drawn on account "A" on 30 March 2015 in payment of an electricity bill had been entered in the cash book as Sh.5,300.

**Required:**

- i) The necessary adjustments in both cash books in order to correct the errors.

(10 marks)

- ii) Bank reconciliation statements for both cash books.

(5 marks)

(Total: 15 marks)

#### QUESTION FIVE

Joseph Kiprop owns and manages a small manufacturing business. The following balances have been extracted from her books of account at 31 December 2016:

	Dr Sh	Cr Sh
Capital at 1 January 2016		171,120
Accounts payable		86,000
Bank and cash balance	5,400	
Accounts receivable	92,000	
Drawings	60,000	
Administration expenses	150,360	
Advertising expenses	12,000	
Factory direct wages	60,000	
Factory indirect wages	24,000	
Factory power	36,000	
Furniture and fittings (all offices)	18,400	

Heat and light	16,000	
Plant and equipment	276,800	
Motor vehicle (used by salesmen)	144,000	
Plant hire	4,000	
Provision for bad debts		3,200
Provision for depreciation 1 January 2016:		
– Furniture and fittings		9,200
– Plant and equipment		138,400
– Motor vehicle		24,000
Raw material purchases	228,000	
Rent rates	20,000	
Sales		829,440
Selling and distribution expenses	66,400	
Inventories at cost, 1 January 2016:		
– Raw materials	8,000	
– Work in progress	16,000	
– Finished goods	24,000	
	<u>1,261,360</u>	<u>1,261,360</u>

The following additional information is provided:

(i) Accruals at 31 December 2016 were:

Factory power	-	Sh. 1,600
Rent and rates	-	Sh. 4,000

There was also prepayment of Sh. 800 for salesmen's motor vehicle insurance.

(ii) Inventories at 31 December 2016, were valued at cost as follows:

Raw materials	-	Sh. 15,200
Work in progress	-	Sh. 30,400
Finished goods	-	Sh. 45,60

- (iii) Depreciation is to be charged on plant and equipment, motor vehicle, furniture and fittings at the rates of 20%, 25% and 10% per annum respectively on cost.
- (iv) Expenditure on heat and light, and rent and rates is to be apportioned between the factory and office in the ratio of 9 to 1 and 3 to 2 respectively.
- (v) The provision for bad debts is to be made equal to 5% of accounts receivable at 31 December 2016.

**Required:**

Prepare Joseph Kiprop's manufacturing, trading and profit and loss account for the year ended 31 December 2016 and a Balance sheet as at that date.

**(Total: 15 marks)**

#### QUESTION SIX

- (a) Using suitable examples, explain the meaning of the following terms:
- (i) Accounting standards. **(2 marks)**
  - (ii) Accounting policies. **(2 marks)**
  - (iii) Accounting bases **(2 marks)**
- (b) "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. **(4 marks)**

- (c) While research and development costs of a project may meet the definition of an asset, the cost may not meet the criteria used in recognizing an asset. Define the term "asset" and explain the criteria used in recognizing an asset.

**(5 marks)**

**(Total: 15 marks)**