



MUEO

MOI UNIVERSITY

OFFICE OF THE DEPUTY VICE CHANCELLOR
(ACADEMICS, RESEARCH, EXTENSION & STUDENT AFFAIRS)

UNIVERSITY EXAMINATIONS

2022/2023 ACADEMIC YEAR

FIRST YEAR FIRST SEMESTER EXAMINATION

FOR THE DEGREE OF

BACHELOR

OF

BUSINESS MANAGEMENT

COURSE CODE: BBM 112/ECF 110

COURSE TITLE: PRINCIPLES OF ACCOUNTING 1

DATE: 9TH DECEMBER, 2022 **TIME:** 9.00 A.M. – 12.00 P.M

INSTRUCTION TO CANDIDATES

- SEE INSIDE.

BBM 112: PRINCIPLES OF ACCOUNTING I

INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER THREE QUESTIONS

QUESTION ONE

- a. Highlight the stages of the accounting cycle (9 marks)
- b. Mr. Karanja is the sole proprietor of a small business. The following trial balance was extracted from his books at 31 March 2020.

| | Sh. '000' | Sh. '000' |
|--|---------------|---------------|
| Capital | | 4,896 |
| Freehold land and buildings (at cost) | 3,600 | |
| Plant and machinery at cost | 3,480 | |
| Provision for depreciation – plant and machinery | | 1,680 |
| Delivery vans | 960 | |
| Provision for depreciation – delivery vans | | 672 |
| Loose tools at valuation on 1 April 2019 | 288 | |
| Stocks 1 April 2019 | 2,232 | |
| Purchases | 4,440 | |
| Loose tools | 192 | |
| Sales | | 15,840 |
| Wages and Salaries | 5,288 | |
| Rates and Insurance | 384 | |
| Repairs and maintenance of buildings | 240 | |
| Sales expenses including vehicle running costs | 344 | |
| Electricity and power | 1,440 | |
| Industrial training levy | 72 | |
| Administration expenses | 672 | |
| Provision for doubtful debts | | 240 |
| Debtors and Creditors | 1,984 | 1,928 |
| Drawings | 480 | |
| Bank | | 864 |
| Cash in hand | 24 | |
| | <u>26,120</u> | <u>26,120</u> |

Additional information:

1. Closing stock on 31 March 2020 was Sh.2, 008,000. Loose tools at valuation Sh.384, 000.
2. Provision is to be made for the following amount owing on 31 March 2020:
Electricity and power Sh.192,000.
3. Payments in advance on 31 March 2020 were as follows: Van licenses Sh.2,520 and rates Sh.13,800.

4. Depreciation on plant and machinery and delivery vans is to be provided at the rate of 20% and 25% respectively on cost at the end of the year.
5. Bad debts amounting to Sh.26,000 are to be written off and the provision for doubtful debts is to be 10% of trade debtors.

Required:

- a. Income statement for the year ended 31st March 2020 (9 marks)
- b. Balance sheet as at that date (7 marks)

(Total: 25marks)

QUESTION TWO

- a. Explain the following accounting principles as they are used in the preparation of the financial statements
 - i. Substance over form
 - ii. Prudence
 - iii. Realization
 - iv. Duality
 - v. Matching

(10 marks)

Using suitable examples, explain the meaning of the following terms:

- i. Accounting standards. (2 marks)
- ii. Accounting policies. (2 marks)
- iii. Accounting bases (1 mark)

(Total: 15marks)

QUESTION THREE

On 31 December 2021 an inexperienced book-keeper working for Wafula, a sole trader, extracted a trial balance. Due to errors committed by the book-keeper, the trial balance failed to balance by Sh.369,400. He placed the difference in a suspense account as shown below:

Wafula trial balance as at 31 December 2021

| | Sh. | Sh. |
|----------------------------|---------|-----------|
| Noncurrent assets – cost | 832,000 | |
| Stocks | | |
| 1 January 2021 | 148,000 | |
| 31 December 2021 | | 98,800 |
| Trade debtors | 76,000 | |
| Prepayments | 10,000 | |
| Trade creditors | | 34,600 |
| Bank overdraft | | 15,200 |
| Accruals | | 16,000 |
| Drawings | 359,600 | |
| Capital | | 1,054,000 |
| Sales | | 1,043,200 |
| Provision for depreciation | | 166,400 |

| | | |
|------------------------------|------------------|----------------|
| Purchases | 733,000 | |
| Operating expenses | 126,000 | |
| Provision for doubtful debts | | 3,800 |
| Discounts received | | 5,000 |
| Discounts allowed | 5,800 | |
| Suspense account | | 369,400 |
| | 2,548,400 | 248,400 |

Investigations carried out after preparing the above trial balance detected the following errors:

1. The total of the sales day book for December 2021 was overcast by Sh.25,700.
2. On 2 July 2021 the business purchased office equipment for Sh.40,000. These were debited to purchases account.
3. Depreciation on the equipment is at the rate of 10% per annum on cost and based on the period (months) of usage in the year.
4. A payment to a creditor by cheque of Sh.8,500 was erroneously credited to the creditor's account.
5. A payment of Sh.4,500 for telephone expenses was debited to telephone account as Sh.5,400.
6. An amount of Sh.15,000 received from a debtor was not posted to the debtor's account from the cash book.
7. An amount of discounts received of Sh.2,500 was debited to discounts allowed account.
8. Purchases day book for October 2021 was undercast by Sh.28,000.
9. Assume the business had reported a net profit of Sh.85,800 before adjusting for the above errors.

Required:

- (a) The adjusted trial balance and the correct balance of the suspense account (5 marks)
- (b) Journal entries to correct the errors (Narrations not required) (5 marks)
- (c) Suspense account starting with the balance determined in the adjusted trial balance in (a) above. (3 marks)
- (d) The adjusted net profit for the year. (2 marks)

(Total: 15marks)

QUESTION FOUR

- a. Differentiate between a petty cashbook and a three-column cashbook. (4 marks)
- b. Keronche keeps her petty cashbook on the imprest system, the imprest being Sh.25,000. For the month of April 2021 his petty cash transactions were as follows:

| | Sh. |
|--|--------|
| Apr 1 Petty cash balance | 11,300 |
| " 2 Petty cashier presented vouchers to cashier and obtained cash to restore the imprest | 13,700 |
| " 4 Bought postage stamps | 8,500 |
| " 9 Paid to Courtney Bishop, a creditor | 2,350 |
| " 11 Paid bus fares | 1,720 |

| | | |
|------|---|--------|
| “ 17 | Bought envelopes | 700 |
| “ 23 | Received cash for personal telephone call | 680 |
| “ 26 | Bought petrol | 10,000 |

Required:

- (i) Enter the above transactions in the petty cashbook and balance the petty cashbook at 30 April, bringing down the balance on 1 May. (8 marks)
- (ii) On 1 May Keronche received an amount of cash from the cashier to restore the imprest. Enter this transaction in the petty cashbook. (3 marks)

NB: The petty cash analysis columns headed *Postage and Stationery* and *Travelling Expenses*;

QUESTION FIVE

Kedenko Ltd manufactures one product which it sells to the wholesale trade. The following trial balance was extracted from the books of the company at 30 April 2021:

| | Sh. | Sh. |
|--|-------------------|-------------------|
| Stocks at 1 May 2020 | | |
| Raw materials, at cost | 350,000 | |
| Work- in-progress, at factory cost | 1,800,000 | |
| Finished goods (3,500 units) at factory cost | 3,500,000 | |
| Raw materials purchased | 3,950,000 | |
| Sales (12,000 units) | | 18,000,000 |
| Manufacturing wages | 3,000,000 | |
| Factory rent and rates | 1,400,000 | |
| Factory light, heat and power | 655,000 | |
| Plant at cost | | 6,000,000 |
| Plant depreciation at 1 May 2020 | | 2,800,000 |
| Works manager's salary | 245,000 | |
| Plant repairs | | 400,000 |
| Administrative overheads | 1,800,000 | |
| Factory lease at cost (20 years duration) | 4,000,000 | |
| Amortization at 1 May 2020 | | 1,200,000 |
| Share capital | | 7,500,000 |
| Debtors | 3,050,000 | |
| Bank balance | 1,600,000 | |
| Creditors | | 2,450,000 |
| Carriage inwards | <u>200,000</u> | |
| | <u>31,950,000</u> | <u>31,950,000</u> |

The following additional information is available:

- Plant depreciation is to be provided at 10% on the cost of plant owned at the year end.
- Raw materials costing Sh.500,000 were in stock on 30 April 2021.
- Finished goods are transferred to the warehouse as soon as they are completed. During the year, 10,000 units were completed and transferred to the warehouse. Work-in-progress at the end of the financial year (at factory cost) amounted to Sh.2,300,000.
- There was no wastage or pilferage during the current year.

Required:

- a) Manufacturing, trading and profit and loss account for the year ended 30 April 2021. (10mks)
- b) Assume the facts as in (a) above, except that it had always been the company's practice to transfer completed units from the factory to the warehouse at cost plus 25% and to value stocks of finished goods at the transfer price for the trading account but at factory cost for balance sheet purposes. Show how the manufacturing, trading and profit and loss account for the year ended 30 April 2021 would appear. (5mks)
- (Total: 15marks)**

QUESTION SIX

Onyango does not keep proper books of account. You ascertain that his bank payments and receipts during the year to 31 December 2021 were as follows

| Receipts | | Payments | |
|---------------------|---------------|--------------|---------------|
| | 000 | | 000 |
| Balance 1 Jan 2021 | 572 | Purchases | 10,007 |
| Cheques for sales | 13,179 | Expenses | 2,950 |
| Cash banked | 14,005 | Drawings | 11,250 |
| Balance 31 Dec 2021 | <u>3,751</u> | Delivery van | <u>7,300</u> |
| | 31,507 | | 31,507 |

From a cash notebook you ascertain:

| | |
|--------------------------------|------------|
| | 000 |
| Cash in hand 1 January 2021 | 62 |
| Cash takings | 16,300 |
| Purchases paid in cash | 1,850 |
| Expenses paid in cash | 375 |
| Cash in hand 31 December 2021 | 65 |
| Drawings by proprietor in cash | Unknown |

You discover that assets and liabilities were as follows:

| | 1 Jan 2021 | 31 Dec 2021 |
|-----------------|------------|-------------|
| | 000 | 000 |
| Debtors | 1,850 | 2,070 |
| Trade creditors | 1,250 | 1,420 |
| Stock on hand | 2,650 | 2,990 |

Depreciation on the van is to be provided at the rate of 20% per annum.

Required:

- a. Income statement for the year ended 31st December 2021 (9mks)
- b. Balance sheet as at that date (6mks)
- (Total: 15marks)**