

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**FIRST YEAR EXAMINATION FOR THE AWARD OF DEGREE OF
BACHELOR OF COMMERCE**

BCOM 111: PRINCIPLES OF ACCOUNTING I

STREAMS: BCOM YISI

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 06/07/2016

8.30 AM – 10.30 AM

INSTRUCTIONS:

- **Answer Question One and any other Two Questions**
- **Do not write on the question paper**
- **Question One (30 Marks)**

Question One (30 Marks)

- (a) Explain any three objectives of an accounting system in an organisation. [6 marks]
- (b) Accounting is an art and a science. Discuss. [4 marks]
- (c) An accounts assistant extracted a trial balance as at 30 September 2002. This trial balance failed to agree by a figure of ksh. 24000 which he placed on the debit side of the suspense account. He proceeded to prepare a draft trading profit and loss account for the year ended 30 September 2002 which resulted in a net profit of ksh. 640,000. Upon further investigation, he discovered the following errors in his books of account.
- (i) Rent payable had been undercast by ksh. 8,000
 - (ii) Rates had been overcast by ksh. 20,000
 - (iii) Sales had been overcast by ksh. 28,000
 - (iv) A cash payment to a creditor of ksh. 12,000 had been entered in the cashbook only.
 - (v) Drawings by cheque amounting to ksh. 6,000 had been completely omitted.

- (vi) A purchase of sh. 7,500 had been entered in the books as sh. 57,000
- (vii) Investment income had been undercast by ksh. 4,000

Required:

- (i) Journal entries to correct the above errors. [7 marks]
- (ii) Suspense account showing the entries which would eliminate the difference initially entered in this account. [4 marks]
- (iii) Statement of corrected net profit. [5 marks]
- (d) Explain the need for a conceptual framework of accounting. [4 marks]

Question Two (20 Marks)

- (a) Explain the need for maintaining subsidiary books [4 marks]
- (b) The final accounts of Hema Ltd for the last financial year are as follows

Trading profit and loss account
for year ended 31 December 2009

	sh. '000'	sh '000'
Sales		
Cost of sales		
Opening stock	3,400	
Purchases	35,600	
Closing stock	<u>(3,800)</u>	<u>35,200</u>
Gross profit		8,800
Less: Expenses		
Depreciation	600	
Marketing	3,000	
Administration	1,080	
Interest	<u>600</u>	<u>5,280</u>
Profit before tax		3,520
Less: Tax		<u>(1,000)</u>
Profit after tax		2,520
Dividends		<u>(800)</u>
Retained profit for the year		1,720
		=====

Balance sheet as at 31 December 2009

	sh '000'
Property, plant and equipment (NBV)	22,000
Current assets:	
Stock	3,800
Accounts receivables	4,000
Cash	<u>7,800</u>
	37,600
	=====
Ordinary share capital (ksh. 20 par)	15,000
Share premium	3,000
Accumulated profit	8,120
Long term liabilities	
Debenture loans	5,080
Current liabilities:	
Accounts payable	<u>3,800</u>
Accruals	<u>2,600</u>
	37,600
	=====

Notes:

- (i) Analysis of sales and purchases revealed that on average 70% were made on credit
- (ii) Closing accounts receivable and payable figures may be taken as representatives of averages for the year.
- (iii) The market price per share as at the balance sheet date was established as ksh. 26.
- (iv) Assume a year has 360 days.

Required:

Calculate the following ratios:

- (i) Operating profit margin ratio [2 marks]
 - (ii) Current ratio [2 marks]
 - (iii) Acid test ratio [2 marks]
 - (iv) Debtors turnover ratio [2 marks]
 - (v) Net Profit margin ratio [2 marks]
 - (vi) Creditors payment period [2 marks]
- (c) Outline any four uses of the general journal. [4 marks]

Question Three (20 Marks)

The following trial balance was extracted from the books of Paul Njoroge, a sole trader as at 31 October 2004.

	sh.	sh.
Capital		1,216,260
Drawings	128,880	
Sales		4,904,520
Purchases	3,726,060	
Debtors and creditors	476,160	327,720
Rent and rates	52,800	
Electricity	14,760	
Salaries and wages	469,080	
Provision for doubtful debts (1 st Nov 2013)		19,560
Stock in trade (1 November 2003)	556,440	
Insurance	10,320	
General expenses	55,980	
Bank balances	90,000	
Cash in hand	4,920	
Motor vehicles at cost	580,000	
Provision for depreciation on motor vehicle (1 Nov. 2003)		216,000
Proceeds from sale of motor vehicle		115,000
Motor vehicle expenses	51,660	
Premises (at cost)	600,000	
Rent R		
Rent received		45,000
	<u>6,844,060</u>	<u>6,844,060</u>
	=====	=====

Additional Information:

1. Stock in trade at 31 October 2004 was valued at sh. 593,040.
2. Rates and insurance were prepaid to the extent of sh. 2400 and sh. 2820 respectively as at 31 October 2004
3. Electricity due as at 31 October 2004 amounted to sh. 6000
4. The provision for doubtful debts is adjusted to 5% of the debtors remaining after taking into account that sh. 20160 of the debtors were regarded as bad.
5. Rent received as at 31 October 2004 was sh. 15000
6. Depreciation has been and is to be charged on motor vehicles at the rate of 20% per annum on straight line basis. No depreciation is to be charged on premises.

7. In November 2003, a motor vehicle which had been purchased for ksh. 160,000 on 1st November 2000 was sold for ksh. 115,000. The only record of this disposal is the entry in the proceeds from sale of motor vehicle account.

Required:

- (i) Trading, profit and loss account for the year ended 31 October 2004 [12 marks]
- (ii) Balance sheet as at 31 October 2004. [8 marks]

Question Four (20 Marks)

- (a) Explain the following accounting principles

- (i) Full disclosure principle [3 marks]
- (ii) Revenue recognition principle [3 marks]
- (iii) Historical cost principle [3 marks]

- (b) Mr. Njoroge opened a kinyozi shop at Chogoria town. The following are the transactions relating to his business for the month of May 2012

1. On 1st May Njoroge opened a bank account with KCB for the business and deposited ksh. 300,000
2. On 8th May he paid rent ksh. 50,000 for two months in advance for a small room at Chogoria plaza
3. On 15th May, he furnished the store by installing new furniture worth ksh. 120,000 sold to him on credit by Chuka furniture store, the amount being payable after 3 months.
4. On 20th May he received his electricity bill for the month, amounting to ksh 10,000. The bill is payable by 10th of the following month.
5. On 31st May he withdrew sh. 90,000 from the business account for his personal use.

Required:

Show the effect of the above transactions on the accounting equation.

[11 marks]