Principles of Accounting 1 (ACCT 010) 2nd trimester 2014

**KENYA METHODIST UNIVERSITY**

**END OF 2'***ND '***TRIMESTER 2014 (FT) EXAMINATION**

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| **SCHOOL** |  | : | BUSINESS AND ECONOMICS | |
| **DEPARTMENT** | : | ACCOUNTING, FINANCE & INVESTMENTS |  | |
| **UNIT CODE** |  | : | ACCT 010 | |
| **UNIT** | TITLE | : | PRINCIPLES OF ACCOUNTING 1 |  |

|  |
| --- |
| **TIME: 2 HOURS** |

**INSTRUCTIONS**

* ***Answer Question One and any other Two Questions***

**Question One**

|  |  |  |
| --- | --- | --- |
| * Differentiate between Accounting and Book Keeping. |  | (4 Mks) |

* Define and explain the relevance of the following accounting concept:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| * Accruals concept |  |  |  |  |  |  |  | (2 Mks) |
| * Money (monetary) measurement concept |  |  | | | | |  | (2 Mks) |
| * Going concern concept |  |  | |  |  |  |  | (2 Mks) |
| * What is a bank reconciliation statement and why is it prepared? | (4 Mks) | | | | | | | |
| * Discuss any four qualities of good accounting information. | (8 Mks) | | | | | | | |
| * Highlight and four errors that affect the trail balance. |  | (4 Mks) | | | | | | |

* Explain the following terms as used in accounting and how they are treated’

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| * Discount received | |  |  |  |  |  |  | (2 Mks) |
| * Prepaid expenses. |  |  |  |  |  |  |  | (2 Mks) |

(Total – 30 Marks)

**Question Two**

Kamere has a business that deals with sale of groceries. Her total balances for the year ended 31st December 2013 are as follows:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | Dr |  |  |  | Cr |
|  |  |  |  |  |  | | Ksh’000’ |  |  | Ksh’000’ |
| Fixtures |  |  |  |  | 2,000 | | | | | |
| Stock (1/1/13) | | | | | | |  |  |  | 1,000 |
| Motor vehicles | | | | | | |  |  |  | 3,000 |
| Sales |  |  |  |  |  |  |  |  |  | 15,000 |
| Purchases |  |  |  |  | 7,000 | | | | | |
| Rent |  |  |  |  |  | | | | | 1,000 |
| Salaries & wages | | | | | | |  |  |  | 1,000 |
| Electricity |  |  |  |  | 500 | | | | | |
| Telephone |  |  |  |  | 400 | | | | | |
| Motor vehicle expenses | | | | | | | |  |  | 500 |
| Discount allowed | | | | | | |  |  |  | 600 |
| Discount received |  |  |  |  |  | | |  |  | 500 |
| Returns inwards | | | | | | |  |  |  | 1,000 |
| Returns outwards |  |  |  |  |  | | |  |  | 500 |
| Receivables (debtors) | | | | | | | |  |  | 4,000 |
| Creditors (payables) |  |  |  |  |  | | | |  | 3,000 |
| Cash |  |  |  |  |  | | | | | 2,000 |
| Bad debts |  |  |  |  | 500 | | | | | |
| Provision for bad and doubtful debts |  |  |  |  | 500 | | | | | |
| Drawings |  |  |  |  | 1,000 | | | | | |
| Capital |  |  |  |  |  | |  |  |  | 6,000 |
|  |  |  |  |  | 25,500 | | |  |  | 25,500 |

Additional information

* Rent outstanding at the end of the year amount to Ksh. 200,000
* Salaries and wages paid in advance amount to Ksh. 100,000
* Accrued Electricity is Ksh.50,000
* Prepaid telephone bills is Ksh. 100,000
* Stock as 31st .12.13 amounted to Ksh. 3,000,000
* Provision for bad and doubtful debts is to be set as 10% of debtors.

(vii) Depreciation is provided on motor vehicle and fixtures at 10% and 20% respectively on cost.

Required:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| * Trading project loss account for the year ended 31st.12.13 | | | | |  | (12 Mks) |
| * Balance sheet as at 31st.12.13. |  |  |  |  |  | (8 Mks) |

**Question Three**

A bookkeeper extracted a trial balance on 31st December 2002 that failed to agree by 3,300 a shortage on the credit side of the trail balance. A suspense account was opened for the difference.

In January 2003 the following errors made in 2002 were found.

* Sales day book had been under cost by Ksh. 1,000.
* Sales of shs. 2,500 to J Church had been debited in error to J. Chare Account.
* Rent account had been under costed by Ksh. 700
* Discount received account had been under cost by Ksh. 3,000
* The sale of a motor vehicle at book value had been credited in error to sales account Ksh. 3,600.

Required

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| * Journal entries to correct the errors. | | | | | | | |  |  |  |  | (10 Mks) |
| * Draw up supervise account after the errors, describe have been corrected. |  |  |  |  |  |  |  |  |  |  |  | (5 Mks) |
| * If the net profit had previously been calculated as Ksh. 79,000 for the year ended 31st December 2002, show the calculations of the connected net profit. | | |  |  |  |  |  |  |  |  |  | (5 Mks) |

**Question Four**

Write a two column cashbook from the following details and balance off as at the end of the month.

2009

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Oct 1 |  | started business with capital in cash Ksh.1,000,000 | | | |
| Oct 2 |  | Paid rent by cash Shs. 100,000 | | | |
| Oct 3 |  | Loan from Mary Ksh. 500,000 paid by cheque | | | |
| Oct 4 |  | Paid B. Peter by cheque Ksh. 65,000 | | | |
| Oct 5 |  | Cash sles made shs. 98,000 | | | |
| Oct 7 |  | Mitter, a debtor paid by cash Ksh. 62,000 | | | |
| Oct 9 |  | Paid Den (creditor) in cash Ksh.22,000 | | | |
| Oct 11 | | | | | Cash sales paid direct into the bank Ksh. 53,000 |
| Oct 15 | | | | | George (creditor) paid as by cheque Ksh. 65,000 |
| Oct 16 | | | | | Repaid Mary by cheque Ksh. 100,000 |
| Oct 19 | | | | | Took Ksh. 50,000 out of cash till and paid in into the bank account |
| Oct 22 | | | | | Paid motor expenses by cheque Ksh. 12,000 |
| Oct 26 | | | | | Withdraw Ksh. 100,000 cash from the bank for business use |
| Oct 31 | | | | | Paid wages in cash Ksh. 97,000. |
|  |  |  |  |  | (Total – 20 Marks) |

**Question Five**

|  |  |
| --- | --- |
| * Highlight five causes of the differences between cash book balance (bank column) and the bank balance as per the bank statements. | (5 Mks) |

* Differentiate between the following terms:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| * An asset and a liability account |  |  |  |  | (2 Mks) | | | | | |
| * An expenses and revenue account |  |  |  |  | (2 Mks) | | | | | |
| * A debts and a credit entry. |  |  |  |  |  | (2 Mks) | | | | |
| * Discuss four circumstances under which the capital of a business may change. |  |  |  |  |  |  |  |  |  | (9 Mks) |