PRINCIPLES OF ACCOUNTING (ACCT 010) 3rd trimster 2015

**KENYA METHODIST UNIVERSITY**

**END OF 3'***RD '***TRIMESTER 2015 (PT) EXAMINATION**

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

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

**INSTRUCTIONS**

*Answer question one and any other two questions*

**Question One**

* As an investor of Ukunda traders, you have obtained the following comment from management regarding depreciation of fixed assets: "The trading prospects for the next year or two looks good, we should change the depreciation method for plant and machinery from 20% straight line to 35% reducing balance so as to get more written off whilst profit is high."

Required:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Using relevant accounting concepts, comment on the above statement. |  |  |  |  |  |  |  |  |  |  |  | (4 Marks) |

* The users of financial statements are those groups identified as having reasonable right to the information and whose information needs should be recognized

Required:

Briefly explain why each of the following groups are interested in financial statements;

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| * The shareholders | |  |  |  |  |  |  | (2 Marks) |
| * The creditors |  |  |  |  |  |  |  | (1 mark) |
| * The employees |  |  |  |  |  |  |  | (1 Mark) |
| * The government | |  |  |  |  |  |  | (2 Marks) |
| * State four errors that do not affect the Trial Balance. | | | | | | |  | (4 Marks) |

* Porter a sole trader, extracted the following balances from the ledger on 30th September 2007

|  |  |  |  |
| --- | --- | --- | --- |
| Buildings | 105,000 | Trade Creditors | 27,000 |
| equipment | 88,500 | Trade debtors | 28,500 |
| purchases | 187,500 | cash in hand | 225 |
| sales | 301,650 | bank | 975 |
| stock 1st October 2006 | 37,500 | drawings | 18,000 |
| Discount allowed | 13,500 | Long-term loan | 22,500 |
| discount received | 3,600 | capital | 91,350 |
| returns outwards | 11,250 | Stock 30th September 2007 | 31,500 |
| salaries and wages | 44,100 |  |  |
| bad debts | 3,450 |  |  |
| interest on loans | 3,825 |  |  |
| heating and lighting | 3,750 |  |  |
| other expenses | 8,025 |  |  |
| rent and rates | 1,500 |  |  |

Required:

|  |  |
| --- | --- |
| * Prepare porters trial balance as at 3oth September 2007. | (4 Marks) |
| * Prepare Porter’s trading profit and Loss account for the ended 30th September 2007 and a balance sheet as on that date. | (12 Marks) |

**Question Two**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| * State and explain any two methods of depreciation. | | | | |  |  | (6 Marks) |
| * Your business just bought a lorry for sh.850,000 and it has decided to depreciate this asset at the rate of 15% per annum using reducing balance method of depreciation. Calculate the depreciation and show the assets annual depreciation, accumulated depreciation and net book value at year end for the first five years. |  |  |  |  |  |  | (14 marks) |

**Question Three**

* Given from the following details in the 1st week in month of January 2014

|  |  |
| --- | --- |
| Jan 1 | received sh.5000 from the general cashier as imprest |
| Jan 1 | paid stationary sh.500, busfare sh.200 |
| Jan 2 | paid telephone sh.100 office tea 500, bus fare 300 |
| Jan 3 | paid entertainment sh.700 office tea 300 |
| Jan 4 | paid office tea sh.400, bus fare 500 |
| Jan 5 | paid stationary sh.200 entertainment 400 |

Required:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Prepare petty cash and give the balances as the imprest system. | | | | | | | | | (10 marks) |
| * Briefly explain the reason for preparing bank reconciliation statement in an organization. |  |  |  |  |  |  |  |  | (10 marks) |

**Question Four**

Jane Kawira a graduate started an agricultural business on 1st July 2012 with the following capital

Sh.600,000 in bank account

Sh.250,000 in cash

The following transactions took place during the month of July 2013

|  |  |
| --- | --- |
| 3rd | purchased stock from Kyengo in cash sh.80,000 |
| 8th | sold goods to kaangi on credit 20,000 |
| 17th | purchased a motor vehicle by cheques h.452,000 |
| 21st | paid Mamboleo cash of sh.12,000 for commission due to him |
| 24th | received commission sh.27,000 cash |
| 28th | received a cheque of sh.180,000 from kaangi |
| 29th | paid Kyengo by cheques h.50,000 |
| 30th | deposited into bank account sh.70,000 |

Required:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| * A Two column cash book duly balanced. | | |  |  |  | (6 Marks) |
| * Respective ledger accounts |  |  |  |  |  | (10 marks) |
| * Trial balance as at 31st July 2013 | |  |  |  |  | (4 marks) |

**Question Five**

|  |  |
| --- | --- |
| * State and explain four factors that trigger bank reconciliation. | (8 marks) |

* Alan’s bank statement for September 2007 is shown below together with his cash book for the same month;

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Description | money out | money in | balance |
|  |  | sh. | sh. | sh. |
| 01-Sep-07 | brought forward |  |  | 200,000 |
| 02-Sep-07 | EFT credit |  | 200,000 |  |
| 03-Sep-07 | 0008 | 7,800 |  | 392,200 |
| 04-Sep-07 | 0010 | 10,300 |  | 381,900 |
| 10-Sep-07 | 0011 | 25,000 |  | 356,900 |
| 14-Sep-07 | 0012 | 10,000 |  | 346,000 |
| 15-Sep-07 | EFT credit |  | 400,000 | 746,900 |
| 17-Sep-07 | 0014 | 150,000 |  | 596,900 |
| 18-Sep-07 | 0013 | 20,000 |  | 576,900 |
| 20-Sep-07 | service charges | 6,300 |  | 570,600 |
| 21-Sep-07 | Standing charges | 11,500 |  | 559,100 |
| 22-Sep-07 | 0013 (refer to drawer) |  | 20,000 | 579,100 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | Cash Book |

|  |  |  |  |
| --- | --- | --- | --- |
| Dr. |  |  | Cr |
| Balance brought forward | 200,000 | wages (0011) | 25,000 |
| Sales | 200,000 | Post Office (0012) | 10,000 |
| Sales | 400,000 | Suppliers (0014) | 150,000 |
| Sales | 80,000 | wages (0013) | 20,000 |
|  |  | postage (0015) | 15,000 |
|  |  | Electricity (0016) | 20,000 |
|  |  | balance carried forward | 640,000 |
|  | 880,000 |  | 880,000 |

Required:

|  |  |  |
| --- | --- | --- |
| Prepare the bank reconciliation as at 30th September 2007. |  | (10 marks) |