PRINCIPLES OF ACCOUNTING B(ACCT 010) 1ST TRIMESTER 2016

**KENYA METHODIST UNIVERSITY**

**END OF 1'***ST '***TRIMESTER 2016 (PT) EXAMINATION**

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

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

**Instructions: Answer question one and any other two questions.**

**Question One**

a) State and explain four users of accounting information.

(8 marks)

d) The following trial balance was extracted from the books of Otiende’s Shop as at 31st December 2015.

|  |  |  |
| --- | --- | --- |
|  | Dr Shs. | Cr Shs. |
| Sales |  | 186,140 |
| Purchases | 115,700 |  |
| Stock 1/1/2014 | 37,760 |  |
| Carriage outwards | 3,260 |  |
| Carriage inwards | 2,340 |  |
| Return inwards | 4,400 |  |
| Returns outwards |  | 3,550 |
| Salaries and wage | 24,470 |  |
| Motor expenses | 6,640 |  |
| Rent | 5,760 |  |
| Miscellansous expenses | 12,020 |  |
| Motor vehicles | 340,000 |  |
| Fixtures and fittings | 60,000 |  |
| Debtors | 45,770 |  |
| Creditors |  | 30,450 |
| Cash at bank | 38,760 |  |
| Cash in hand | 1,200 |  |
| Drawings | 20,500 |  |
| Capital |  | 498,440 |
|  | 718,580 | 718,580 |

Additional information:

* Stock on 31/12/2015 was sh. 40,000.
* Depreciation is to be charged at the rate of 10% on cost of furniture and fittings and 25% on motor vehicles.
* Bad debts of sh. 8,000 are to be written off.

**Required**

Prepared the trading, profit and loss account for Otiende’s shop for the year ended 31st December, 2015 and the balance sheet as at that date

(17 marks)

b) The accounting profession has for a long time relied on certain accounting conventions to guide accounting practice. Yet the application of the same conventions has been the source of criticism of the quality and relevance of information contained in financial reports.

Some of these conventions include:

i)The business entity principle.

ii)The historical cost principle.

iii)The materiality principle.

iv)The matching principle.

v)The going concern principle.

**Required:**

For each of the principles listed above explain its meaning.

(5marks)

**Question Two**

On 31st December 2012 the cash book of Njeri showed a balance at the bank of Sh Sh8, 100. The bank statement however showed a balance of Sh 6,700. Going through the bank statement she found out that:

(i) A cheque received from Taifa Ltd on 1st December for Sh 600 and entered into the cash book did not appear on the bank statement

(ii) A cheque paid to Kamara Sh 700 on 25th December had not been presented

(iii) A cheque received from Njiru on 24th December Sh 600 and entered into the cash book was returned dishonored. No entry in this regard was recorded I the cash book

(iv) Bank charges amounting to Sh 100 had not been entered into the cash book

(v) The bank received directly Sh 1000 from E.A.B.L as dividends on 18th December on behalf of Njeri

(vi) A cheque payment of Sh 2000 to Olivia had been entered in error Sh200 in the cashbook

**Required**

a) Differentiate between a three column cashbook and a petty cashbook

b) State and briefly explain two purposes of a bank reconciliation statement.

c) Make the necessary entries to update the cash book

d) Prepare a bank reconciliation statement for Njeri for the month of December 2012

(20 marks)

**Question Three**

A bookkeeper extracted a trial balance on 31st December 2013 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 2014 the following errors made in 2013 were found:

Sales day book had been under cast by Ksh. 1,000.

Sales of shs. 2,500 to James had been debited in error to Jane Account.

Rent account had been under casted by Ksh. 700

Discount received account had been under cast 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**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| a) Journal entries to correct the errors. |  |  |  | (10 marks) |

b) Draw up supervise account after the errors, describe have been corrected

(5 marks)

c) If the net profit had previously been calculated as Ksh. 79,000 for the year ended 31stDecember 2013, show the calculations of the connected net profit.

(5 marks)

**Question Four**

a) Identify and describe four types of source documents where information for making entries in books of accounts is obtained.

(8 marks)

|  |  |  |
| --- | --- | --- |
| b) State and explain two methods of depreciation. |  | (2 marks) |

c) A cashier in a firm starts with Sh.2, 000 in the month of March. In the following week, the following payments are made:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | Sh. |
| 1st March – bought stamps for |  |  | 80 | | | | |
| 2nd March – paid bus fare for |  |  | 120 | | | | |
| 2nd March – cleaning materials |  |  | 240 | | | | |
| 3rd March – bought fuel |  |  |  | 150 | | | |
| 3rd March – cleaning wages |  |  | 300 | | | | |
| 4th March – bought stamps |  |  | 200 | | | | |
| 4th March – paid L. Thompson (creditor) | | | | | | | 400 |
| 5th March – fuel costs |  |  |  | 150 | | | |

On the 5th of March the cashier requested for a refund of the cash spent and this amount was reimbursed back.

**Required:**

Prepare a detailed petty cash book showing the balance to be carried forward to the next period and the relevant expense accounts, as they would appear on the General Ledger.

(10 marks)

**Question Five**

a) For the business of Kamakia, a wholesaler, classify the following between ’capital’ and ’revenue’ expenditure:

* Purchase of an extra motor van.
* Cost of rebuilding warehouse wall, which had fallen down.
* Building extension to the warehouse.
* Painting extension to warehouse when it is first built.
* Repainting extension to warehouse three years later than that done in (d).
* Carriage costs on bricks for new warehouse extension.
* Carriage costs on purchases.
* Carriage costs on sales.
* Legal costs of collecting debts.
* Legal charges on acquiring new premises for office.
* Fire insurance premium.
* Costs of erecting new machine.

(6 marks)

b) A machine was purchased for a sum of Ksh.20, 000 having useful life of 3 years. From the above particulars, you are required to calculate depreciation under Sum of Years Digits Method.

(4 marks)

c) Discuss at least five errors that don’t affect the trial balance.

* marks)

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