PRINCIPLES OF ACCOUNTING I (ACCT 010) 3RD TRIMESTER 2017

**KENYA METHODIST UNIVERSITY**

**END OF 3'***RD '***TRIMESTER 2017 (FT) EXAMINATIONS**

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

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

***INSTRUCTIONS'''***:

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

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| **Question One** |   |   |   |   |   |   |   |   | **(30 Marks)** |
| * Differentiate between book keeping and accounting.
 |   |   | (4 Marks) |
| * In details explain the accounting equation.
 |   |   |   | (6 Marks) |

* The following monthly trial balance was extracted from the books of Mr. Murugu on 31st May 2011.

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| --- | --- | --- | --- |
| **Dr** |   |   | Cr |
| Capital |   |   |   |   |   |   |   |   | 14800 |
| Drawings |   |   |   |   |   | 6000 |
| Freehold property |   |   |   | 15000 |   |   |
| Furniture |   |   |   |   |   | 2800 |
| Stock (21st May) |   |   |   |   | 6200 |
| Office expenses |   |   |   |   | 900 |
| Bad debts |   |   |   |   |   | 400 |
| Salaries |   |   |   |   |   | 500 |
| Discount allowed |   |   |   |   | 200 |
| Discount received |   |   |   |   |   |   | 100 |
| Gross profit |   |   |   |   |   |   |   | 17800 |
| Back overdraft |   |   |   |   |   |   |   | 1600 |
| Cash on hand |   |   |   |   | 2800 |
| Debtors |   |   |   |   |   | 5000 |
| Creditors |   |   |   |   |   |   |   |   | 700 |
| Travelling expenses |   |   |   | 1200 |
|   |   |   |   |   |   |   | 41,000 |   | 41,000 |

**Required:**

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| * Prepare Mr. Murugu profit and loss account for the month of May. 2011.
 |   |   |   |   |   |   |   |   |   |   |   | (8 Marks) |
| * Prepare a balance sheet as at 31st May, 2011 showing nearly all the items that are included in a balance sheet.
 |   |   |   |   | (12 Marks) |

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| **Question Two** |   |   |   |   |   |   |   |   | '***(20 Marks)*** |
| * Explain the principles of accounting.
 |   |   |   |   | (8 Marks) |

* The following trial balance was extracted from the accounting records. Wakulima limited as at December 31st 2011.

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| --- | --- | --- |
| Dr. |   | Cr |
| Capital |   |   |   |   |   |   |   |   |   | 25,000 |
| Stock (1.1.2011) |   |   |   |   |   |   | 25,000 |
| Plant and machinery (cost) |   |   |   |   | 250,000 |
| Motor vehicles (cost) |   |   |   |   |   | 80,000 |
| Provision for depreciation of plant and machinery |   |   | 20000 |
| Provision for depreciation of motor vehicles |   |   |   | 16000 |
| Purchases |   |   |   |   |   |   |   | 360000 |
| Sales |   |   |   |   |   |   |   |   |   |   | 600000 |
| Sales returns |   |   |   |   |   |   | 40000 |
| Purchases returns |   |   |   |   |   |   |   | 2000 |
| Wages and salaries |   |   |   |   |   | 60000 |
| Discount |   |   |   |   |   |   |   | 5000 |
| Carriage inward |   |   |   |   |   |   | 2500 |
| Carriage outward |   |   |   |   |   |   | 3000 |
| Postage and telephone |   |   |   |   |   | 7500 |
| Water and electricity |   |   |   |   |   | 8600 |
| Bad debt w/o |   |   |   |   |   |   | 1500 |
| Provision for bad debts |   |   |   |   |   |   |   | 1000 |
| General expenses |   |   |   |   |   |   | 8500 |
| Rent and rates |   |   |   |   |   |   | 15000 |
| Debtors |   |   |   |   |   |   |   | 55,000 |
| Creditors |   |   |   |   |   |   |   |   |   | 46000 |
| Cash in hand |   |   |   |   |   |   | 6000 |
| Cash at bank |   |   |   |   |   |   | 30000 |
|   |   |   |   |   |   |   |   |   | 957,000 | 957000 |

You are given the following additional information

* Closing stock on 31st Dec,2011 was valued at shs. 22,500
* Depreciation is to be charged at 10% of cost motor vehicles.
* Accrued rent is shs 3000 and prepaid rates are shs. 1000
* Outstanding electricity expenses is shs 600
* Provision for bad debts is to be increased by shs. 300

**Required:**

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| Prepare income statement for the year ending 31st December 2011 and a balance sheet at the same date. |   |   |   |   |   | (12 Marks) |

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| **Question Three** |   |   |   |   |   |   |   |   | '***(20 Marks)*** |   |
| * Define a bank reconciliation statement.
 |   |   |   | (2 Marks) |

* On 31st December 2011, the balance at bank as shown by the cashbook was shs. 25 370 whereas the bank statement showed a credit balance of shs. 25,670. Comparisons of the cashbook with the bank statement showed the following discrepancies.
* Cheques not represented for payment shs. 12340
* Cheques paid into bank but not credited by the bank sh. 12,160
* Items shown in the bank statement but not yet entered in the cash book

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| * Bank charges.
 |   |   |   | 240 |
| * Standing order
 |   |   |   | 460 |
| * Dividends collectors by the bank
 | 820 |

**Required:**

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| Adjust the cashbook to show the correct cashbook balance and then prepare a bank reconciliation statement. |   |   |   |   |   | (18 Marks) |

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| **Question Four** |   |   |   |   |   |   |   |   | '***(20 Marks)*** |   |
| * Define accounting and explain at least five users of the accounting information.
 |   |   |   |   |   |   |   |   | (10 Marks) |

* Mr. Mwiti opened a business in Meru town at the beginning of the year 2011. During the first month of operation the following transactions were completed.

1st Jan 2011: He puts shs. 20,000 in bank account in the name of business

2nd Jan 2011: he bought shs. 6000 supplies for the shop

3rd Jan 2011: he paid shs. 5000 rent for the month of Jan for a small store.

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| 3rd Jan 2011: he furnished the store installing new fixtures which the supplier |   |   | sold to him at sh. 12,000. This amount was to be repaid in three |   | equal payment at the end of Jan, Feb and March. |
| 10th Jan 2011: the business opened on Jan 10th and in the first week of |   |   |   | business ended Jan 15 and the receipt from cash sales amounted |   |   | to sh. 8250 |
| 17th Jan 2011: he paid shs 1250 to an assistant for working during the |   |   |   | business grand opening |
| 18th Jan 2011: receipt from cash sales during the two weeks period ended Jan |   |   | 29th amounted to shs. 19,300. |

31st Jan 2011: John paid the 1st instalment on fixture.

31st Jan 2011: withdrew shs. 11000 cash for his persons expenses.

Required

Prepare a general journal entry to record the above transaction.

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| **Question Five** |   |   |   |   |   |   |   |   | **(20 Marks)** |   |
| * Mr. Kimani sets up a new business. Before he actually sells anything he has bought a motor vehicle of shs. 300,000, premises of shs. 700,000 stock of goods shs 200,000. He still owes shs 800 in respect of items. He had borrowed shs. 4000 from Mr Evans. After the events just described and before trading starts he had shs. 300,000 cash in hand and shs. 600,000 cash at bank. You are required to calculate the amount of his capital.
 |   |   |   |   |   |   |   |   |   |   |   | (10 Marks) |
| * Explain the various reconciling items in a bank reconciliation statement.
 |   |   |   |   |   |   |   |   |   |   |   | (10 Marks) |

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