MERU UNIVERSITY COLLEGE
OF SCIENCE & TECHNOLOGY

P.O. Box 972-60200 Meru - Kenya. Tel: 020-2092048, 020 2069349
Fax: 020-8027449

University Examinations 2010/2011

FIRST YEAR, FIRST SEMESTER EXAMINATIONS FOR DIPLOMA IN BUSINESS
ADMINISTRATION

DBA 0105: PRINCIPLES OF ACCOUNTING

DATE: APRIL 2011   **TIME: 1½HOURS**

INSTRUCTIONS: *Answer all questions.*

QUESTION ONE – (20 MARKS)

(a) Outline and explain any four users of accounting information.   (8 Marks)

(b) Two characteristics contributing to reliability are 'neutrality' and 'prudence'. Explain the
meaning of these two terms.   (4 Marks)

(c) Write up the following transactions in the books of S Pink and extract a trial balance;
The following information relates to S Pink Manufacturing Company.
2003

March 1		Started business with cash Sh.1,000,000
	2	Bought goods on credit from A Cliks Sh.296,000
	3	Paid rent by cash Sh28,000
	4	Paid Sh.900,000 of the cash of the firm into a bank account.
	5	Sold goods on credit to J Simpson Sh.54,000
	7	Bought stationery Sh.15,000 paying by cheque
	11	Cash sales Sh.49,000
	14	Goods returned by us to A cliks Sh.17,000
	17	Sold goods on credit to P Lutz Sh.29,000
	20	J Simpson returned goods to us Sh.14,000
	22	Paid A Cliks by cheque Sh.279,000
	28	Cash purchases Sh.125,000
	29	Bought a motor vehicle paying by cheque Sh.395,000
	30	Paid motor expenses in cash Sh.15,000
	31	Bought fixtures Sh.120,000 on credit from R west (8 Marks)

Required

    (i) Prepare ledger accounts
    (ii) Extract a trial balance

QUESTION TWO – (20 MARKS)

A cashier in a firm starts with Sh.2,000 in the month of March (that is the cash float). 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 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. (20 Marks)

QUESTION THREE – (15 MARKS)

The following trial balance was extracted from Bidii Traders for the year ended 31 December 2009

	Dr	Cr
	Sh.	Sh
Stock 1.1.09	50,000	
Freehold premises	240,000	
Bills receivable	30,000	
Purchases	280,000	
Salaries and wages	35,000	

Sales		520,000
Fixtures and fittings	140,000	
Discount allowed	7500	
Discount received		4,500
Plant and machinery	140,000	
Rates	5,600	
Advertising	10,400	
Insurance	3,800	
General expenses	7,200	
Provision for bad debts		1,800
Sundry debtors	60,000	
Bills payable		15,000
Sundry creditors		43,000
Cash in hand	2,400	
Bank overdraft		18,600
Drawings	6,000	
Capital		300,000
	902,900	902,900

Additional information

(a) Provide for depreciation of plant and machinery at 10% per annum and fixtures and fittings at 15% per annum.
(b) Increase the provision for bad debts to an amount equal to 4% of sundry debtors.
(c) Prepaid insurance amounts to Sh.500
(d) Rates accrued amounts to Sh400
(e) Closing stock was valued at Sh.60,000

Required:

Prepare in vertical form the Trading, Profit and loss account for the year ended 31 December 2009 and a balance sheet as at that date. (15 Marks)

QUESTION FOUR – (15 MARKS)

Define the following terms as used in Accounting, explaining their treatment in the books of accounts

(a) Creditors   (3 Marks)
(b) Debtors   (3 Marks)
(c) Capital   (3Marks)
(d) Sales   (3 Marks)
(e) Return outwards   (3 Marks)

QUESTION FIVE – (15 MARKS)

   (a) Distinguish between capital expenditure and revenue expenditure, giving relevant examples. (5 Marks)

   (b) Explain the following accounting concepts and their relevance in financial accounting
       (i) Materiality (2 Marks)
       (ii) Going concern (2 Marks)
       (iii)Prudence (2 Marks)
       (iv)Duality (2 Marks)
       (v) Consistency (2 Marks)