

UNIT TITLE: PRINCIPLES OF ACCOUNTING I

UNIT CODE: ACCT 112

Instructions:

Answer question ONE and any other two questions.

Question One

- Briefly explain each of the following accounting concepts:

- Going concern assumption. (1mk)

- Separate entity assumption. (1mk)

- Money measurement (unit of measurement) assumptions. (2mk)

- Time period (periodicity) assumption. (1mk)

- Explain the following terms as used to describe types of accounts.

- Personal of accounts (2mks)

- Real account (2mks)

- Nominal account (2mks)

- The following trial balance was extracted from the books of Ali's shop as at 31st

December 2011.

	Dr	Cr
	Shs.	Shs.
Sales		186,140
Purchases	115,700	
Stock 1/1/2011	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	
Miscellaneous 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		<u>498,440</u>

	718,580	718,580
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Other information

- Stock on 31/12/2011 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 Ali's shop for the year ended 31st December and the balance sheet as at that date. (20mks)

Question Two

Mambo Ltd reconciled its bank balance and cash book on November 30th 2011 and showed tow cheque outstanding at the time cheque number 404 for sh. 1,240. The following information is available for the December 31st 2011. Reconciliation

Bank statement dated 31st December 2011.

Date	Description	Dr	Cr	Balance
Dec 1	Balance b/ fwd			43,020cr
Dec 2	Cheque no. 404	6280		36,740
Dec 2	Deposit		5650	42,090
Dec 2	Cheque no. 411	5,400		36,690
Dec 4	Cheque no. 410	7,640		29,350
Dec 7	Cheque no.412	20,300		9,050

Dec 11	Deposit		22,680	31,730
Dec 14	Cheque no. 413	1,250		30,480
Dec 16	Cheque no 414	414	2,800	27,680
Dec 21	Deposit		15,600	43,280
Dec 28	Cheque no 415	7,700		35,580
Dec 29	Deposit		14,960	50,540
Dec 30	NSF Cheque	5,760		44,780
Dec 30	Service charge	70		44,710
Dec 30	Credit memorandum		14,850	59,560cr

Cash book

A/C No.

Date	Particulars	Dr	Cr	Balance
Dec 1	Balance b/d			35,500 dr
Dec 1	Cheque no. 441		5,400	30,100
Dec 2	Deposits	5,350		35,450
Dec 2	Cheque no. 410		7,340	28,110
Dec 6	Cheque no. 412		20,300	7,810
Dec 11	Deposits	22,680		30,490
Dec 12	Cheque no 413		1,250	29,490

Dec 14	Cheque no 414		2,800	26,440
Dec 21	Deposits	15,600		42,040
Dec 24	Cheque no 415		7,070	34,970
Dec 26	Cheque no 416		3,100	31,870
Dec 29	Deposits	14,960		46,830
Dec 29	Cheque no 417		3,910	42,920
Dec 30	Deposits	7,650		50,570 dr

Additional information

- Cheque no. 415 was correctly drawn for hs. 7,700 but was recorded as sh 7,070 in error. The bank paid and deducted the correct amount.
- The NSF cheque was received from a customer. Its return has not been recorded.
- The credit memorandum was for sh. 15,000 collected by the bank on behalf of the company, less collection fee of sh. 150 deducted by the bank. This has not yet been recorded.

Required

Prepare a bank reconciliation for mambo ltd.

(20mks)

Question Three

- Explain four characteristics of good accounting information. (4mks)
- Identify five users of accounting information and for each user, describe the accounting information needs. (5mks)

- Explain the duality concept as used in accounting. (3mks)
- Identify and explain the uses of four books of original entry. (8mks)

Question Four

The following transaction took place in the newly started business of Joe Mako, called Busyman Traders.

2012

- Jan 1. Joe invested sh. 10,500 cash in the business.
- 2 Put sh. 9,000 of the cash in a bank account.
- 3 Bought goods on credit for Bundi stores sh. 2,400
- 5 Bought stationery on credit from carol supplier. Sh. 89
- 8 Paid rent by cheque sh. 220
- 10 Bought furniture on credit from Embu shop sh. 610.
- 11 Paid wages in cash sh. 790
- 12 Returned goods bought from Bundi stores sh. 72
- 16 Received loan from bank one ltd sh. 2,000
- 18 Goods returned by Duba sh. 25
- 20 Cash sales sh. 145
- 26 Paid by cheque Carol supplies sh. 89, Bundi store sh. 1,000
- 27 Received full payment from Duba by cheque.
- 31 Received further loan from bank one ltd sh. 500

Required

Prepare the trial balance of Busyman Traders on 31st J anuary 2012 after (20mks)

considering the above transaction.)

Question Five

- Give and explain three reasons why a trial balance may fail to balance, and three reasons why a balanced trial balance may be incorrect. (6mks)
- After preparing the trial balance of Maku stores, the accounts clerk found that it would not balance. The credits exceeded debits by sh. 5,360. He placed this figure in a suspense account pending investigations. On investigations, he found the following
 - A balance of sh. 870 on the debtors account had been omitted from the schedule of debtors, the total of which was entered in the trial balance as the debtors figure.
 - A small piece of machinery purchased for sh. 12,000 had been written off to repairs.
 - The receipts side of the cashbook had been under cast by sh. 7,200.
 - The total sales on one page had been carried forward sh. 81,540 but the correct amount was sh. 85,140.
 - A credit note for sh. 1,790 received from a supplier had been posted to the wrong side of his account.
 - An electricity bill of sh. 1,520, not yet accrued for is discovered in the filling tray.
 - Gakii, whose debts had been provide for, finally paid sh. 7,310 to clear her debts. Her personal account was credited by the cheque has not yet been recorded in the cashbook.

Required

- Prepare the suspense account and show the entries necessary to clear it.
- State the effect on all the affected accounts of correcting the errors.