

UNIT TITLE: PRINCIPLES OF ACCOUNTING 1

UNIT CODE: ACCT 112

Instructions: Answer Question ONE and Any TWO Others.

Question One

- Define the following accounting terms and explain their implications in the preparation of financial statements.
- The going concern (3 Marks)
- Business entity (3 Marks)
- Materiality (3 Marks)
- Realization (3 Marks)
- Mr. Mzeemoja is running a sole proprietorship business. The following trial balance was extracted from his books as at 31st March 2010.

Shs	Shs
'000'	'000'
Capital	4896
Freehold land & building (at cost)	3600
Plant & machines (at cost)	3480

Provision for depreciation (Plant & Machinery)		1680
Delivery vans		960
Prov. For depreciation delivery van		672
Loose tools at valuation on April 2009		288
Stocks April 2009		2232
Purchases	4440	
Sales		15840
Wages & Salaries		5288
Rates & Insurance		384
Loose tools		192
Repairs and maintenance		240
Sales expenses including vehicle running costs		344
Electricity and power		1440
Industrial travelling levy		72
Administration expenses		672
Provision for doubtful debts		240
Debtors and Creditors	1984	1928
Drawings		480
Bank		864
Cash in hand	<u>24</u>	
		26,120 26,120

Additional information

1. Closing stock on 31st March 2010: shs.2,008,000 loose tools at valuation shs. 384,000.
2. Provision to be made for the following amount owing on 31st March 2010. Electricity

and power shs.192,000.

3. Van insurance and rates of shs. 2,520 and shs.13,800 respectively were paid in advance.

4. Provision of depreciation on plant and machinery and delivery vans is to be made at 20% and 25% respectively at cost.

5. Bad debts amounting to shs. 26,000 are to be written off and provision for doubtful debts is to be 10% of trade debtors.

Required:

Prepare the income statement for the year ended 31 March 2010 and the same date 31st March 2010.

Question Two

The following is a summary of the cashbook of Gogo Ltd for the months of October 2011.

	Shs		Shs
Receipts	1,469	Balance b/d	761
Balance c/d	<u>554</u>	Payment <u>1262</u>	
	2,023		2,023

All receipt are balanced and all payments made by cheque. On investigation you discover:

1. Bank charges shs. 36 had not be entered in the cashbook.

2. Cheques drawn amounting to shs 267 had not been presente for payment.

3. Cheques totaling shs. 762 had be received and banked but have not been reflected in the bank statement date October 31, 2011.
4. A cheque for shs. 22 had been entered in the cash book as a receipt rather than a payment (it was to pay a creditor).
5. A cheque received from Kay J oka for Sh. 80 had been returned by the Bank marked "No fund available". No adjustment has been made in the cashbook.
6. A standing order for business rates installment of shs. 150 was paid by the bank but is not yet recorded in the cashbook.
7. All dividends totaling shs. 62 were received directly by the bank but are not reflected in the cashbook.
8. A cheque drawn for shs. 66 had been incorrectly entered in the cashbook as shs. 600.
9. The balance brought forward in the cashbook should be shs 711, not shs, 761.

Required:

- Show the journal entries to adjust the cashbook. (7 Marks)
- Determine the correct cash balance. (3 Marks)
- Prepare a bank reconciliation statement. (10 Marks)

Question Three

Mariam began her business on 1st J anuary 2011 with 6200 cash in hand and a bank overdraft of shs. 25,000. The following transactions were recorded during the moth.

Jan 1 Cash sales of shs. 100,000 and paid wages 10,600 cash.

Jan 5 Took cash Shs. 70,000 into bank

Jan 7 Received cheque from Basil Opiyo for the whole amount due from him (shs. 72,500) less shs. 2500 cash discount

Jan 10 Paid rent 45,000 shs by cheque

Jan 13 Cash sales shs. 96,000 and banked 40,000

Jan 17 Paid Kamau the amount standing to his credit (shs 50,000) less 2.5% cash discount.

Jan 21 Paid Musau shs 38,000 by cheque

Jan 30 Paid electricity shs 1500, sundry expense shs 4000 in cash.

Jan 31 Withdrew 6000 from bank for office use.

Required:

- Prepare a three column cash book duly balanced to pass the above transactions. (12 Mark)

- Discuss any FOUR major functions of accounting. Use practical examples in your discussion. (8 Marks)

Question Four

- Explain the purpose for which control accounts are prepared in a business organization. (3 Marks)

- XML Ltd maintains control accounts in its business records. The balances and

transactions relating to the company's control account for the month of December 1994 are listed below.

Balance as at 1st December 1994

Sales ledger	6,185,000 (debit)
	52,500 (credit)
Purchases Ledger	16,500 (debit)
	4,285,000 (credit)

Transaction during December 1997

Sales or credit		8,452,000
Purchase on credit	5,687,500	
Returns inwards		203,500
Returns outwards		284,000
Bills of exchange payable		930,000
Bills of exchange receivable		615,000
Cheques received from customers		7,985,000
Cheques paid to suppliers		4,732,000
Cash paid to suppliers	88,500	
Bill payable dishonoured		400,000
Charges on bill payable dishonoured		10,000
Cash received from credit customers	153,000	
Bad debts written off	64,500	
Cash discounts allowed	302,000	
Bill receivable dishonoured		88,500

Balances as at 31st December 1994

Sales ledger	44,000	Credit
Purchases Ledger	23,500	Debit

Required:

Post the sales ledger and to purchases ledger control accounts for the month of December 1994 and derive the respective debit and credit closing balances on 31 December 1994. (17 Marks)

Question Five

Explain clearly in terms which a non-accountant would understand the following accounting terms:

- The 'going concern" concept (5 Marks)
- The "Prudence" concept (5 Marks)
- The "Materiality" concept (5 Marks)
- The "Historic cost accounting" concept (5 Marks)