



## **GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2017/2018 ACADEMIC YEAR ONE  
SECOND SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 112**

**COURSE TITLE: PRINCIPLES OF ACCOUNTING 1**

**EXAMINATION DURATION: 3 HOURS**

**DATE: 09/04/18**

**TIME: 09.00-12.00 PM**

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### **INSTRUCTION TO CANDIDATES**

- **The examination has SIX (6) questions**
- **Question ONE (1) is COMPULSORY**
- **Choose any other THREE (3) questions from the remaining FIVE (5) questions**
- **Use sketch diagrams to illustrate your answer whenever necessary**
- **Do not carry mobile phones or any other written materials in examination room**
- **Do not write on this paper**

**This paper consists of NINE (9) printed pages**

*please turn over*



**QUESTION ONE (COMPULSORY)**

- (a) A trial balance may balance even when there are errors. Briefly describe five errors that may cause a trial balance not to balance. **[5 marks]**
- (b) The following trial balance was extracted from the books of Maridadi Ltd as at 31<sup>st</sup> December 2017.

**Maridadi Ltd**  
**Trial Balance**  
**As at 31<sup>st</sup> Dec 2017**

	Dr.	Cr
	Shs.	Shs.
Capital		225,000
Inventory (1.1.2017)	17,500	
Plant and machinery (cost)	250,000	
Provision for depreciation		60,000
Motor vehicles (cost)	300,000	
Provision for depreciation		115,000
Purchases	240,000	
Sales		360,000
Returns	22,500	15,000
Salaries and wages	60,000	
Discounts	5,500	9,000
Carriage inwards	7,000	



Loan		150,000
Carriage outwards	3,000	
Postage and telephone	6,250	
Water and electricity	4,750	
Bad debts written off	5,250	
Provision for doubtful debts		1,500
General expenses	8,000	
Rent and rates	9,000	
Debtors	30,000	
Creditors		60,000
Bank		15,750
Cash	42,500	
	<b>1,011,250</b>	<b>1,011,250</b>

### Additional information

1. Inventory as at 31<sup>st</sup> Dec 2017 was valued at shs. 26,000.
2. Depreciation is to be charged on reducing balance at the rate of 10% for plant and machinery and 20% for motor vehicles.
3. Rent owing as at 31<sup>st</sup> Dec 2017 was shs. 3,000 while prepaid rates was shs. 1,000 as at the same date.
4. Outstanding electricity expense was shs. 750.
5. Provision for doubtful debts is to be increased by shs. 1,000

### Required

- i. Statement of comprehensive Income for the year ended 31<sup>st</sup> Dec 2017 **[12 marks]**
- ii. Statement of Financial Position as at that date **[8 marks]**



## QUESTION TWO

(a) Describe any three types of discounts

[3 marks]

(b) The following details were obtained from the books of Baishara Ltd.

**2017**

May 1: Balance b/d: Cash shs. 45,000

: Bank shs. 590,000

May 2: The following customers paid their accounts by cheque in each case deducting 2<sup>1</sup>/<sub>2</sub>% cash discount: Betty shs. 20,000; Hussein shs.75,000 and Caroline shs. 30,000.

May 4: The business paid rent as follows; shs. 12,000 by cheque and shs.38,000 by cash.

May 6: Francis lent the business shs. 150,000 by cheque.

May 8: The business paid the following accounts by cheque in each case deducting 5% cash discount: Terry shs. 30,000; Valence shs.52,000 and Rosy shs. 45,000.

May 10: Paid motor expenses in cash shs. 12,000.

May 12: Ben (debtor) paid shs, 11,200 by cash being full settlement of his account which had a balance of shs.12,000 as at that date.

May 15: The business paid salaries by cash shs. 24,000

May 18: The following debtors paid their accounts by cheque in each case deducting 5% cash discount: Wendy shs. 25,000; Peris shs.40,000; and Peter shs. 15,000.

May 21: Cash withdrawn from the bank for business use shs. 80,000

May 24: Cash drawings shs. 10,000.

May 25: The business paid John his account of shs.12, 000 less shs.500 cash discount.

May 29: The business bought furniture worth shs. 75,000 and paid by cheque.

May 30: The business received shs.13,000 commission by cheque.

### Required

i. Draw up a three column cash book, balance it off and

[10 marks]

ii. Post the relevant discount accounts to the general ledger

[2 marks]



**QUESTION THREE**

Isbah Traders does not keep proper books of account. You ascertain that his bank payments and receipts during the year to 31 December 2017 were as follows:

<b>Receipts</b>	<b>Shs.</b>	<b>Payments</b>	<b>Shs.</b>
Balance 1 Jan 2017	572,000	Purchases	10,007,000
Cheques for sales	13,179,000	Drawings	11,250,000
Cash banked	14,005,000	Expenses	2,950,000
Balance 31 Dec 2017	3,751,000	Delivery van	7,300,000
	31,507,000		31,507,000

From the cash note book you ascertain the following

Shs.

Cash in hand 1 <sup>st</sup> Jan 2017	62,000
Cash received from customers	16,300,000
Purchases paid in cash	1,850,000
Expenses paid in cash	375,000
Cash in hand 31 <sup>st</sup> Dec 2017	65,000
Drawings by proprietor in cash	unknown



You discover that assets and liabilities were as follows

	1 <sup>st</sup> Jan 2017	31 <sup>st</sup> Dec 2017
Shs.Shs.		
Debtors	1,850,000	2,070,000
Trade creditors	1,250,000	1,450,000
Inventory	2,650,000	2,990,000

Depreciation on the van is to be provided at 20%

**Required:**

- i. Statement of comprehensive income **[8 marks]**
- ii. Statement of financial position **[7 marks]**

**QUESTION FOUR**

- (a) Accounting information is prepared for consumption of various stakeholders. Briefly describe any four users of accounting information in each case specifying their information needs **[4 marks]**
- (b) Faida Ltd sells goods on credit. The following balances were extracted from its ledger accounts as at 31<sup>st</sup> Dec 2017

Shs.

Sales	3,625,000
Creditors	255,000
Debtors	475,000
Purchases	2,090,000
Discount allowed	47,500
Cash received from debtors	3,415,000
Discount received	36,000
Cash paid to creditors	1,975,000



Returns inwards	185,000
Provision for doubtful debts as at 1.1.2017	26,500
Selling and distribution expenses	67,500
Returns outwards	42,500
Payments to suppliers by cheque	75,000
Receipts from customers by cheque	85,000

#### Additional information

- i. A cheque for shs.7,900 from Judy, a customer was returned marked “effects not cleared”
- ii. Bad debts amounting to shs.42,500 are to be written off and a provision for doubtful debts is to be raised to 10% of the debtors balance as at 31<sup>st</sup> Dec 2017.
- iii. As at 31<sup>st</sup> Dec 2017 a cheque of shs.5,500 had been received from Hassan. This customer had owed the business shs.17,500, and this amount had been earlier written off. No record has been made in the books regarding the shs.5,500 received.

#### Required

- i. Debtors ledger control account **[4 marks]**
- ii. Purchases ledger control account **[4 marks]**
- iii. Bad debts account **[1 mark]**
- iv. Provision for doubtful debts **[2 marks]**

#### QUESTION FIVE

- (a) Describe any four source documents, in each case outlining the purpose of the document **[4 marks]**
- (b) Grace operates a beauty shop in Dadaab town. Her accounts clerk maintains the business records. During the month of September 2017 she obtained the following bank statement from her bank.

	Debits	Credits	Balance
Balance			168,000. Cr
Deposits		232,800	400,800. Cr



Ser. No. BBM 126/18

Deposits		34,900	435,700. Cr
Cheque No. 016	144,000		291,700. Cr
Cheque No. 017	27,200		264,500. Cr
Deposits		50,000	314,500. Cr
Cheque No. 019	68,000		246,500. Cr
Bank charges	1,000		245,500. Cr
Cheque No. 021	56,800		188,700. Cr
Unpaid cheque	85,000		103,700. Cr
Deposits		72,000	175,700. Cr
Cheque No. 018	97,000		78,700. Cr
Standing order- insurance	100,000		21,300. Dr

Her cash book (bank column only) had the following entries on 30<sup>th</sup> September 2017.

Cash book (bank column only)

	Shs.		Shs.
Balance b/f	168,000	Cheque No. 016	144,000
Deposits	232,800	Cheque No. 017	27,200
Deposits	34,900	Cheque No. 018	97,000
Deposits	72,000	Cheque No. 019	68,000
Deposits	85,700	Cheque No. 020	52,200
		Cheque No. 021	56,800
		Cheque No. 022	63,600
		Balance c/d	84,600



<b>593,4000</b>	<b>593,400</b>
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Grace hires you to explain to her the difference in amounts shown by the bank statement and the cash book. You are informed that no errors have been made in either the cash book or the bank statement.

**Required:**

- i. Adjusted cash book **[6 marks]**
- ii. Bank reconciliation statement **[5 marks]**

**QUESTION SIX**

- (a) For accounting information to be useful for decision making, it should possess certain characteristics. Briefly describe any such five characteristics of good accounting information **[5 marks]**
- (b) Briefly explain any five generally accepted accounting principles and in each case give the limitation of the principle/concept **[10 marks]**

