****

**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2020/2021 ACADEMIC YEAR ONE**

**SECOND SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

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

**COURSE CODE: BBM 114**

**COURSE TITLE: PRINCIPLE OF ACCOUNTING 1**

**EXAMINATION DURATION: 2 HOURS**

**DATE: 04/04/2021 TIME: 12.00-2.00 PM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) questions from the remaining FOUR (4) 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 FIVE (5) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. Explain any five generally accepted accounting principles and in each case give the limitation of the principle/concept [**10 marks]**
2. A trial balance may balance even when there are errors. Describe five errors that may cause a trial balance not to balance.  **[5 marks]**
3. The following trial balance was extracted from the books of Naivas Ltd as at 31st December 2018.

**Naivas**

**Trial Balance**

**As at 31st Dec 2018**

 Dr. Cr

|  |  |  |
| --- | --- | --- |
|  | Shs. | Shs. |
| Capital |  | 225,000 |
| Inventory (1.1.2018) |  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 |  |
|  | **1,011,250** | **1,011,250** |

**Additional information**

1. Inventory as at 31st Dec 2018 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 31st Dec 2018 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**

1. Statement of comprehensive Income for the year ended 31st Dec 2018 **[9 marks]**
2. Statement of Financial Position as at that date. **[6 marks]**

**QUESTION TWO**

1. Explain the objectives of preparing control accounts  **[5 marks]**
2. The balances and transactions affecting the control accounts of Uchumi Traders for the month of June 2018 are listed below

|  |  |
| --- | --- |
|  | Shs |
| Balance on 1st June 2018 |  |
| Debit Balances: Sales Ledger | 4,561,500  |
|  Purchases | 44,000  |
| Credit Balances: Sales Ledger | 105,500  |
|  Purchases Ledger | 2,245,000  |
| **Transaction During June 2018** |  |
| Purchase on credit | 9,067,500 |
| Allowances from suppliers | 314,500 |
| Receipts from customers by cheque | 13,685,000 |
| Sales on credit | 18,377,500 |
| Discount received | 552,500 |
| Payments to creditors by cheque | 7,706,500 |
| Contra Settlements | 1,523,000 |
| Bills of exchange receivable | 3,253,000 |
| Allowances to customers | 860,000 |
| Customers dishonored cheques | 244,500 |
| Cash received from credit customers | 2,100,500 |
| Discount allowed | 366,000 |
| Balance of 30th June 2018 |  |
| Sales Ledger (credit) | 68,000  |
| Purchases Ledger (debit) | 33,500  |

**Required**:

1. The Sales Ledger control accounts for the month of June 2017 **[8 marks]**
2. The Purchases Ledger control accounts for the month of June 2017 **[7 marks]**

**QUESTION THREE**

1. Outline the reasons for preparing bank reconciliation statement  **[5 marks]**
2. Amina operates a beauty shop in Garissa town. Her accounts clerk maintains the business records. During the month of September 2018 she obtained the following bank statement from her bank.

 Debits Credits Balance

|  |  |  |  |
| --- | --- | --- | --- |
| Balance |  |  | 168,000. Cr |
| Deposits |  | 232,800 | 400,800. Cr |
| 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 30th September 2018.

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 |
|  **593,4000** |  **593,400** |

Amina 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**

1. Adjusted cash book **[8 marks]**
2. Bank reconciliation statement **[7 marks]**

**QUESTION FOUR**

1. Describe any four source documents, in each case outlining the purpose of the document **[5 marks]**
2. Bidii Traders does not keep proper books of account. You ascertain that his bank payments and receipts during the year to 31 December 2018 were as follows:

**Receipts. Shs. Payments. Shs.**

|  |  |  |  |
| --- | --- | --- | --- |
| Balance 1 Jan 2018 | 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 2018 | 3,751,000 | Delivery van | 7,300,000 |
|  | 31,507,000 |  | 31,507,000 |

From the cash notebook, you ascertain the following

 Shs.

Cash in hand 1st Jan 2018 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 31st Dec 2018 65,000

Drawings by proprietor in cash unknown

You discover that assets and liabilities were as follows

 1st Jan 2018 31st Dec 2018

 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:**

1. Statement of comprehensive income for the year ended 31st December 2018 **[8 marks]**
2. Statement of financial position as at 31st December 2018 **[7 marks]**

**QUESTION FIVE**

1. Describe any three types of discounts **[5 marks]**
2. 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]**
3. Accounting information is prepared for consumption of various stakeholders. Describe any five users of accounting information in each case specifying their information needs. **[10 marks]**