

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

CHUKA, THARAKA & EMBU

FIRST YEAR EXAMINATION FOR THE AWARD OF DEGREE  
OF BACHELOR OF COMMERCE, AGRIBUSINESS MANAGEMENT,  
PROCUREMENT AND LOGISTICS MANAGEMENT, HOTEL & TOURISM  
MANAGEMENT

BCOM 111: PRINCIPLES OF ACCOUNTING I

STREAMS: BCOM, AGBM & BPLM (Y1S1)

TIME: 2 HOURS

DAY/DATE: FRIDAY 07/12/2018

11.30 A.M. – 1.30 P.M.

INSTRUCTIONS:

- Answer question ONE and any other TWO questions
- Show all your workings
- Do not write on the question paper

QUESTION ONE

- (a) The accounting profession has for a long time relied on certain accounting conventions to guide accounting practice, yet the application of the same conventions have been the source of criticism of the quality and relevance of information contained in financial reports

Some of these conventions include

- The business entity principle
- The historical cost principle
- The monetary principle
- The matching concept

**Required:**

For each of the principles listed above

- Explain its meaning [6 marks]
- Justify its use [4 marks]

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(b) Using an illustration, differentiate between capital expenditure and revenue expenditure

[3

marks]

(c) The following trial balance was extracted from the books of orange, a sole trader as at 31<sup>st</sup> October 2014

	Sh.	Sh.
Capital		1,216,260
Drawings	128,880	
Sales		4,904,520
Purchases	3,726,060	
Debtors & creditors	476,160	377,720
Rent & rates	52,800	
Electricity	14,760	
Provision for doubtful debts (1 Nov 2013)		19,560
Stock in trade (1 Nov 2013)	556,440	
Insurance	10,320	
General expenses	55,980	
Bank balance	90,000	
Cash in hand	4920	
Motor vehicles at cost	580,000	
Provision for depreciation on motor vehicles		216,000
(1/11/13)		
Proceeds from sale of motor vehicle		115,000
Motor vehicle expenses	51,660	
Premises at cost	600,000	
Rent received		<u>45000</u>
	<u>6,844,060</u>	<u>6,844,060</u>

### Additional information:

- (1) Stock in trade as at 21<sup>st</sup> Oct 2014 was valued at sh. 593,040
- (2) Rates and insurance were prepaid to the extent of sh. 2,400 and sh. 2820 respectively as at 31<sup>st</sup> Oct 2014
- (3) Electricity due to 31<sup>st</sup> Oct 2014 amounted to sh. 6000

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- (4) The provision for doubtful debt is to be adjusted to 5% of the debtors remaining after taking into that sh. 20,160 of the debtors were to be regarded as bad.
- (5) Rent receivable as at 31<sup>st</sup> Oct 2014 was sh 15,000
- (6) Depreciation has been and is to be charged on motor vehicles at the rate of 20% per annum on straight line basis. No depreciation is to be charged on premises
- (7) In November 2013, a motor vehicle which had been purchased for sh. 160,000 on 1<sup>st</sup> Nov 2010 was sold for sh 115,000. The only record of this disposal is the entry in the proceeds from the sale of motor vehicle

### Required:

- (a) Income statement account for the year ended 31<sup>st</sup> October 2014 [9 marks]
- (b) Statement of financial position as at 31<sup>st</sup> Oct 2014 [8 marks]

### QUESTION TWO

- (a) State the reasons for maintaining control accounts [3 marks]
- (b) The following information has been extracted from the books of Mawili traders limited for the month of April 2018

#### Balance as at 1 April 2018

	Sh.
Sales ledger – debit balances	838,000
- Credit balances	184,000
Purchase ledger – Debit balances	196,000
- Credit balances	598,000
Transactions during the month:	
Sales on credit	8,784,000
Purchase on credit	7,849,000
Return inwards	248,000
Return outwards	179,000
Cheques received from trade debtors	2,968,000
Cash paid to trade creditors	4,674,000
Cheques paid to trade creditors	1,393,000
Bad debts written off	139,000
Discount allowed to trade debtors	162,000
Discount received from trade creditors	231,000
Credit sales off-set against credit purchase	356,000
Credit purchase of a motor vehicle posted in the purchase ledger	598,000
Dishonored cheques from trade debtors	193,000
Cash received to replace dishonored cheques from trade debtors	106,000
An invoice to trade debtors of sh. 174,000 posted as	147,000
Balances as at 30 <sup>th</sup> April 2018	
Sales ledger credit balances	123,000
Purchase ledger debit balances	177,000

**Required:**

The sales ledger and purchase ledger control accounts for the month ended 30<sup>th</sup> April 2018 [14 marks]

(c) Explain any 3 reasons for subdivision of the journals and the ledger [3 marks]

**QUESTION THREE**

(a) The following categories of people are recognized as users of information contained in financial statement:

- (i) Shareholders
- (ii) Financial analysts
- (iii) Lenders

For each of the above users of financial statements, identify the kind of information they may require, why they require it and the decision they make from that information

[9 marks]

(b) The summarized financial statements of Owello enterprises limited are as follows:

Income statement for the year ended 30<sup>th</sup> September

	2013	2014
	Sh '000'	Sh '000'
Sales	20000	28000
Cost of sales	<u>(15000)</u>	<u>(21000)</u>
Gross profit	5000	7000
Administrative expenses	<u>(3800)</u>	<u>(4600)</u>
Debenture interest	<u>-</u>	<u>(400)</u>
	<u>1200</u>	<u>2000</u>

Balance sheet as at 30<sup>th</sup> September

	2013		2014	
	'000'	'000'	'000'	'000'
Assets				

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Non-current assets (NBV)	11000			14000
Current assets:				
Insecurities	2000		3000	
Trade & other receivables	2500		2800	
Balance at bank	<u>—</u>	4500	<u>500</u>	<u>6300</u>
Total assets		<u>15500</u>		<u>20300</u>
Equity & liabilities				
Capital & reserves				
Issued & fully paid 1 ordinary shares of sh.10 each		10000		10000
Revenue reserves		<u>3000</u>		<u>4100</u>
		<u>13000</u>		<u>14100</u>
Non-current liabilities				
8% debenture		-		5000
Current liabilities				
Trade & other payables	1500		1200	
Bank overdraft	<u>1000</u>	<u>2500</u>	<u>-</u>	<u>1200</u>
Total equity & liabilities		<u>15500</u>		<u>20300</u>

Stock as at 1<sup>st</sup> October 2012 was sh 5,000,000

### Required:

For each year, calculate the following:

- (i) Gross profit margin [2 marks]
  - (ii) Inventory turnover [2 marks]
  - (iii) Return on equity [2 marks]
  - (iv) Current ratio [2 marks]
  - (v) Return on assets [2 marks]
- (c) On the basis of the ratios computed in (b) above, comment on the liquidity position of the company [1 mark]

### QUESTION FOUR

- (a) Rubi runs a groceries shop in Ndagani. The following transactions related to the shop for the month of October 2017.

1 October: Cash in hand sh. 31400; bank balance sh. 50,800; capital account sh. 82,200

3 October: bought goods in cash for sh. 8,200

4 October: Purchased goods on credit from Muiruri enterprises for sh. 11,600

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- 7 October: Sold goods on credit to Odera and sons at sh. 17,800
- 10 October: withdrew cash from the bank amounting to sh. 1000 for private use
- 12 October: Sold goods on credit to Erick at sh. 12,800
- 14 October: Paid sh.10,000 in cash to Muiruri enterprises in past settlement of their  
account
- 15 October: Received sh. 8000 in cash from Erick in part settlement of his account
- 25 October: purchased furniture on credit from Majiki furniture for sh. 16,000
- 26 October: Transferred sh. 4,400 from the cash till to the bank account
- 27 October: Paid wages to shop assistant in cash amounting to sh 3600
- 28 October: Made cash sales of sh 43, 600
- 29 October: Banked sh. 30,000

### **Required:**

- (i) Record the above transactions in the appropriate ledger accounts (including a two-column cash book) [13 marks]
- (ii) Extract a trial balance as at 31<sup>st</sup> Oct 2017 [4 marks]
- (b) Explain any three types of errors that could be reflected in a trial balance [3 marks]
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