

**CHUKA**



**UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**CHUKA AND EMBU CAMPUSES**

**EXAMINATION FOR THE AWARD OF DIPLOMA IN BUSINESS MANAGEMENT  
AND DIPLOMA IN PROCUREMENT AND LOGISTICS MANAGEMENT AND  
DIPLOMA IN ACCOUNTING**

**DIAC 0111: PRINCIPLES OF ACCOUNTING 1**

**STREAMS: DIBM, DPLM & DIAC Y1S1**

**TIME: 2 HOURS**

**DAY/DATE: TUESDAY 04/12/2018**

**2.30 P.M. – 4.30 P.M.**

---

**INSTRUCTIONS:**

- **Answer question one and other two questions.**

**QUESTION ONE**

- (a) Briefly explain the ‘accrual concept’ of accounting. (4 marks)
- (b) Using an example, a source document as applied in accounting. (2 marks)
- (c) Citing relevant example, distinguish between nominal and real accounts. (4 marks)
- (d) The following trial balance relates to Bahati Innovative enterprise, a sole trader operating in Chogoria town for the year ended 31 December 2018.

	Dr	Cr
Capital		720,910
Sales		1,380,780
Purchase	823,500	
Carriages	51,440	
Drawings	78,000	
Rent, rates and insurance	66,220	
Motor repairs	100,000	
Advertising	13,300	
General expenses	100,000	
Bad debts	8,770	

DIAC 0111

Debtors	121,200	
Provision for bad debts		6,010
Creditors		60,000
Cash in hand	51,770	
Cash at bank	104,230	
Stock as at 1 Jan 2018	119,270	
Building at cost	<u>530,000</u>	
	<u>2,167,700</u>	<u>2,167,700</u>
	=====	=====

Additional information as at 31<sup>st</sup> December 2018.

1. Rent accrued amounted to Sh. 2,100.
2. Rates had been prepaid by Sh. 8,800.
3. Sh. 22,110 of carriage represents carriage on purchases.
4. Stock at the close of business in 31<sup>st</sup> December 2018 had been valued at Sh. 135,510.
5. General expenses include Sh. 50,000 for wages paid to domestic workers during the year.
6. Motor repairs include repairs for proprietor's personal car cost Sh. 48,000.
7. Provision for bad debts it to be maintained at 2% of net amount outstanding from trade debtors
8. Depreciation is chargeable on building at 2.5% on cost.

**Required:**

- (a) Income statement for the year ended 31 December 2018. (12 marks)
- (b) Statement of financial position as at 31 December 2018. (8 marks)

**QUESTION TWO**

- (a) Accounting information is required by a wide range of users both within and outside the business. Briefly discuss any five users of accounting information and their likely needs. (10 marks)
- (b) On 1<sup>st</sup> January 2017, XYZ enterprises owned by Caleb Nyaga, started a business and the following transactions were recorded by the end of the month:

- 1 January – started a business with cash in hand of Sh. 80, 000 and Sh. 220, 000 at bank
- 1 January – Bought merchandise on credit from Jane Waruiru traders for Sh. 60,000
- 5 January – purchased a Tuk Tuk for sales delivery worth Sh. 350,000 on credit from GK Motors
- 8 January – Sold goods to G Karanja Sh. 40,000 and A Wainana Sh. 30,000 on credit
- 28 January – the proprietor withdrew Shs. 70,000 from the bank for personal use

**Required:**

Journal entry to record the transactions in the books of XYZ enterprises. (10 marks)

**QUESTION THREE**

- (a) Using examples differentiate between capital expenditure and revenue expenditure. (4 marks)
- (b) The following information has been extracted from the books of Bama enterprises:

		Sh. "000"
Credit balances on 1 October 2017	Receivable ledger control account	171
	Payables ledger control account	18,705
Debit balances on 1 October 2017	Receivables ledger control account	24,072
	Payables ledger control account	315
Credit balances on 30 September 2018	Receivables ledger control account	171
Transactions during the year:		
Credit sales	191,184	
Credit purchases	11,922	
Cash from trade debtors	165,636	
Cash to trade creditors	111,921	
Discount received	4,425	
Discount allowed	6,984	
Returns inwards	3,006	
Returns outwards	1,605	
Irrecoverable debt written off	978	
Cash received in respect of debit balances in payables ledger	315	
Contra entry to receivables ledger from payable ledger	1,302	
Allowances to customers on good damaged in transit	636	

**Required:**

- (i) Receivables ledger control account for the year ended 30 September 2018. (8 marks)
- (iii) Payables ledger control account for the year ended 30 September 2018. (8 marks)

**QUESTION FOUR**

- (a) Explain any five types of errors that could be reflected in a trial balance. (10 marks)
- (b) A lorry bought for a business cost Sh. 1,700,000. It is expected to last for five years

**Required**

Calculate the depreciation to be charged each year under the following methods.

- (a) The straight line method. (3 marks)
- (b) The reducing balance method (using a rate of 35%) (7 marks)