CHUKA   **UNIVERSITY**

UNIVERSITY EXAMINATIONS

CHUKA, EMBU AND THARAKA CAMPUSES

FIRST YEAR EXAMINATION FOR THE AWARD OF DIPLOMA IN BUSINES MANAGEMENT

DIAC 0111: PRINCIPLES OF ACCOUNTING I

STREAMS: DIBM Y1S1   **TIME: 2 HOURS**

DAY/DATE: FRIDAY 06/12/2019   **8.30 A.M. – 10.30 A.M.**

INSTRUCTIONS:
- **Answer question ONE and any other TWO.**
- **Do not write on the question paper.**

QUESTION ONE (30 MARKS)

(a)   Distinguish between capital and revenue expenditures giving an example of each.
(3 marks)
(b)   Discuss any three types of bookkeeping errors that may not be disclosed by a trial balance.   (6 marks)

(c)   The following trial balance was extracted from the books of Rajib traders as at 31st December 2018.

	Dr. Sh.	Cr. Sh.
Premises	100,000	
Furniture	20,000	
Motor vehicle	120,000	
Fixtures and fittings	70,000	
Purchases	22,500	
Purchases return		500
Sales		124,000
Sales return	4,000	
Inventory (1st Jan 2018)	18,000	

Carriage inwards	700	
Carriage outwards	500	
Drawings	7,000	
Trade receivables	42,000	
Trade payables		70,000
Salaries and wages	2,300	
Postages and stationery	1,500	
Bad debts	1,700	
Electricity	400	
Cash in hand	2,300	
Cash at bank	8,700	
Provision for depreciation:		
Motor vehicle		2,400
Fixtures and fittings		1,800
Allowance for doubtful debts		2,100
Discount allowed	800	
Discount received		2,400
Capital		219,200
	422,400	422,400

Additional information

(i) Inventory as at 31st December 2018 was valued at Sh. 8,100

(ii) Allowance for doubtful debts is to be adjusted to 5% of trade receivable.

(iii) Electricity had been prepaid by Sh. 100 as 31st December 2018.

(iv) Salaries and wages outstanding as at the year end amounted to Sh. 12,000.

(v) Depreciation is to be provided for motor vehicle and fixtures and fittings at 10% and 5% respectively on straight line method.

    Required: (i) Trading, profit and loss account for the period ended 31st December 2018.
                                 (12 marks)
             (ii) Balance sheet as at 31st December 2018.   (9 marks)

QUESTION TWO (20 MARKS)

(a) Discuss any users of accounting information clearly describing their specific needs for accounting information.   (8 marks)

(b) KK enterprises keep sales and purchases control accounts in the general ledger. The following are the entity's transactions for the month of August 2019.

Balances on 1st August 2019	Sh.
Sales ledger: Debit	77,000
: Credit	284,500
Purchases ledger: Debit	478,000
: Credit	98,000
Transactions during the month	
Sales (credit)	280,000
Cash sales	47,000
Cash purchases	94,500
Credit purchases	112,000
Cheques received from debtors	92,000
Cheques payment to creditors	43,000
Cash received from debtors	22,000
Cash payment to creditors	12,000
Bad debts written off	2,000
Discount allowed to debtors	1,000
Discount received from debtors	800
Credit sales set off against credit purchases	14,000
Refunds to credit customers	1,400
Refunds to cash customers	32,300
Credit notes issued	2,100
Credit notes received	4,300
Increase in provision for bad debts	3,000

Required:

(i)   Sales ledger control account   (6 marks)
(ii)   Purchases ledger control account   (6 marks)

QUESTION THREE (20 MARKS)

(a)   Discuss four qualitative characteristics of accounting information.   (6 marks)

(b)   Explain four limitations of financial ratio analysis.   (4 marks)

(c)   The trial balance of Maridadi Ventures failed to balances on 30th September 2019. It was observed that total debits exceeded the total credits by Sh. 138, 750. Upon investigations the followed errors were noted:

(i)   Sales had been overcast by Sh. 9000
(ii)   Return outward account had not been credited with an amount of Sh. 36,873.
(iii)   Cash drawing of Sh. 1,473 by the proprietor had been recorded in the cashbook only.
(iv)   A cheque of Sh. 90,000 received from a debtor had been omitted in the debtor's account.
(v)   A cheque of Sh. 13,200 from a debtor had been debited to his account.

Required:

(i)   Journal entries to correct the above errors.   (6 marks)

(ii)   A dully balanced suspense account.   (4 marks)

QUESTION FOUR (20 MARKS)

(a)   Explain the following principles and assumptions as applied in accounting

      (i)   Historical cost principle   (2 marks)

      (ii)   Going concern concept   (2 marks)

      (iii)   Matching principle   (2 marks)

(b)   Citing relevant examples in each case distinguish between nominal and real accounts as used in accounting.   (4 marks)

(c)   On 1st January 2019, Rufo started a business with cash at Ksh. 250,000 and Ksh. 150,000 deposited into the business bank account. The following transactions took place during its first month operation.

      Jan 2: Purchased goods worth Ksh. 50,000 in cash
      Jan 3: Paid rent Sh. 6,000 by cheque
      Jan 5: Cash sales amounting to Sh. 22,000
      Jan 8: Purchased goods worth Sh. 42,000 from Mwangi on credit.
      Jan 10: Sold goods for Sh. 15,000 allowing a cash discount of 10%
      Jan 13: Paid water bill Sh. 2,000 in cash
      Jan 15: Received a cheque of Sh. 40,000 from a debtor having allowed him a cash
              discount of Sh. 2,000
      Jan 18: Sold goods to Kemuma Sh. 10,000 on credit.
      Jan 20: Kemuma settled his account less 20% cash discount
      Jan 25 Paid wages and salaries Sh. 14,00 in cash
      Jan 28: settled the account of Mwangi by Cheque less 10% cash discount.
      Jan 30: Withdraw Sh. 10,000 from ban for personal use
      Jan 31: Deposited all the cash in hand into the business bank account except Sh. 10,000

Required: A dully balance three column cash book.   (10 marks)