

CHUKA



UNIVERSITY

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**UNIVERSITY EXAMINATIONS**

**RESIT/SPECIAL EXAMINATION**

**FIRST YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF  
COMMERCE**

**BCOM 111/AGBM 211: PRINCIPLES OF ACCOUNTING 1**

**STREAMS: BCOM**

**TIME: 2 HOURS**

**DAY/DATE: MONDAY 01/02/2021**

**11.30 A.M – 1.30 P.M.**

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**INSTRUCTIONS:**

- Answer question one and any other two.

**QUESTION ONE**

a). Explain five external users of accounting information and their need. (10 marks)

b) The books of Mr Tom, a trader in tea showed the following balances as at 31 March 2016:

	Shs.
Opening stock of tea	100,000
Purchases – Tea	400,000
Salaries paid	80,000
Buildings	95,000
Cash in hand	2,000
Cash at bank	135,000

Rent, rates and council taxes	15,000
Insurance premium paid	3,000
Miscellaneous receipts	10,000
Sales	720,000
Discounts allowed	4,750
Bad debts	3,250
Building repairs	2,900
Miscellaneous expenses	8,700
Advertisement	20,000
Commission to sales manager	32,400
Furniture and fittings	35,000
Air conditioners	30,000
Sundry debtors	100,000
Sundry creditors	80,000
Loan on mortgage	70,000
Interest paid on the above	3,000
Prepaid expenses	4,000
Drawings	18,000
Bills payable (Current liability)	30,000
Bank charges	2,000
Legal charges	6,000
Motor vehicles	80,000
Travelling and conveyance	10,000
Capital	280,000

The following further information was obtained :

1. Closing stock was Shs.57,000.
2. Further bad debts of Shs.2, 500
3. Provision for bad debts is to be created at 2.5% of net amount outstanding from trade debtors.
4. Depreciation is chargeable as follows:
 

Buildings	5%
Furniture and Fittings	11%
Air conditioners	16%
Motor vehicles	25%
5. Accrued travelling amounted Kshs. 2,600 and prepaid legal fees amounted to Kshs. 1,000.

**Required:**

- i) Prepare statement of comprehensive income for the year ended 31<sup>st</sup> March 2016 and financial position statement as at that date. 16 Marks)
- ii) Compute two activity ratios (4 Marks)

**QUESTION TWO**

- a) Explain five principles of accounting (5 marks)
- b) The following transactions were in the books of the ledger of Shah agencies

2003

March	1	Started business with cash Kshs.1,500,000.
“	2	Bought goods on credit from Ann Kshs. 269000.
“	3	Paid rent by cash Kshs.27000.
“	4	Paid Kshs. 600,000 of the cash of the firm into a bank account.
“	5	Sold goods on credit to sammy Kshs.54000.
“	7	Bought stationery Kshs.16000 paying by cheque.
“	11	Cash sales Kshs.48000.
“	17	Sold goods on credit to Luto Kshs 29000.
“	20	Paid for repairs to the building by cash Kshs.18000.
“	22	Sammy returned goods to us Kshs.14000.
“	27	Paid Ann by cheque Kshs.213000.
“	28	Cash purchases Kshs.127000.
“	30	Paid motor expenses in cash Kshs.1600.
“	31	Bought fixtures Kshs.125000 on credit Kanu.

Required: Balanced ledger accounts and Trial balance (15 marks)

**QUESTION THREE**

a) Explain the disadvantages of Ratio analysis (4 marks)

b) The following information is given from the books of Nairobi Enterprises.

2008

- Mar 1 Balances brought forward: Cash Kshs 230; Bank Kshs.4,756.
- “ 2 The following paid their accounts by cheque, in each case deducting 5 percent discounts: R Burton Kshs.140; E Taylor Kshs.220; R Harris Kshs.800.
- “ 4 Paid rent by cheque Kshs.120.
- “ 6 J Cotton lent us Kshs.1,000 paying by cheque.
- “ 8 We paid the following accounts by cheque in each case deducting a 2 ½ percent cash discount: N Black Kshs.360; P Towers Kshs.480; C Rowse Kshs.300.
- “ 10 Paid motor expenses in cash Kshs.44.
- “ 12 H Hankins pays his account of Kshs.77, by cheque Kshs.74, deducting Kshs.3 cash discount.
- “ 15 Paid wages in cash Kshs.160.
- “ 18 The following paid their accounts by cheque, in each case deducting 5 percent cash discount: C Winston Ksh.260; R Wilson & Son Kshs.340; H Winter Kshs.460.
- “ 21 Cash withdrawn from the bank Kshs.350 for business use.
- “ 24 Cash Drawings Kshs.120.
- “ 25 Paid T Briers his account of Kshs.140, by cash Kshs.133, having deducted Kshs.7 cash discount.
- “ 29 Bought fixtures paying by cheque Kshs.650.
- “ 31 Received commission by cheque Kshs.88.

Required: A three column cash book (16 marks)

**QUESTION FOUR**

a) Explain the objectives of accounting (4 marks)

b)Watsame Limited operates a computerized accounting system for its sales and purchases ledgers. The control accounts for the month of September 2009 are in balance and incorporate the following totals:

Kshs.

Sales ledger:

Balances at 1 September 2009:	396,430
Debit	
	190
Credit	
Sales	164,194
Cash received	158,268
Discounts allowed	2,160
Sales returns inwards	490
Credit balances at 30 September 2009	375

Purchases ledger:

Balances at 1 September 2009:	184,740
Credit	
	De 520
bit	
Purchases	98,190
Cash payments	104,040
Discounts received	995
Purchases returns outwards	1,371
Debit balances at 30 September 2009	525

Although the control accounts agree with the underlying ledgers, a number of errors have been found, and there are also several adjustments to be made. These errors and adjustments are detailed below:

1. Four sales invoices totaling Kshs.1,386 have been omitted from the records.
2. A cash refund of Kshs.350 paid to a customer, A Smith, was mistakenly treated as a payment to a supplier, A Smith Limited.

3. A contra settlement offsetting a balance of Kshs.870 due to a supplier against the sales ledger account for the same company is to be made.
4. Bad debts totaling Kshs.1,360 are to be written off.
5. During the month, settlement was reached with a supplier over a disputed account. As a result, the supplier issued a credit note for Kshs.2,000 on 26 September. No entry has yet been made for this.
6. A purchases invoice for Kshs.1,395 was keyed in as Kshs.1,359.
7. A payment of Kshs.2,130 to a supplier, B Jones, was mistakenly entered to the account of R Jones.
8. A debit balance of Kshs.420 existed in the purchases ledger at the end of August 2009. The supplier concerned cannot now be traced and it has been decided to write off this balance.

**Required:**

Prepare the sales ledger and purchases ledger control accounts as they should appear after allowing, where necessary, for the errors and adjustments listed. (16 marks)

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