

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE
OF BACHELOR OF COMMERCE

BCOM 111: PRINCIPLES OF ACCOUNTING (RESIT/ SPECIAL EXAMINATION)

STREAMS: BCOM/BTHM Y3S2)

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 18/11/2020

11.30 A.M. – 1.30 P.M.

INSTRUCTIONS: Answer question ONE and any other TWO

QUESTION ONE

- a) Describe five Principles, Assumptions, and Concepts of Accounting and Their Relationship to Financial Statements (10 Marks)
- b) The following printout of balances was extracted from the computer archives of Messes Enterprises at 31 March 2004.

Capital at 1 April 2003	8000	
Cash drawings	1400	
Freehold buildings at 1 April 2003	5,100	
Motor vehicles at 1 April 2003	1,260	
Stock at 1 April 2003	3,600	
Purchases	25,700	
Sales	38,610	
Debtors	3,960	
Creditors		3670
Wages and salaries	4,140	
Motor vehicle running costs	1,480	
General trade expenses	1,994	

BCOM 111

Rates and insurance	964
Cash at bank and in hand	782
Provision for bad and doubtful debts	100

Additional information

- (1) Stock at 31 March 2004 was Kshs. 4,100
- (2) Provision is to be made for depreciation at the following rates.
Motor vehicles 25% per annum
Freehold building 2% per annum
- (3) The provision for bad and doubtful debts is to be reduced to Kshs 75.

Requirement

Prepare the statement of comprehensive income and financial position (20 Marks)

QUESTION TWO

a) The following balances are extracted from the books of Whatsup Traders, Prepare

Trial Balance as on 30.6.2015:

Owner's Equity Ksh. 470,200	Machinery Ksh. 158,800	Cash in hand Ksh. 6,000
Account receivable Ksh. 48,000	Building Ksh. 320,000	Repair Ksh. 5,400
Stock Ksh. 33,000	Insurance premium Ksh. 3,300	Account payable Ksh. 26,000

BCOM 111

Sales Ksh. 290,000 6,450	Commission Ksh. 750	Telephone charges Ksh.
Rent & Taxes Ksh. 6,300	Furniture Ksh. 11,000	Purchases Ksh. 165,000
Discount earned Ksh. 1,100	Loan from Sidra Ksh. 51,000	Salaries Ksh. 70,600
Reserve fund Ksh. 5,900 8,600	Discount allowed Ksh. 650	Note receivable Ksh.
Drawings Ksh. 5,000 6,000	Bad debts Ksh. 1,350	Bills payable Ksh.

(12 Marks)

- b) Describe four limitations of Ratio Analysis (8 Marks)

QUESTION THREE

- a) Explain three column cash book as a ledger and journal (4 Marks)
- b) Explain the purposes of a petty cash book (4 Marks)
- c) AbubakarAliyu started business Jan. 1, 2008 with Ksh 12,000 cash paid into the bank.

The following transactions were made during the month

- Jan 2 Withdrew Ksh 3,000 cash from the bank for business use
- Jan 5 Cash purchase of goods Ksh 2,500
- Jan 7 Receive cheque from the following debtors less 5% cash discount
- Jan 10 Paid the following creditors cheque and received a 10% cash discount: H EigbeKsh
4,000, Barossa Ksh 2,500
- Jan 15 Cash sales Ksh 6,000
- Jan 20 Paid cash into the bank Ksh 3,000
- Jan 25 Bought fixture & fittings by chequeKsh 4,000
- Jan 27 Paid salaries with chequeKsh 3,600

Record the above transactions in its relevant cash book and balance the account. (12 Marks)

QUESTION FOUR

- a) Explain five objectives of accounting (10 Marks)
- b) The following shows Kamala's income statement for the last two years. The company had assets of Ksh 11,750 million in the first year and Ksh 18,796 million in the second

BCOM 111

year. Common equity was equal to Ksh 6,250 million in the first year, 100% of earnings were paid out as dividends in the first year, and the firm did not issue new stock in the second year.

Kamala's Income Statement for the Year Ending on December 31 (Millions of Kshs)

	Year 2	Year 1
Net Sales	6,350	5,000
-- Operating costs except depreciation and amortization	1,120	1,040
-- Depreciation and amortization	318	200
Total Operating Costs	1,438	1,240
	_____	_____
Operating Income (or EBIT)	4,912	3,760
Less: Interest	663	301
	_____	_____
Earnings before taxes (EBT)	4,249	3,459
Less: Taxes (40%)	1,700	1,384
	_____	_____
Net Income	2,549	2,075

Calculate and interpret the profitability ratios of Diesitech Inc. in the following table.

Convert all calculations to a percentage rounded to two decimal places. (10 Marks)

Ratio	Value in Year 2	Value in Year 1
Operating Margin	?	75.20%
Profit margin	40.14%	?
Return on total assets	?	17.66%
Return on common equity	?	33.20%
Basic earning power	26.13	?

