

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

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

BCOM 111: PRINCIPLES OF ACCOUNTING I

STREAMS: BCOM (ODEL) Y1S1

TIME: 2 HOURS

DAY/DATE: TUESDAY 20/7/2021

11.30 A.M. – 1.30 P.M.

INSTRUCTIONS:

- Answer question ONE and any other TWO questions
- Do not write on the question paper

QUESTION ONE

(a) Briefly explain the following accounting concepts

- | | |
|---------------------------------|-----------|
| (i) Consistency principles | [2 marks] |
| (ii) Going concern assumption | [2 marks] |
| (iii) Historical cost principle | [2 marks] |
| (iv) Periodicity assumption | [2 marks] |

(b) The following trail balance was extracted from the books of Salaam, a sole trader as at 31 October 2020:

| | Sh. | Sh. |
|---|------------------|------------------|
| Capital | | 1,216,260 |
| Drawings | 128,880 | |
| Sales | | 4,904,520 |
| Purchases | 3,726,060 | |
| Debtors and creditors | 476,160 | 327,720 |
| Rent and rates | 52,800 | |
| Salaries and wages | 496,080 | |
| Electricity | 14,760 | |
| Provision for doubtful debts(1 November 2019) | | 19,560 |
| Stock in trade (1 November 2019) | 556,440 | |
| Insurance | 10,320 | |
| General expenses | 55,980 | |
| Bank balance | 90,000 | |
| Cash in hand | 4,920 | |
| Motor vehicles at cost | 580,000 | |
| Provision for depreciation for vehicles (1 November 2019) | | 216,000 |
| Proceeds from sale of motor vehicle | | 115,000 |
| Motor vehicle expenses | 51,660 | |
| Premises (at cost) | 600,000 | |
| Rent received | | 45,000 |
| | <u>6,844,060</u> | <u>6,844,060</u> |

BCOM 111

Additional information:

1. Stock in trade as at 31 October 2020 was valued at sh. 593,040
2. Rates and insurance were prepaid to the extent of sh. 2,400 and sh. 2,820 respectively as at 31 October 2020
3. Electricity due to 31 October 2020 amounted to sh. 6,000
4. The provision for doubtful debt is to be adjusted to 5% of the debtors remaining after taking into account that sh. 20,160 of the debtors were to be regarded as bad.
5. Rent receivables as at 31 October 2020 was sh. 15,000
6. Depreciation has been an dis to be charged on Motor vehicles at the rate of 20% per annum on the straight line basis. No depreciation is to e charged on premises.
7. In November 2019, a motor vehicle which had been purchased for sh. 160,000 on 1 November 2016, was sold for sh. 115,000. The only record of this disposal is the entry in the proceeds from sale of motor vehicle account.

Required:

- (a) Income statement for the year ended 31 October 202 [12 marks]
(b) Statement of financial position as at 31 October 2020 [10 marks]

QUESTION TWO

- (a) Differentiate between recognition and measurement as used in accounting [2 marks]
(b) Makao a trader in Chuka town started business on 1st June 2017. The following transactions related to that month

| Date June 2017 | Particulars/Details |
|------------------|--|
| 1 st | Started business with capital of sh 300,000 in which he deposited sh 200,000 in the bank account and kept the balance in cash. |
| 2 nd | Bought goods on credit from Mwau sh 45,000, Kef ash 45,000 and Onduso sh 43,000 |
| 4 rd | Sold goods for sh 33,000 and on credit to Ondari sh 42,000 |
| 10 th | Bought goods of sh 63,000 and issued a cheque for payment |
| 14 th | Purchased goods for cash 50,000 |
| 17 th | Purchased motor vehicle by cheque sh 94,000 |
| 20 th | Paid wages by cash sh 18,000 and cheque sh 23,000 |
| 25 th | Paid commission, by cheque sh 21,000 |
| 26 th | Received from Ondari a cheque of sh 42,000 |
| 27 th | Paid rent by cheque sh 14,000 |
| 28 th | Withdraw sh 22,000 from the bank for business use |
| 29 th | Sold goods to Muringe sh. 35,000 and received payment in form of cash |

Required:

- Post the above transactions to the relevant ledger accounts and balance them off. [18 marks]

QUESTION THREE

- (a) Explain any five users of accounting information [10 marks]
 (b) The following information has been extracted from the books of Kariuki who operates a shop, for the year ended 31st December 2019

Balance on 1st January 2019:

| | | Ksh |
|---|----------------|------------|
| Balance on 1 st January 2019 | | |
| Sales ledger | Debit balance | 46462 |
| | Credit balance | 245 |
| Purchases ledger | Debit balance | 1472 |
| | Credit balance | 25,465 |

Totals for the year ended 31st December 2019

| | |
|------------------------------------|---------|
| Credit purchases | 76,474 |
| Credit sales | 126,024 |
| Purchases returns/returns outwards | 2,154 |
| Bad debts written off | 1,253 |
| Discounts given to customers | 746 |
| Cash received from customers | 120,464 |
| Discounts received from creditors | 1,942 |
| Cash paid to creditors | 70,476 |
| Sales returns/returns inwards | 923 |

Balances on 31st December 2019

| | |
|----------------------------------|----|
| Sales ledger – Credit balance | 45 |
| Purchases ledger – Debit balance | 62 |

QUESTION FOUR

1. Explain the need for maintaining subsidiary books [4 marks]
2. Briefly explain whether revenue may be recognized in the following circumstances in respect of sales made by a company:
 - (a) A customer places a firm order for goods [2 marks]
 - (b) Goods are delivered to the customer s premises [2 marks]
 - (c) The customer s cheque in payment for the goods has been cleared by the bank [2 marks]
3. Discuss any five types of errors that do not affect the trial balance [10 marks]