

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

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

BCOM 111: PRINCIPLES OF ACCOUNTING 1**STREAMS: BCOM Y1S1****TIME: 2 HOURS****DAY/DATE: WEDNESDAY 31/3/2021****2.30 PM – 4.30 PM****INSTRUCTIONS:**

- Answer Question One (Compulsory) and any other Two questions
- Do not write on the question paper

QUESTION ONE

a) The following balances are taken from the books of Anderson Enterprises at the end of his first year of trading on 31 December 2014.

	Debit Kshs	Credit Kshs
Sales		40000
Purchases	18500	
Wages and salaries	5100	
Repairs and Maintenance	1300	
Heating and lighting	900	
General expenses	1200	
Insurance	800	
Cash at bank	2200	
Cash in hand	1300	
Trade receivables	4100	
Trade payables		3400
Premises	30000	
Fixtures and fittings	10000	
Motor Vehicle	8000	
Capital as at 1 January 2014		52000
Drawings	12000	
	<u>95400</u>	<u>95400</u>

The following additional information is available:

- i) Inventory at 31 December 2014 was valued at Kshs 4500.
- ii) Make a provision for bad debts at the rate of 5%
- iii) Included in drawings is goods worth Kshs.4000 taken for personal use.
- iv) Depreciate long term assets at the rate of 10% on cost.
- v) Prepaid insurance amounted to Kshs.200.

Required:

- (i) Prepare income statement for the year ended 31 December 2014. [10 Marks]
- (ii) Prepare a balance sheet as at 31 December 2014. [10 Marks]
- b) Describe five principles of accounting and state their relevance in financial statement preparation. [10 Marks]

QUESTION TWO

- a) On 31 December 2013, the trial balance of Kaberia Ltd did not agree with the debits totaling Kshs.1,860 more than the credits. The following errors were found:
 - i) Discount received of Kshs.80 had been debited to the discount allowed account.
 - ii) Motor repairs of Kshs. 150 had been debited to the motor car account.
 - iii) A bad debt of Khs 309 had been entered into the customer’s account but not the bad debt account.
 - iv) Kshs 78 paid for a telephone bill had been entered in the telephone account as Kshs.87.
 - v) Cash sales of Kshs 2,000 had not been entered into the sales account.
 - vi) An invoice of Kshs. 1,750 to Scotts Garage had been posted into the accounts twice.

Prepare a suspense account to correct the errors (no journal entries required). [8 Marks]

b) The following balances wee extracted from the books of Gitatu trader as at 31.12.2010

Debit balance in debtors account 01/01/10	66,309.00
Credit balance in creditors account 01/01/10	50,601.00
Sunday credit balance on debtors ledger	721.00
Goods purchased on credit	257,870.00
Goods sold on credit	323, 714.00
Cash received from debtors	299,269.00
Cash paid to suppliers	210,422.00
Discount received	2, 663.00
Discount allowed	2,930.00

Cash purchases	3,627.00
Cash sales	5,922.00
Bad debts written off	3,651.00
Interest on overdue account of customers	279.00
Returns inwards	2,926.00
Accounts settled by contra between debtors and creditors ledgers	1,006.00
Credit balances in debtors ledgers 31/12/10	815.00
Debit balances in creditors ledger 31/12/10	688.00

Required: Sales and purchases ledger control account

[12 Marks]

QUESTION THREE

a) The following particulars relate to Raju Trading Co. for the month of October, 2016.

1. Cash in hand Kshs.200; Balance overdrawn at Bank Kshs.400.
2. Cash sales Kshs.1,500; Banked cash Kshs.1,200.
7. Paid Habib & co. by check Kshs.150
10. Received Abdul’s check Kshs.850 and deposited into bank.
14. Paid salaries in cash Kshs.250; bought goods for cash Kshs.140.
16. Drew from Bank for office use Kshs.160
21. Cash sales Kshs.21; paid wages in cash Kshs.120.
23. Received by check from Aftab Ahmed Kshs.360; Discount kshs.10.
24. Abdul’s check returned by bank unpaid.
27. Sent a check to Jones for Kshs.175; Discount received Kshs.5.
30. Deposited Aftab’s check.

Required: Two column cash book

[12 Marks]

b) Business X and Business Y are both engaged in retailing, but seem to take a different approach to this trade according to information available. This information consists of ratios, as shown in the table below:

	Business X	Business Y
Current Ratio	2.1:1	1.6:1
Quick Ratio	1.7:1	0.7:1
Debtors’ Turnover (days)	62 days	20 days

Creditors’ Turnover (days)	49 days	44 days
Gross Profit Margin	40 %	15%
Net Profit Margin	10 %	10 %
Stock Turnover (days)	51 days	24 days

REQUIRED: Describe what this information indicates about the differences in approach between the two businesses. If one prides itself on personal services to its clients and one of them on competitive prices, which do you think is which and why? [4 Marks]

c) State and explain two purposes of a trial balance [4 Marks]

QUESTION FOUR

a) The financial information provided below is for two companies which operate in similar retail fields, using the same business and accounting policies.

Balance Sheets as at 30 June 2015

	Bustani Ltd. Shs, '000'	Amani Ltd. shs.'000'
Share Capital & Reserves		
Issued Capital	350,000	470,000
Capital Reserves	65,000	35,000
Revenue Reserves	185,000	287,000
Non-Current Liabilities		
10% Debentures	55,000	64,000
Current Liabilities		
Bank overdraft	21,000	20,000
Trade Creditors	97,000	132,000
Other Current Liabilities & Provisions	42,000	48,000
Total Owners Equity & Liabilities	815,000	1,056,000
Non Current Assets at Book Values		
Land and Buildings	286,000	381,000
Plant and Equipment	218,000	342,000
Motor Vehicles	59,000	62,000
Current Assets		
Stock	122,000	381,000
Trade Debtors	124,000	166,000
Cash	6,000	8,000
Total Assets	815,000	1,056,000

Profit or Loss Accounts for the Year Ended 30th June 2015

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	Bustani Ltd. Shs. '000'	Amani Ltd. Shs. '000'
Sales	747,000	570,000
Cost of Sales		
Opening Stock	102,000	92,000
Purchases	588,000	381,000
Closing Stock	(122,000)	(96,000)
Cost of Sales	568,000	377,000
Gross Profit	179,000	193,000
Selling and Distribution	64,000	60,000
Administration & Management	31,000	29,000
Finance Costs	9,000	8,000
Total Expenses	104,000	97,000
Profit for the Period	75,000	96,000
Taxation	22,500	28,800
Profit After Tax	52,500	67,200
Dividend Proposed	24,000	37,000
Transfer to Revenue Reserve	28,500	30,200

REQUIRED:

(a) (i) Calculate for each company, six ratios which you consider most appropriate for indicating the efficiency of operations and short term financial strength of the two firms.[12 Marks]

(ii) Interpret the results and point out weaknesses, if any, in the computations above.[8 Marks]

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