

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EMBU CAMPUS

EXAMINATION FOR THE AWARD OF DEGREE OF COMMERCE

BCOM 111: PRINCIPLES OF ACCOUNTING I

STREAMS: BCOM (Y1S1)

TIME: 2 HOURS

DAY/DATE: TUESDAY 09/04/2024

11.30 A.M. – 1.30 P.M.

INSTRUCTIONS

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

QUESTION ONE

- a) The following trial balance has been extracted from the ledger of Howell, a sole trader, as at 31 May 2023, the end of his most recent financial year.

**HOWELL
TRIAL BALANCE AS AT 31 MAY 2023**

	Dr. Sh.	Cr. Sh.
Property at cost	90,000	
Equipment at cost	57,500	
Provision for depreciation (as at 1 June 2022)		
Property		12,500
Equipment		32,500
Stock as at 1 June 2022	27,400	
Purchases	259,600	
Sales		405,000
Discounts allowed	3,370	
Discounts received		4,420
Wages and salaries	52,360	
Bad debts	1,720	
Loan interest	1,560	
Carriage out	5,310	
Other operating expenses	38,800	

Trade debtors	46,200	
Trade creditors		33,600
Provision for bad debts		280
Cash on hand	151	
Bank overdraft		14,500
Drawings	28,930	
13% loan		12,000
Capital, as at 1 June 2022		98 101
	<u>612,901</u>	<u>612,901</u>

The following additional information as at 31 May 2023 is available:

- (i) Stock as at the close of business was valued at Sh.25,900.
- (ii) Depreciation for the year ended 31 May 2023 has yet to be provided as follows:
 - Property -1% using the straight-line method
 - Equipment- 15% using the straight-line method
- (iii) Wages and salaries are accrued by Sh.140.
- (iv) Other operating expenses include certain expenses prepaid by Sh.500. Other expenses included under this heading are accrued by Sh.200.
- (v) The provision for bad debts is to be adjusted so that it is 0.5% of trade debtors as at 31 May 2023.
- (vi) Purchases include goods valued at Sh.1 ,040, which were withdrawn by Mr Howell for his own personal use.

Required:

Prepare Mr. Howell's Income statement for the year ended 31 May 2023 and his statement of financial position as at 31 May 2023. (20 marks)

b. Explain the users of accounting information under the following headings and disclose their specific needs:

- (i) Two internal users (4 marks)
- (ii) Three external users (6 marks)

QUESTION TWO

a. Explain the following accounting concepts:

- (i) The Going concern concept (2 marks)

- (ii) Business entity concept (2 marks)
 (iii) Materiality (2 marks)
 (iv) Realization (2 marks)

b. The following information was extracted from the books of Somy during the month of June 2023:

June 1	Started business with Sh.50,000 in the bank.
„ 2	Bought motor van paying by cheque Sh. 12,000.
„5	Bought Fixtures Sh.4,000 on credit from Office Masters Ltd.
„ 8	Bought a van on credit from Motor Cars Ltd Sh.8,000.
„12	Took Sh.1,000 out of the bank and put it into the cash till.
„15	Bought Fixtures paying by cash Sh.600.
„19	Paid Motor Cars Ltd by cheque Sh.8000.
„21	A loan of Sh.10,000 cash is received from J Marcus.
„25	Paid Sh.8,000 of the cash in hand into the bank account.
„30	Bought more Fixtures paying by cheque Sh.3,000.

Required:

Post the above transactions to the relevant ledger accounts and balance off the accounts.

(12 marks)

QUESTION THREE

- a) State four purposes of ratio analysis
 b) The following information was extracted from the financial statements of Sunrise Ltd. and Sunset Ltd. in respect of the year ended 30 September 2023:

Income statement extracts for the year ended 30 September 2023:

	Sunrise Ltd.	Sunset Ltd.
	Shs. '000'	Shs. '000'
Sales	497,000	371,000
Cost of sales	258,000	153,000
Operating profit	138,000	79,000
Interest expense	19,000	-

Statement of financial position extracts as at 30 September 2023:

	Sunrise Ltd.	Sunset Ltd.
	Shs. '000'	Shs. '000'
Non-current assets	142,000	92,000
Current assets:		
Inventory	100,000	87,000
Debtors	46,000	42,000
Cash at bank	40,000	44,000
Current liabilities	98,000	108,000
Long-term loan	33,000	
Shareholders' funds	197,000	157,000

Required:

For each company, compute the following ratios:

- (i) Acid test ratio (2 marks)
- (ii) Inventory turnover (2 marks)
- (iii) Average collection period (2 marks)
- (iv) Return on capital employed (2 marks)
- (v) Debt equity ratio (2 marks)
- c) On the basis of the ratios computed in (b) above, comment on the overall performance of Sunrise Ltd. and Sunset Ltd. and advise which of the two companies would provide better investment. (3 marks)
- d) Explain the possible shortcomings of relying on your analysis in (b) above. (3 marks)

QUESTION FOUR

- a) Explain any five branches of accounting. (10 marks)
- b) Melgon Ltd maintains control accounts in its business records. The balances and transactions relating to the company's control accounts for the month of December 2023 are listed below:

Balance at 1 December 2023:

Sales ledger	6,185,000	(debit)
	52,500	(credit)
Purchases ledger	16,500	(debit)
	4,285,000	(credit)

Transactions during the month December 2023:

Sales on credit	8,452,000	
Purchases on credit	5,687,500	
Returns inwards	203,500	
Returns outwards	284,000	
Cheques received from customers	7,985,000	
Cheques paid to suppliers	4,732,000	
Cash paid to suppliers	88,500	
Cash received from credit customers	153,000	
Bad debts written off	64,500	
Cash discounts allowed	302,000	
Balances at 31 December 2023:		
Sales ledger	44,000	(credit)
Purchases ledger	23,500	(debit)

Required:

Prepare sales ledger and the purchases ledger control accounts for the month of December 2023 and derive the respective debit and credit closing balances on 31 December 2023.

(10 marks)

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