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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2019/2020 ACADEMIC YEAR ONE**

**SECOND SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 112**

**COURSE TITLE: PRINCIPLES OF ACCOUNTING 1**

**EXAMINATION DURATION: 2 HOURS**

**DATE: 11/12/2020 TIME: 3.00-5.00 PM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) questions from the remaining FOUR (4) questions**
* **Use sketch diagrams to illustrate your answer whenever necessary**
* **Do not carry mobile phones or any other written materials in examination room**
* **Do not write on this paper**

**This paper consists of SIX (6) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. A trial balance may balance even when there are errors. Briefly describe five errors that may cause a trial balance not to balance. **[5 marks]**
2. Outline the reasons for preparing bank reconciliation statement **[5 marks]**
3. The following trial balance was extracted from the books of Ngamia Ltd as at 31st December 2019.

**Maina Ltd**

**Trial Balance**

**As at 31st Dec 2019**

Dr. Cr

|  |  |  |
| --- | --- | --- |
|  | Shs. | Shs. |
| Capital |  | 225,000 |
| Inventory (1.1.2019) | 17,500 |  |
| Plant and machinery (cost) | 250,000 |  |
| Provision for depreciation |  | 60,000 |
| Motor vehicles (cost) | 300,000 |  |
| Provision for depreciation |  | 115,000 |
| Purchases | 240,000 |  |
| Sales |  | 360,000 |
| Returns | 22,500 | 15,000 |
| Salaries and wages | 60,000 |  |
| Discounts | 5,500 | 9,000 |
| Carriage inwards | 7,000 |  |
| Loan |  | 150,000 |
| Carriage outwards | 3,000 |  |
| Postage and telephone | 6,250 |  |
| Water and electricity | 4,750 |  |
| Bad debts written off | 5,250 |  |
| Provision for doubtful debts |  | 1,500 |
| General expenses | 8,000 |  |
| Rent and rates | 9,000 |  |
| Debtors | 30,000 |  |
| Creditors |  | 60,000 |
| Bank |  | 15,750 |
| Cash | 42,500 |  |
|  | **1,011,250** | **1,011,250** |

**Additional information**

1. Inventory as at 31st Dec 2019 was valued at shs. 26,000.
2. Depreciation is to be charged on reducing balance at the rate of 10% for plant and machinery and 20% for motor vehicles.
3. Rent owing as at 31st Dec 2019 was shs. 3,000 while prepaid rates was shs. 1,000 as at the same date.
4. Outstanding electricity expense was shs. 750.
5. Provision for doubtful debts is to be increased by shs. 1,000

**Required**

1. Statement of comprehensive Income for the year ended 31st Dec 2019 **[12 marks]**
2. Statement of Financial Position as at that date. **[8 marks]**

**QUESTION TWO**

1. Describe any three types of discounts **[5 marks]**
2. The following details were obtained from the books of Faida Ltd.

**2015**

May 1: Balance b/d: Cash shs. 45,000

: Bank shs. 590,000

May 2: The following customers paid their accounts by cheque in each case deducting 21/2% cash discount: Betty shs. 20,000; Hussein shs. 75,000 and Caroline shs. 30,000.

May 4: The business paid rent as follows; shs. 12,000 by cheque and shs. 38,000 by cash.

May 6: Francis lent the business shs. 150,000 by cheque.

May 8: The business paid the following accounts by cheque in each case deducting 5% cash discount: Terry shs. 30,000; Valence shs. 52,000 and Rosy shs. 45,000.

May 10: Paid motor expenses in cash shs. 12,000.

May 12: Ben (debtor) paid shs, 11,200 by cash being full settlement of his account which had a balance of shs.12,000 as at that date.

May 15: The business paid salaries by cash shs. 24,000

May 18: The following debtors paid their accounts by cheque in each case deducting 5% cash discount: Wendy shs. 25,000; Peris shs. 40,000; and Peter shs. 15,000.

May 21: Cash withdrawn from the bank for business use shs. 80,000

May 24: Cash drawings shs. 10,000.

May 25: The business paid John his account of shs.12, 000 less shs.500 cash discount.

May 29: The business bought furniture worth shs. 75,000 and paid by cheque.

May 30: The business received shs.13,000 commission by cheque.

**Required**

1. Draw up a three column cash book, balance it off and **[13 marks]**
2. Post the relevant discount accounts to the general ledger  **[2 marks]**

**QUESTION THREE**

1. Describe advantages of preparing control accounts **[4 marks]**
2. While extracting the trial balance of Halima stores, it was observed that the total debits exceeded the total credits by shs 119,000 investigations revealed the following errors.
3. Sales had been overcast by shs. 7,500
4. Returns outwards A/c had not been credited with amount of shs. 30,660.
5. A payment by a debtor of shs. 75,000 by a direct bank transfer had not been entered in the debtors account.
6. A cash purchase of shs. 1,160 had been recorded in the cash book only.
7. Shs. 11,000 received from a debtor had been debited to his account

**Required:**

1. The necessary journal entries to correct the above errors **[9 marks]**
2. Suspense Account duly balanced after correcting the errors **[7 marks]**

**QUESTION FOUR**

1. Accounting information is prepared for consumption of various stakeholders. Briefly describe any five users of accounting information in each case specifying their information needs.  **[7 marks]**
2. Raha Ltd sells goods on credit. The following balances were extracted from its ledger accounts as at 31st Dec 2015 Shs.

|  |  |
| --- | --- |
| Sales | 3,625,000 |
| Creditors | 255,000 |
| Debtors | 475,000 |
| Purchases | 2,090,000 |
| Discount allowed | 47,500 |
| Cash received from debtors | 3,415,000 |
| Discount received | 36,000 |
| Cash paid to creditors | 1,975,000 |
| Returns inwards | 185,000 |
| Provision for doubtful debts as at 1.1.2015 | 26,500 |
| Selling and distribution expenses | 67,500 |
| Returns outwards | 42,500 |
| Payments to suppliers by cheque | 75,000 |
| Receipts from customers by cheque | 85,000 |

Additional information

1. A cheque for shs.7,900 from Judy, a customer was returned marked “effects not cleared”
2. Bad debts amounting to shs.42,500 are to be written off and a provision for doubtful debts is to be raised to 10% of the debtors balance as at 31st Dec 2015.
3. As at 31st Dec 2015 a cheque of shs.5,500 had been received from Hassan. This customer had owed the business shs.17,500, and this amount had been earlier written off. No record has been made in the books regarding the shs.5,500 received.

**Required**

1. Debtors ledger control account **[4 marks]**
2. Purchases ledger control account  **[4 marks]**
3. Bad debts account  **[2 marks]**
4. Provision for doubtful debts **[3 marks]**

**QUESTION FIVE**

1. Describe any five source documents, in each case outlining the purpose of the document

**[5 marks]**

1. Mary operates a beauty shop in Garissa town. Her accounts clerk maintains the business records. During the month of September 2015 she obtained the following bank statement from her bank.

Debits Credits Balance

|  |  |  |  |
| --- | --- | --- | --- |
| Balance |  |  | 168,000. Cr |
| Deposits |  | 232,800 | 400,800. Cr |
| Deposits |  | 34,900 | 435,700. Cr |
| Cheque No. 016 | 144,000 |  | 291,700. Cr |
| Cheque No. 017 | 27,200 |  | 264,500. Cr |
| Deposits |  | 50,000 | 314,500. Cr |
| Cheque No. 019 | 68,000 |  | 246,500. Cr |
| Bank charges | 1,000 |  | 245,500. Cr |
| Cheque No. 021 | 56,800 |  | 188,700. Cr |
| Unpaid cheque | 85,000 |  | 103,700. Cr |
| Deposits |  | 72,000 | 175,700. Cr |
| Cheque No. 018 | 97,000 |  | 78,700. Cr |
| Standing order- insurance | 100,000 |  | 21,300. Dr |

Her cash book (bank column only) had the following entries on 30th September 2015. Cash book ( bank column only)

|  |  |
| --- | --- |
| Shs. | Shs. |
| Balance b/f 168,000 | Cheque No. 016 144,000 |
| Deposits 232,800 | Cheque No. 017 27,200 |
| Deposits 34,900 | Cheque No. 018 97,000 |
| Deposits 72,000 | Cheque No. 019 68,000 |
| Deposits 85,700 | Cheque No. 020 52,200 |
|  | Cheque No. 021 56,800 |
|  | Cheque No. 022 63,600 |
|  | Balance c/d 84,600 |
| **593,4000** | **593,400** |

Mary hires you to explain to her the difference in amounts shown by the bank statement and the cash book. You are informed that no errors have been made in either the cash book or the bank statement.

**Required:**

1. Adjusted cash book **[9 marks]**
2. Bank reconciliation statement  **[6 marks]**

**QUESTION SIX**

1. aFor accounting information to be useful for decision making, it should possess certain characteristics. Briefly describe any such five characteristics of good accounting information. **[10 marks]**
2. b) Briefly explain any five generally accepted accounting principles and in each case give the limitation of the principle/concept **[10 marks]**