



## GARISSA UNIVERSITY

UNIVERSITY EXAMINATION 2017/2018 ACADEMIC YEAR **one**  
**SECOND** SEMESTER EXAMINATION

SCHOOL OF BUSINESS AND ECONOMIC

FOR THE DEGREE OF BACHELOR OF F BUSINESS MANANEGEMT

COURSE CODE: BBM 112

COURSE TITLE: PRINCIPLES OF ACCOUNTING1

EXAMINATION DURATION: 3 HOURS

**DATE: 09/04/18**

**TIME: 9.00-5.00 PM**

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### INSTRUCTION TO CANDIDATES

- The examination has FIVE (5) questions
- Question ONE (1) is COMPULSORY
- Choose any other THREE (3) 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 SEVEN (7) printed pages

*please turn over*



**QUESTION ONE**

- a) Name any two methods of calculating depreciation on non-current assets. **[2 marks]**
- b) Describe any three types of discounts **[3 marks]**
- c) For accounting information to be useful for decision making, it should possess certain characteristics. Briefly describe any such five characteristics of good accounting information. **[5 marks]**
- d) Dadaab Traders does not keep proper books of account. You ascertain that his bank payments and receipts during the year to 31 December 2017 were as follows:

<b>Receipts.</b>	<b>Shs.</b>	<b>Payments.</b>	<b>Shs.</b>
Balance 1 Jan 2017	572,000	Purchases	10,007,000
Cheques for sales	13,179,000	Drawings	11,250,000
Cash banked	14,005,000	Expenses	2,950,000
Balance 31 Dec 2017	3,751,000	Delivery van	7,300,000
	31,507,000		31,507,000

From the cash note book you ascertain the following

	Shs.
Cash in hand 1 <sup>st</sup> Jan 2017	62,000
Cash received from customers	16,300,000
Purchases paid in cash	1,850,000
Expenses paid in cash	375,000
Cash in hand 31 <sup>st</sup> Dec 2017	65,000
Drawings by proprietor in cash	unknown

You discover that assets and liabilities were as follows

	1 <sup>st</sup> Jan 2017	31 <sup>st</sup> Dec 2017
	Shs.	Shs.
Debtors	1,850,000	2,070,000
Trade creditors	1,250,000	1,450,000
Inventory	2,650,000	2,990,000

Depreciation on the van is to be provided at 20%

**Required:**

- a) Statement of comprehensive income for the year ended 31<sup>st</sup> December 2017 **[8 marks]**
- b) Statement of financial position as at 31<sup>st</sup> December 2017 **[7 marks]**



## QUESTION TWO

You are provided with the following information of Halima Saadiya for the Month of March 2017.

March 1 started his business with Capital in Cash of Kshs. 700,000 and Kshs. 2,100,000 in the bank.

“ 2 Bought goods on credit from the following persons: J ward Kshs. 610,000; P Green Kshs. 214,000; M Taylor Kshs. 174,000; S Gemmill Kshs. 345,000; P Tone Kshs. 542,000.

“ 4 Sold goods on credit to: J Sharpe Kshs. 340,000; G Boycott Kshs. 720,000; F Titmus Kshs.1,152,000

“ 6 Paid rent by cash Kshs. 180,000.

“ 9 J Sharpe paid us his account by cheque Kshs. 340,000.

“ 10 F Titmus paid us Kshs. 1,000,000 by cheque.

“ 12 We paid the following by cheque: J Role Kshs.25, 000; R Kelley Kshs.54, 000.

“ 15 Paid carriage by cash Ksh. 23,000.

“ 18 Bought goods on credit from P Combs Kshs. 43,000; Mobile Kshs. 110,000.

“ 21 Sold goods on credit to B Long Kshs. 67,000.

“ 31 Paid rent by cheque Kshs.18, 000.

### Required:

Enter the above transactions in the ledger accounts and balance off the accounts.

[15 marks]

## QUESTION THREE

a) Outline four causes of difference between the cash book balance and bank statement balance.

[4 marks]

b) Kassim a sole trader received his bank statement for the month of June, 2017. At that date the bank balance was sh.706,500 whereas his cashbook was sh.2,366,500. His accountant investigated the matter and discovered the following discrepancies.

- Bank charges of sh.3000 had not been entered in the cashbook
- Cheques drawn by J.Morgan totaling sh.22,500 had not yet been presented to the bank.
- He had not entered receipts of sh.26,500 in his cashbook.
- The bank had not credited J.Morgan with receipts of sh.98,500 paid into the bank on 30 June 2017.



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- Standing order payments amounting to sh.62000 had not yet been entered into nthe cash book.
- In the cashbook, J.Morgan had entered a payment of sh.74,900 as sh.79,400
- A cheque of sh.15,000 from a debtor had been returned by the bank marked, ‘refer to the drawer ‘but had not been written back into the cashbook.
- J.Morgan had brought forward the opening cash balance of 329,250 as debit balance instead of credit balance.
- An old cheque payment amounting to sh.44,000 had been written back in the cash book but the bank had already honoured it.
- Some of J.Morgan’s customers had agreed to settle their debts by paying directly into his bank account. Unfortunately, the bank had credited some deposits, amounting to sh.832,500 to another customers’ account. However accounting information from his customers, J. Morgan had actually entered the expected receipts from the debtors in his cash book.

**Required:**

- i. A statement showing J. Morgan’s adjusted cash book balance as at 30 June 2017. **[6 marks]**
- ii. A bank reconciliation statement as at 30 June 2017. **[5 marks]**

**QUESTION FOUR**

a) Accounting information is prepared for consumption of various stakeholders. Briefly describe any four users of accounting information in each case specifying their information needs.

**[4 marks]**

b) Faida Ltd sells goods on credit. The following balances were extracted from its ledger accounts as at 31<sup>st</sup> Dec 2017

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 1.1.2017	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

- i. A cheque for shs.7,900 from Judy, a customer was returned marked “effects not cleared”
- ii. 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 31<sup>st</sup> Dec 2017.
- iii. As at 31<sup>st</sup> Dec 2017 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

- i. Debtors ledger control account **[4 marks]**
- ii. Purchases ledger control account **[4 marks]**
- iii. Bad debts account **[1 mark]**
- iv. Provision for doubtful debts **[2 marks]**



**QUESTION FIVE**

The following trial balance was extracted from the books of T Traders Ltd.as at 31<sup>st</sup> December 2017.

**T Traders**  
**Trial Balance**  
**As at 31<sup>st</sup> Dec 2017**

	Dr.	Cr
	Shs.	Shs.
Capital		450,000
Inventory (1.1.2017)	35,000	
Plant and machinery (cost)	500,000	
Provision for depreciation		120,000
Motor vehicles (cost)	600,000	
Provision for depreciation		230,000
Purchases	480,000	
Sales		720,000
Returns	45,000	30,000
Salaries and wages	120,000	
Discounts	11,000	18,000
Carriage inwards	14,000	
Loan		300,000
Carriage outwards	6,000	
Postage and telephone	12,500	
Water and electricity	9,500	
Bad debts written off	10,500	
Provision for doubtful debts		3,000
General expenses	16,000	
Rent and rates	18,000	
Debtors	60,000	
Creditors		120,000
Bank		31,500
Cash	85,000	
	<b>2,022,500</b>	<b>2,022,500</b>

**Additional information**

- i. Inventory as at 31<sup>st</sup> Dec 2017 was valued at shs. 52,000.
- ii. Depreciation is to be charged on reducing balance at the rate of 10% for plant and machinery and 20% for motor vehicles.



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- iii. Rent owing as at 31<sup>st</sup> Dec 2017 was shs. 6,000 while prepaid rates was shs. 2,000 as at the same date.
- iv. Outstanding electricity expense was shs. 1,500.
- v. Provision for doubtful debts is to be increased by shs. 2,000

**Required**

- i) Income statement for the year ended 31<sup>st</sup> Dec 2017 **[9 marks]**
- ii) Statement of financial position as at that date. **[6 marks]**

**QUESTION SIX**

- a) 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]**
- b) Describe any four source documents, in each case outlining the purpose of the document **[5 marks]**
- c) Define Bank Reconciliation statement and discuss its main advantages **[5 marks]**

