



**STRATHMORE INSTITUTE  
DIPLOMA IN BUSINESS MANAGEMENT  
END OF SEMESTER EXAMINATION  
UNIT CODE: DBM 1103 & DE 1302  
PRINCIPLES OF ACCOUNTING & FUNDAMENTALS OF ACCOUNTING**

DATE: 18<sup>th</sup> August, 2023

Time: 2 Hours

**Instructions**

1. This examination consists of **FIVE** questions.
2. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.
3. Do not write on the question paper.

**Question One (compulsory)**

- a) Explain the following accounting concepts:
  - i.* Going concern. ( 2 marks)
  - ii.* Prudence concept ( 2 Marks)
  - iii.* Accrual concept ( 2 Marks)
- b) State and briefly explain any **four** types of errors which cannot be disclosed by the trial balance. ( 4 Marks)
- c) The following balances were extracted from the books of Mr. Kipruto a sole proprietor on 31<sup>st</sup> December 2022:

	DR. KSH 000	CR. KHS.000
Inventory 1st January 2020	50,000	
Premises	240,000	
Bills Receivable	30,000	
Purchases \$ sales	280,000	520,000
Salaries and wages	35,000	
Fixtures and Fittings	25,000	
Discount allowed \$ Received	7,500	4,500
Plant and machinery	140,000	
Rates	5,600	
Advertising	10,400	
Insurance	3,800	
General expenses	7,200	
Provision for doubtful debts		1,800
Debtors and creditors	60,000	43,000
Bills Payable		15,000
Cash	2,400	
Bank overdraft		18,600
Drawings	6,000	
Capital		<u>300,000</u>
	<u>902,900</u>	<u>902,900</u>

**Additional Information:**

- 1) Inventory on 31<sup>st</sup>December 2022 was valued at sh. 40,000,000.
- 2) Rates accrued amounted to sh. 400,000
- 3) Prepaid insurance amounted to sh. 500,000
- 4) The provision for doubtful debts should be 4% of the debtors
- 5) During the year Mr. Kipruto took goods worth shs. 2,000,000 for his personal use.
- 6) The depreciation policy is on straight-line basis as follows:

<b>Asset</b>	<b>Rate per annum</b>
Plant and machinery	10%
Fixtures and fittings	15%

**Required:**

- i. Income statement for the year ended 31<sup>st</sup>December 2022 ( 10 Marks)
- ii. Statement of financial position as at 31<sup>st</sup>December 2022 ( 10 Marks)

**Total 30 marks**

**Question Two**

- a) Explain any four reasons cashbook ( bank Column) balance normally differs with the bank statement balance ( 6 Marks)
- b) The trial balance of a sole trader who had employed an intern accountant failed to agree and credit side exceeded the debit side by sh. 2,100,000. After a thorough scrutiny the following errors were discovered:
  1. Sales were under-cast by sh. 10,000,000
  2. Discount allowed was over-cast by sh 100,000
  3. Returns inwards (Sales returns) credited to returns outwards (Purchases returns) account was shs 100,000.
  4. Purchases were under-cast by shs 5,000,000
  5. Accounts payable were overcast by shs. 7,000,000
  6. Bank charges omitted from the books amounted to sh 500,000

**Required: Prepare**

- (i) Journal entries to rectify the errors above ( 7 Marks)
- (ii) A suspense account duly (Fully) balanced ( 2 Marks)

**Total 15 Marks**

**Question Three**

- a) Distinguish between provision for doubtful debts and bad debts. (2 marks)
- b) Explain using an example the meaning of the term contra entry as used in the preparation of the cashbook ( 3 Marks)

- c) Mr. Andrew's balances his cashbook at the end of every month and compares it with his bank statement for reconciliation. On 30<sup>th</sup> June 2023, the balances did not agree. The cash book bank column showed an overdraft of sh. 1,496,000. The debit balance of the bank statement as at 30<sup>th</sup> June 2023 was sh. 3,061,600.

**After inspecting his books he discovered the following issues:**

- 1) Cheques totalling to sh. 784,000 had been entered in the cash book but they had not been presented to the bank as at 30<sup>th</sup> June 2023.
- 2) Payment for goods worth sh. 30,240 from debtors through electronic funds transfer had not been entered in the cashbook.
- 3) A standing order for a credit purchase of a motor vehicle of sh. 71,200 was processed through the bank on 27<sup>th</sup> June 2023 but had not been entered in the cash book.
- 4) Bank charges of sh. 12,000 were included in the bank statement but had not been recorded in the cash book.
- 5) A cheque payment to supplier for sh. 200,320 was incorrectly entered in the cashbook as a receipt.
- 6) A cheque for sh. 16,000 received from a debtor and deposited with the bank was returned stamped 'account closed.'
- 7) Cheques received and entered in the cash book but not yet credited in the bank amounted to sh. 1,880,000.

**Required: Prepare**

- i. An updated/ adjusted cash book as at 30<sup>th</sup> June 2023. **( 7 Marks)**
- ii. Bank reconciliation Statement as at 30<sup>th</sup> June 2023. **( 3 marks)**

***Total 15 Marks***

**Question Four**

- a) Explain the accounting treatment of prepaid and accrued expenses **( 3 Marks)**
- b) Naomi started business on 1<sup>st</sup> March 2023 with by contributing her capital by cheque of kshs 300,000. The following transactions took place during the month of March 2023

**March Transactions**

- |    |                                                     |
|----|-----------------------------------------------------|
| 1  | Withdrew from bank Kshs 80,000 for office use       |
| 2  | Purchased equipment worth kshs 120,000 by cheque    |
| 7  | Purchased goods worth kshs 6,000 and paid by cheque |
| 12 | paid wages kshs 12,500 by cheque                    |
| 15 | Made cash sales of kshs 40,000                      |
| 16 | Credit sales to Wamba amounted to kshs 22,000       |

- 18 Credit purchases from Mashi traders of kshs 40,000  
22 Sold goods worth kshs 32,000 by cheque  
26 Wamba paid kshs 20,000 to settle his account in full in cash  
28 paid general expenses Kshs 35,000 in cash  
31 The proprietor took kshs 21,000 from cash till for personal use

**Required:** Record the above transactions in the relevant ledger accounts balancing them and prepare a trial balance as at 31<sup>st</sup> March 2023. **(12 Marks)**

*Total 15 Marks*

**Question Five**

- (a) Clearly highlight any five users of the accounting information and the nature the information they require. **( 5 Marks)**
- (b) Explain the duality concept as used in accounting **( 3 Marks)**
- (c) Define the term depreciation giving two causes of depreciation . **( 3 Marks)**
- (d) Differentiate between an asset and a liability giving practical examples where possible **( 2 Marks)**
- (e) Differentiate between discount received and discount allowed and their treatment in a three column cashbook **( 2 Marks)**

*Total 15 Marks*