



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

DATE: 18th May 2021

A. Ombati

TIME: 2 Hours

Instructions

1. Attempt question one plus any other two questions
2. State all the assumptions made
3. Marks allocated to each question are shown at the end of each question

QUESTION ONE: (Compulsory)

- a) Outline four causes of the differences between the bank statement balance and cash book (Bank column) balance. **(4 Marks)**
- b) State and explain any four errors which will be reflected by the trial balance. **(4 Marks)**
- c) Identify any four users of the accounting information and the nature of their information requirements. **(2 Marks)**
- d) The following trial balance was extracted from the books of Lexon sole trader on 31st March 2020:

	Debit	Credit
	Ksh'000'	Ksh'000'
Capital		170,000
Inventory (1st April 2019)	18,000	
Purchases and sales	220,000	406,000
Returns inwards and outwards	7,000	6,000
Accounts receivables and payables	24,000	18,000
Administrative expenses	42,600	
Sales and distribution expenses	64,400	
10% ,5 Years bank loan		40,000
Rent received		1,100
Interest on debentures	2,000	
Freehold property at cost	120,000	
Equipment at cost	60,000	
Motor vehicles at cost	80,000	
Accumulated depreciation on 1st April 2019		
Equipment at cost		6,000
Motor vehicles at cost		16,000
Bank	25,100	
	<u>663,100</u>	<u>663,100</u>

Additional information

1. Prepaid sales and distribution expense amounted to shs 300,000 and accrued administrative expenses amounted to shs 100,000
2. Inventory on 31st March 2020 was shs 24,000,000
3. Provision for doubtful debts is to be provided at 5% of the receivables balance
4. Rent receivable due on 31st March 2020 amounted to shs 100,000
5. Depreciation should be provided for as follows:

Asset	Rate per Annum	Method
Equipment	10%	Reducing balance
Motor vehicles	20%	Straight line

Required:

- a) Income statement for the year ended 31st March 2020 . (10 Marks)
- b) Statement of financial position as at 31st March 2020. (10 Marks)

Total 30 Marks**Question Two**

- a) Differentiate between discount allowed and discount received and their accounting treatment in three column cash book. (3Marks)
- b) Madaraka traders started business on 1st March 2021 with cash at bank of kshs 300,000. The following transactions took place during the month of March 2021.

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 Mashii 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:

- (i) Record the above transactions in the relevant ledger accounts duly balanced. (8 Marks)
- (ii) Prepare a trial balance as at 31st March 2021. (4 Marks)

Total 15 Marks

Question Three

- (a) State and explain any two reasons of preparing control accounts. **(3 marks)**
 (b) The following information has been extracted from the cash book (Bank column only) of N. Ombati for the month of December 2020.

Date	Details	\$	Date	Details	Cheque No.	\$
1.12.2020	Bal B/d	16,491	01.12.2020	Alexander	782	857
02.12.2020	Able	962	06.12.2020	Burgess	783	221
10.12.2020	Baker	1,103	14.12.2020	Barry	784	511
11.12.2020	Charlie	2,312	17.12.2020	Cook	785	97
14.12.2020	Delta	419	24.12.2020	Hay	786	343
21.12.2020	Echo	327	29.12.2020	Rent	787	260
23.12.2020	Cash sales	529				
30.12.2020	Fred	<u>119</u>	31.12.2020	Bal C/d		<u>19,973</u>
		<u>22,262</u>				<u>22,262</u>

His bank statement from Equate bank was as follows:

**Bank statement: N. Ombati:
 Account number 00000180
 For the month of December 2020**

Date	Details	withdrawals	Deposit	Balance
1.12.2020	Bal B/d			17,478
02.12.2020	Cheque No. 780	426		17,052
02.12.2020	Cheque No. 781	737		16,315
02.12.2020	Deposit		176	16,491
05.12.2020	Cheque No. 782	857		15,634
05.12.2020	Bank charges	47		15,587
06.12.2020	Deposit		2,065	17,652
10.12.2020	Standing order (rates)	137		17,515
11.12.2020	Cheque No.783	212		17,303
13.12.2020	Deposit		2,312	19,615
17.12.2020	Cheques No,784	511		19,104
17.12.2020	Deposit		419	19,523
23.12.2020	Deposit		327	19,850
24.12.2020	Deposit		528	20,378
28.12.2020	cheque No 786	343		20,035
30.12.2020	Cheque No.310923	297		19,738
31.12.2020	Bal C/d			19,738

Required:

- a) Prepare the Updated/ adjusted cash book as at 31st December 2020 for N. Ombati. **(7 marks)**
 b) Prepare the bank reconciliation statement for N. Ombati as at 31st December 2020. **(5 marks)**

Total 15 Marks

Question Four

- a) Distinguish between partners' capital accounts and partners current accounts. **(3 Marks)**
 b) The following information was extracted from the books of Beauty traders for the month of September 2020;

Balances as at 1st September 2020:

		Ksh'000'
Sales Ledger	Debit	350,000
	Credit	20,000
Purchases Ledger	Debit	15,000
	Credit	420,000

Transactions during the month of September 2020

	Ksh'000'
Cash sales	520,000
Credit sales	6,880,000
Cash purchases	2,240,000
Credit Purchases	6,250,000
Returns inwards	180,000
Returns outwards	120,000
Dishonoured cheque (received from debtor)	85,000
Cash refunds from credit suppliers	20,000
Total receipts from credit customers	5,100,000
Total payments to credit suppliers	4,820,000
Discount allowed to credit customers	250,000
Discount received from credit suppliers	280,000
Refund to cash customers	60,000
Contra settlement	320,000
Bad debts written off	35,000
Interest on overdue debts	25,000
Bad debts previously written off recovered	40,000
Goods taken for personal use by the owner	15,000

Required:

- (i) Sales ledger control account as at 30th September 2020 **(6 Marks)**
 (ii) Purchases ledger control account as at 30th September 2020 **(6 Marks)**

Total 15 Marks**Question Five**

- a) The trial balance of Kamau for the year ended 31st December didn't balance. He was told by his friend that the accountant may have committed some errors. Kindly highlight any five errors the accountant might have committed. **(5 Marks)**
 b) Grace Vikari prepared her end of year trial balance which did not agree. The debit side was less than the credit side by sh. 17,136. She posted the difference to a suspense account. Upon further scrutiny she discovered the following errors:
 (i) Returns outwards had been overcast by sh. 16,800

- (ii) A cheque for sh. 13,104 received from a debtor had been debited in the cashbook but no other entry had been made.
- (iii) Motor vehicles repairs amounting to sh. 25,536 had been posted to the motor vehicles account.
- (iv) The total of discount allowed column on the debit side of the cashbook amounting to sh. 6,720 had been posted to the credit side of discount received account.
- (v) The total of purchases day book had been under cast by sh. 33,600.

Required:

- (i) Journal entries to rectify the errors above (5 Marks)
- (ii) A suspense account duly balanced (5 Marks)

Total 15 Marks