



Strathmore
UNIVERSITY

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

DATE: 23rd August 2022

Time: 2 Hours

Instructions

1. Attempt question one (**Compulsory**) 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 (Please underline the instructions)

Question One (compulsory)

- a) State any four items treated as appropriation items in the income statement of a partnership. **(4 marks)**
- b) State and briefly explain any **six** causes of the differences in the balances as per the bank statement and cash book (bank column) above. **(6 Marks)**
- c) The trial balance of the company on 31st May refused to balance and the credit side exceeded the Debit side by sh. 2,100,000. The trial balance was forced to balance by inserting a balancing figure on the debit side and this figure was called the suspense account.

After a thorough scrutiny the following errors were discovered:

- 1) Sales were under cast by sh. 10,000,000
- 2) Discount allowed was overcast by sh. 100,000
- 3) Returns inwards credited to returns outwards account was Sh. 100,000
- 4) Purchases were under cast by sh. 5,000,000
- 5) Accounts payables were overcast by sh. 7,000,000
- 6) Bank charges omitted from the books of account amounted to sh. 500,000

Required:

- (i) Journal entries to correct the above errors **(6 Marks)**
- (ii) Suspense account duly balanced **(4 marks)**
- d) Madaraka traders started business on 1st March 2022 with cash at bank of kshs 300,000. The following transactions took place during the month of March 2022

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 31st March 2022. **(10 Marks)**

Total 30 Marks

Question Two

- a) Explain three reasons of preparing the control accounts **(3 Marks)**
- b) Kiprop Mzuri balances his cashbook at the end of every month and compares it with his bank statement for reconciliation. On 30th June 2021, 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 30th June 2021 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 30th June 2021.
- 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 27th June 2021 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:

- (i) An updated/ adjusted cash book as at 30th June 2021. **(7 Marks)**
- (ii) Bank reconciliation Statement as at 30th June 2021. **(3 marks)**

Total 15 marks

Question Three

- a) Explain Meaning and the accounting treatment of provision/ allowance for doubtful debts
(3 marks)
- b) The following trial balance was extracted from the books of Kimani a sole trader on 31st March 2022:

	Ksh'000'	Ksh'000'
Capital		170,000
Inventory (1st April 2021)	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% debentures		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 2021		
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 2022 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 2022 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:

- (i) Income statement for the year ended 31st March 2022. (6 Marks)
- (ii) Statement of Financial position as at 31st March 2022. (6 Marks)

Total 15 marks

Question Four

- a) State and briefly explain any **five** types of errors which can be disclosed by the trial balance. **(5 Marks)**
- b) Mary, Wangui and Kipkorir are in partnership. Mary does the accounting work while Wangui offers legal services and for each earns a salary of Sh. 10,000 per month. The profit or loss is shared equally. The profit for the month of May 2022 was Sh. 110,000. A clause in the partnership deed guaranteed a minimum profit to Mary of Sh. 35,000. The capital and current accounts at the start of the month for each partner are as shown below.

Partner	Current account Khs	Capital account Ksh
Mary	-20,000	150,000
Waituka	-7,500	250,000
Kariuki	10,500	100,000

Require:

Prepare the partners current accounts and appropriation account for the month of May 2022.

(10 Marks)

Total 15 marks

Question Five

- a) Explain any two methods of calculating depreciation expense and identify any two causes of depreciation. **(5 Marks)**
- b) The following balances were extracted from the books Jezzy traders as at 1st March 2022

	Kshs
Sales ledger (DR)	848,000
Sales ledger (CR)	140,500
Purchases ledger (DR)	100,000
Purchases Ledger (CR)	600,500

During the month the following transactions took place

	Kshs.
Credit sales	1,358,000
Cash received from debtors	720,000
Cheques paid to suppliers	420,000
Returns inwards	15,000
Returns outwards	30,000
Cheques received from customers	108,000
Cash paid to suppliers	105,000
Dishonoured cheques from customers	22,000
Credit purchases	850,000
Interest on overdue debts charged by suppliers	43,000
Balances on 31st March 2022	
Sales ledger	150,000 CR
Purchases ledger	70,300 DR

Required

- i. Prepare sales ledger control account for the month of March 2022. (5 Marks)
- ii. Prepare the purchases ledger control account for the month of march 2022 (5 Marks)

Total 15 marks