



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

DATE: December 13th 2022

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) Briefly explain any **four** reasons for preparing the control accounts. **(4 marks)**
- b) State and explain any **six reasons** why the balance as per the cashbook bank column is not always the same as the balance as per the bank statement. **(6 Marks)**
- c) James drew up the following trial balance as at 30th September 2022

	Dr. (Kshs)	Cr. (Shs)
Capital		49,675
Drawings	28,600	
Bank:	4,420	
Cash:	112	
Debtors and creditors	38,100	26,300
Stock on 01.10.2021	72,410	
Van:	5,650	
Equipment	7,470	
Purchases and sales	254,810	391,400
Returns inwards and outwards	2,110	1,240
Carriage inwards	760	
Carriage outwards	2,850	
Motor expenses	1,490	
Rent	8,200	
Telephone charges	680	
Wages \$ salaries	39,600	
Insurance	745	
Office expenses	392	
Sundry expenses	216	
	<u>468615</u>	<u>468,615</u>

Additional information

- (i) The closing stock on 30th September 2022 was sh. 64,000

- (ii) An allowance for doubtful debts at the end of the period should be 10% of debtors' balance
- (iii) Accrued wages and salaries amounted to sh. 400 while prepaid rent was sh. 200
- (iv) Depreciation on each fixed assets is at 10% per annum using straight line method.

Required

- i. Income statement for the year ended 30th September 2022 **(10 Marks)**
 - ii. Statement of financial position (Balance sheet) as at 30th September 2022. **(10 Marks)**
- Total 30 Marks**

Question Two

- a) The users of financial statements are those groups identified as having reasonable right to the information and whose information needs should be recognized. List and explain **FIVE** groups interested in financial statement of a business enterprise. **(5 Marks)**
- b) The following balances were extracted from the books of Rainbow limited for the month of January 2022.

	Shs'000'
Balances as at 1st January 2022	
Trade Receivables Ledger	
-Debit	51,000
- Credit	2,050
Trade Payables Ledger	
-Debit	600
- Credit	30,750
Transactions During the month	
Discount allowed	4,110
Refunds to customers for overpayments	330
Cash receipts from credit customers	33,750
Bills of exchange receivable	20,800
Contra settlement	19,240
Payment to creditors by cheque	80,575
Discount received	10,900
Credit sales	241,500
Receipts from customers by cheques	106,550
Purchases on credit	135,000
Customers dishonored cheques	3,075
Balances as at 31st January 2022	
Trade receivables ledger (Credit)	1,050
Trade payables ledger (debit)	435

Required:

- i. Accounts receivable control account for the month ended 31st January 2022. **(5 Marks)**
- ii. Accounts Payable control account for the month ended 31st January 2022. **(5 Marks)**

Total: 15 Marks

Question Three

- a) State and explain giving an example any five types of errors which do not affect the trial balance. **(5 Marks)**

b) The following is the cashbook (Bank column) and the bank statement for Andrew Ombati for the month of September 2022.

Dr.		Cash book		Cr.		
		(bank)				
		Sh. '000'		Sh. '000'		
2022			2022			
Sep-05	Khamisi	80	Sep-01	Balance b/d	210	
Sep-14	Moraa	115	Sep-04	Nekesa	74	
Sep-18	Kioko	86	Sep-21	Muturi	95	
Sep-25	Javeed	190	Sep-24	Patel	167	
Sep-26	Akinyi	134	Sep-30	Balance c/d	59	
		<u>605</u>			<u>605</u>	
01-Oct	Balance b/d	59				

Bank Statement

		Dr.	Cr.	Balance
		Sh.	Sh.	Sh. '000'
		'000'	'000'	
2022				
Sep-01	Balance b/d			210 (Dr.)
Sep-09	11334	74		284 (Dr.)
Sep-11	Sundries		80	204 (Dr.)
Sep-12	Bank charges	41		145 (Dr.)
Sep-17	Standing order: Kanini	75		320 (Dr.)
Sep-18	Sundries		115	205 (Dr.)
Sep-26	11335	95		
Sep-27	Sundries		86	214 (Dr.)
Sep-29	Dividends		64	150 (Dr.)

Required:

- (i) Prepare an updated / adjusted cashbook (5 Marks)
(ii) Prepare a bank reconciliation statement as at 30th September 2022. (5 Marks)

TOTAL: 15 MARKS

Question Four

- a) Differentiate between prepaid income and prepaid expense and their accounting treatment. (3 Marks)
- b) The trial balance of mine ltd failed to balance on 31st march 2019. The debit side exceeded the credit side by sh. 360,000. After thorough scrutiny the following errors were discovered.
- The total discount received column in the cash book had been overcast by sh. 180,000.
 - The return of goods worth sh. 120,000 from Ali, a debtor had been credited in Ali's account ad debited to purchases account.
 - A page of the purchases journal had been under cast by sh. 360,000.

4. The return of goods worth shs. 460,000 to Muindi a supplier had been completely omitted from the books of accounts.
5. A total in one pages of the sales journal had been carried forward as sh. 980,000 instead of sh. 1,880,000.

Required:

- (i) Journal entries to correct the above errors. (Narrations are not required). **(8 Marks)**
- (ii) Suspense account duly balanced. **(4 Marks)**

Total: 15 Marks

Question Five

- a) Briefly explain the accounting equation **(2 Marks)**
- b) Explain the duality principle as used in accounting **(3 Marks)**
- c) Mark Munene retired from employment on 30th April 2022 and was paid retirement benefits amounting to sh. 216,500. With this money Mr Munene started a business in Nairobi on 1st June 2022.

His transactions for the month were as follows;

1-Jun	Started the business with cash sh. 216,500
2-Jun	Opened a bank account depositing sh. 168,000 of the cash
4-Jun	Paid by cheque six months rent in advance of sh. 72,000
8-Jun	Bought furniture of sh 24,000 by cheque
15-Jun	Purchased goods for sale sh, 19,500
18-Jun	Withdrew sh. 3,500 from bank for office use
21-Jun	Sold goods for cash sh. 28,800
23-Jun	Deposited cash of sh 42,300 in the business bank account
25-Jun	Purchased goods on credit from Bakery for sh 21,000
26-Jun	Sold goods for sh 36,000 by cheque
27-Jun	Paid Bakery shs. 18,900 in full settlement in cash
27-Jun	Sold goods on credit to Tom Kings for shs. 14300
28-Jun	Paid wages in cash sh. 7,400
29-Jun	Paid transport in cash sh. 2,400
29-Jun	Withdrew from bank sh. 12,000 for personal use.
30-Jun	Paid electricity sh 4,800 in cash and insurance premiums sh 15,000 by cheque
30-Jun	Received sh 13,800 from Tom Kings in full settlement of the amounts owed.

Required: A three column cashbook for the month of June 2022 duly balanced. **(10 Marks)**

Total: 15 Marks