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*(Knowledge for Development)*

**KIBABII UNIVERSITY  
UNIVERSITY EXAMINATIONS**

**2016/2017 ACADEMIC YEAR  
FIRST YEAR FIRST SEMESTER  
MAIN/SPECIAL/SUPPLIMENTARY EXAMINATION  
FOR THE DIPLOMA  
IN  
EDUCATION**

**COURSE CODE: EDB 103**

**COURSE TITLE: FOUNDATIONS OF ACCOUNTING I**

**DATE: 20/09/2017    TIME: 11.30 AM – 1.30 P.M**

**INSTRUCTION TO CANDIDATES**

Attempt **QUESTION ONE** and **TWO OTHER** questions

**TIME: 2 HOURS**

KIBU observes **ZERO** tolerance to examination cheating

## SECTION A (COMPULSORY)

### QUESTION ONE

1(a) Outline and explain two fundamental accounting concepts (conventions). (4mks)

1(b) Abdul is a merchant operating in Mombasa. His Trial balance for the year ended 31/12/03 is;

	Dr	Cr
	Sh."000	Sh."000
Motor Vehicles	4,000	
Furniture and Fittings	3,000	
Stock (1/1/03)	2,000	
Sales		30,000
Purchases	20,000	
Returns	2,000	1,000
Discounts	3,000	1,000
Debtors/Creditors	8,000	4,000
Bad debts	1,000	
Provision for bad & doubtful Debts		500
Motor Vehicle expenses	1,000	
Rent	500	
Salaries and Wages	1,000	
Electricity and Water	1,500	
Telephone	300	
Carriage inwards	200	
Carriage outwards	300	
Drawings	3,000	
Capital		14,300
<b>Total</b>	<b><u>50,800</u></b>	<b><u>50,800</u></b>

#### Additional Information

1. Stock at 31/12/03 amount to sh. 3,000,000
2. Provision for bad and doubtful debts is set at 5% of current debtors
3. Motor vehicle expenses unpaid amount to sh. 300,000, rent paid in advance amount to sh. 100,000 while salaries and wages prepaid was sh. 200,000
4. A quarter of telephone bills paid relate to the year 2004
5. Unpaid electricity and water amount to sh. 100,000
6. Depreciation is provided on motor vehicles and fixtures at 20% and 10% respectively on cost.
7. Salary and rent prepaid were sh. 200,000 and sh. 100,000 respectively.

Required:

- (i) Abdul trading, profit and loss account for year ended 31/12/03 and, (13mks)
- (ii) Balance sheet as at that date (7mks)

1(c) Define the following accounting terms:

- (i) Bookkeeping(2marks)
- (ii) Asset (2 marks)
- (iii) Liability (2 marks)

**SECTION B (CHOOSE ANY TWO QUESTIONS)**

**QUESTION TWO**

2(a) On 1<sup>st</sup> March, 2003 the balance of cash in the bank account of Mr. Njoroge amounted to sh. 6,000,000 while the business cash at hand was sh. 3,000,000.

During the month of March 2003, the following transactions were entered into:

1. Paid motor vehicle expenses by cheque sh. 500,000 on 2/3/03. On 3/3/03 received payments by cheque from credit customers net of discount as follows:

	Receipt	Discount
(a) Ouma	sh. 500,000	50,000
(b) Kamau	sh. 1,000,000	100,000
(c) Musa	sh. 3,000,000	300,000

2. Paid Salaries and wages on 4/3/03 by cheque sh. 2,500,000.
3. On 8/3/03 Made cash sales sh. 15,000,000.
4. On 9/3/03 Deposited sh. 10,000,000 to the bank A/C from the cash sales.
5. On 12/3/03 Drew sh. 3,000,000 cash for personal use.
6. On 16/3/03 Made payment to suppliers by cheque net of discount as follows:

	Payment	Discount
(a) Johana	2,000,000	100,000
(b) Paulo	2,000,000	100,000

7. Paid telephone by cheque of sh. 500,000 on 20/3/03.
8. Drew sh. 2,000,000 from bank for office use on 22/3/03.
9. Cash purchases of sh. 1,500,000 were made on 26/3/03.
10. Paid insurance by cheque sh. 200,000 on 28/3/03.

Required:

Three-column cashbook so as to balance it on 31/3/03. (16 marks)

2 (b) Explain briefly why each of the following is interested in financial statements of a business enterprise

- (a) External (independent) auditors
- (b) Contributors to not-for-profit entities.

### QUESTION THREE

3 (a) State and explain the four qualitative characteristics of financial statements according to IASB (International Accounting Standards Board) framework. (8 marks)

3 (b) The following are the transactions of Kiminja.

Started business on 1<sup>st</sup> January 2014 with sh. 650,000

Jan 2 Paid cash for stationery sh. 5,000 and postage sh. 3,250

Jan 3 Bought furniture for cash sh. 50,000 and machinery for sh. 80,000

Jan 4 Purchased goods for cash 140,000

Jan 5 Sold goods for cash sh. 800,000

Jan 8 Purchased goods from Muna Enterprises sh. 111,000 on credit

Jan 10 Paid rent for the year sh. 340,000

Jan 10 Bought computer for sh. 25,000 from Comptech Ltd on credit

Jan 12 Sold good on credit to Wikali for sh. 120,000

Jan 13 Sold goods to Kamau for sh. 220,000 on credit

Jan 17 Withdraw cash for personal use sh. 220,000

Jan 20 Paid general expenses sh. 10,000

Jan 22 Received From Kamau sh. 51,900

Jan 23 cash sales sh. 15,900

Jan 23 cash purchases sh. 12,000

Jan 24 Paid Muna shilling 90,000

Jan 25 Bought goods worth sh. 300,000 from Meleck on credit and supplied item to Bibilu for sh 340,000 on credit.

Required:

Draw the books of account and extract the trial balance as at 31<sup>st</sup> January 2004. (12 marks)

## QUESTION FOUR

4(a) Madam Sheila had following transaction in the month of July 2003:

1/7/03 bought furniture at sh. 325,123 cash

3/7/03 paid advertisement sh. 50,450 cash

5/7/03 paid rent sh. 430,000 cash

12/7/03 received sh. 340,000 investment incomes

17/7/03 Acquired motor vehicle worth sh. 700,000 of which sh. 300,000 was paid in cash and the balance was the value of old motor vehicle exchanged for the new one.

25/7/03 Received bill for electricity sh. 15,000 but not yet paid.

Required:

Draw the journal entries to record these transactions. (12 marks)

4(b) Explain clearly, in terms which a non-accountant would understand the following accounting principles:

- (i) Business entity principle
- (ii) Realization (Revenue recognition) principle
- (iii) Money measurement principle
- (iv) The cost principle.