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(Knowledge for Development)

KIBABII UNIVERSITY
(KIBU)

UNIVERSITY EXAMINATIONS
2019/2020 ACADEMIC YEAR

SPECIAL/SUPPLEMENTARY EXAMINATIONS
YEAR ONE SEMESTER ONE

FOR THE DIPLOMA IN
(INFORMATION TECHNOLOGY)

COURSE CODE : **DIT 070**
COURSE TITLE : **PRINCIPLES OF ACCOUNTING**

DATE: 10 /02/2021

TIME: 11.00 AM -1.00PM

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTIONS ONE AND ANY OTHER TWO.

QUESTION ONE (COMPULSORY) [24 MARKS]

- a.) Define the term accounting.
[1Mark]
- b.) Distinguish between book-keeping and accounting.
[4Marks]
- c.) Give the meaning of the four principal qualities of useful financial information. [4Marks]
- d.) Define and explain the relevance of the following accounting concepts.
- i. Accruals
 - ii. Consistency
 - iii. Money measurement
[5Marks]
- e.) B Brian is a sole trader. At 31th August the following balances have been extracted from his books:

	Shs.
Sales	47,600.00
Purchases	22,850.00
Office expenses	1,900.00
Insurance	700.00
Wages	7,900.00
Rates	2,800.00
Heating and Lighting	1,200.00
Telephone	650.00
Discounts allowed	1,150.00
Opening stock	500.00
Returns inwards	200.00
Returns outwards	150.00
Premises	40,000.00
Plant and machinery	5,000.00
Motor Vehicles	12,000.00
Debtors	12,500.00
Bank balance	7,800.00
Creditors	3,400.00

Loan- long term loan	10,000.00
Capital	60,000.00
Drawings for the year	4,000.00
Closing stock	550.00

Required

Construct a trial balance, from the above list of balances.

[10Marks]

QUESTION TWO [18 MARKS]

- Distinguish between the following terms assets and liabilities. [2Marks]
- Explain what is meant by materiality in relation to financial statements and state two factors affecting the assessment of materiality. [4 marks]
- Write up the asset, capital and liability accounts in the books of M Crash to record the following transactions: [12Marks]

2002

- June 1 Started business with Sh.50,000 in the bank.
- Bought motor van paying by cheque Sh.12,000.
 - Bought Fixtures Sh.4,000 on credit from Office Masters Ltd.
 - Bought a van on credit from Motor Cars Ltd Sh.8,000.
 - Took Sh.1,000 out of the bank and put it into the cash till.
 - Bought Fixtures paying by cash Sh.600.
 - Paid Motor Cars Ltd by cheque Sh.8000.
 - A loan of Sh.10,000 cash is received from J Marcus.
 - Paid Sh.8,000 of the cash in hand into the bank account.
 - Bought more Fixtures paying by cheque Sh.3,000.

QUESTION THREE [18 MARKS]

- Mary-shop center is a small business owned by Mary. During the year to 31 December 2001 the following total transactions occurred.
 - Mary withdrew a total of sh 10,000 in cash
 - Stock in trade was bought, all on credit for sh 34,000
 - Sales were made totaling 60,000.00 of stock in trade which had cost sh 37,000. Of these sales Sh.51,000 were on credit and Sh.9,000 for cash.
 - A total of sh 16,000 was drawn from the bank in cash to the cash till.
 - Electricity for the year paid by cheque totaled Sh.2,000.00
 - Rates for the year paid by cheque totaled Sh.1,000.00
 - Wages for the year all paid cash totaled Sh.10,000.00
 - Sundry expenses all paid in cash totaled Sh.2,000.00

- ix. Creditors were paid a total of Sh.36,000.00 all by cheq
- x. Debtors paid a total of Sh.54,000.00 all in cheques.
- xi. The bank charged interest on the loan deducting Sh.3,000.00

Required:
Enter the above transactions in their appropriate accounts.

[14Marks]

- b.) Give the meaning of the following terms as used in accounting giving examples to each.
Current assets and non-current assets.
[4Marks]

QUESTION FOUR [18 MARKS]

- a.) The capital in a business does not remain intact but changes over time due to the following factors: additional investments, profits drawings or losses .Discuss the factors and show how they affect the business.
[6Marks]
- b.) List and explain the following accounting concepts.
- i. The Going concern concept
 - ii. The prudence concept
 - iii. Materiality
- c.) State the difference between Return Inwards Return Outwards giving examples and show how they affect accounting transactions.

[6Marks]

[6Marks]

QUESTION FIVE [18 MARKS]

- a.) State two reasons as to why business usually charge interest on borrowed money. [2Marks]
- b.) Outline the steps followed in creating a balanced business budget. [6Marks]
- c.) For two of the following users of accounting information, describe their information requirements, and briefly discuss to what extent financial accounting is likely to meet their needs.
- i. Suppliers
 - ii. Employees
 - iii. Company shareholders
 - iv. Banks
 - v. The government

[5Marks]

- d.) Explain what you understand by the accruals concept, giving an example. Explain why this concept is important in accounting, and how it affects the three main financial statements.
[5Marks]