

18



Knowledge for Development

**KIBABII UNIVERSITY
(KIBU)**

**UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR**

**SPECIAL/SUPPLEMENTARY EXAMINATIONS
YEAR TWO SEMESTER ONE EXAMINATIONS**

**FOR THE DIPLOMA IN
(INFORMATION TECHNOLOGY)**

COURSE CODE: DIT 070

COURSE TITLE: PRINCIPLES OF ACCOUNTING

DATE: 20/07/2022 TIME: 11.00 A.M. – 1.00 P.M.

INSTRUCTIONS TO CANDIDATES
ANSWER QUESTIONS ONE AND ANY OTHER TWO

QUESTION ONE [24 MARKS] - (COMPULSORY)

- a) Explain the following accounting concepts:
- i. Substance over form concept. (1 marks)
 - ii. Prudence concept. (1 marks)
 - iii. Consistency concept. (1 marks)
- b) The following information relates to Uzima Club for the year ended 30 June 2021:
1. The club started the year with sh. 4,780,000 in the bank.
 2. The club's treasurer received subscriptions amounting to sh.3, 171,000. This amount included sh.301, 000 in the arrears for the year ended June 2020 and sh.399, 000 in advance for the year ending 30 June 2022.
 3. During the year ended 30 June 2021, the club received sh.980, 000 to the general fund and sh.880, 000 to the election fund. The election fund had a balance of sh.150, 000 as at 1 July 2020. During the year ended 30 June 2021, election expenses paid amounted to sh.720, 000.
 4. The club held investments valued at sh.2, 000,000 on 1 July 2020. Half of these investments were sold for sh.1, 750,000 and the balance were valued at sh.1, 200,000. These investments generated an interest income of sh.364, 000 during the year ended 30 June 2021. This income was received directly into the club's bank account.
 5. Office furniture was valued at sh.1, 800,000 as at 1 July 2020. Additional furniture was acquired during the year and sh.170, 000 was paid for while sh.70, 000 still owed for this furniture as at 30 June 2021. Depreciation on office furniture is provided at the rate of 10% per annum cost.
 6. During the year ended 30 June 2021, there was a receipt of sh.750, 000 for the sale of magazines. Magazines worth sh.60, 000 were donated to various libraries during the year. The total amount paid for the production and the sale of magazines was sh.1, 200,000. No inventories of magazines were left as at 30 June 2021.
 7. During the year, the club acquired an office building through a bank loan. The club paid the first installment of loan repayment of sh.80, 0000 on 20 June 2021.
 8. The office building was painted and partitioning at a total cost of sh.507, 000. As at 30 June 2021, an amount of sh. 150,000 of the cost of partitioning was still owing to the suppliers.

9. Other payments made by the club during the year:

	Sh.
Wages	1,700,000
Office salaries	2,350,000
Rent and rates	1,450,000
Meeting expenses	1,750,000
Stationary and postage	150,000

10. Accruals for the year ended 30 June 2021 were:

	Sh.
Wages	50,000
Rent and rates	5,000

11. Prepayments for the year ended 30 June 2021:

	Sh.
Meeting expenses	300,000

Required:

Receipts and payments account for the year ended 30 June 2021.

(21 marks)

QUESTION TWO [18 MARKS]

a) Citing an example in each case, explain the following terms:

i. Prepayment

(2 marks)

ii. Accrual

(2 marks)

iii. Double entry

(2 marks)

b) Celia Atieno lost her job after her employer closed shop due to effects of COVID-19 pandemic. With her savings amounting to sh.950,000 in cash she started a general supplies shop in January 2021. Her transactions for the month were as follows:

January:

1. Started business with sh.950,000 in cash

2. Bought goods on credit from Joney trader's sh. 180,000.

3. Credit sales: Bidii Ltd. Sh.66,000, Swaju investment sh.25,000, Swan Ltd. Sh.43,000
4. Purchased goods in cash sh.230, 000.
5. Bought second- hand motor van for sh.256, 000 paying by cheque.
7. Paid motor expenses sh.12, 000 cash.
9. Credit sales: Paris traders, sh. 24,000, Calvary Group, sh.26, 000, Finly Ltd. sh.68, 000.
11. Purchased goods on credit: Jony traders sh.240, 000, Davincy Ltd. Sh62, 000.
13. Purchases returned to Jony traders sh.25, 000
19. Sales returned from Swaju investment sh.11, 000
20. Cash drawings by the proprietorsh.44, 000.
21. Payments made to Davincy Ltd. Sh.62, 000 cash.
23. Received payments from Bidii Ltd.sh.66, 000 through cheque.
25. Received payments from Swan Ltd.sh.43, 000 through cheque.
28. Purchases returned to Jony traders sh. 42,000.
29. Purchased stationery sh. 4,000 paying cash.
30. Credit sales: Swaju investments sh.42, 000, Calvary Group sh.54, 000.

Required:

- i. The relevant ledger accounts and closes them as at 31 January 2021. (7marks)
- ii. Trial balance as at 31 January 2021. (5marks)

(Total 18 marks)

QUESTION THREE [18 MARKS]

Dan and Lucy are partners sharing profits and losses in the ratio of 3:2 respectively. The partnership agreement provides for Lucy to receive a salary of sh. 8 million per annum. Interest on capital is allowed at the rate of 5% per annum. Their statement of financial position as at 31 July 20 was as follows:

Non-current assets	Cost Sh. "000"	Depreciation Sh. "000"	Net book value Sh. "000"
Motor vehicles	48,000	6,400	41,600

Equipment	<u>16,000</u>	<u>9,600</u>	<u>6,400</u>
	<u>64,000</u> 16,000	48,000	
Current-assets:			
Inventory		11,200	
Accounts receivable		4,400	
Cash		<u>800</u>	<u>16,400</u>
			<u>64,400</u>
Capital and liabilities:			
Capital accounts: Dan		32000	
Lucy		<u>20000</u>	52000
Current accounts: Dan		6400	
Lucy		(600)	5,800
Current liabilities:			<u>6,600</u>
Accounts payable			<u>64,400</u>

Additional information:

1. On 1 November 2020, Pendo was admitted to the partnership. The terms of her admission were as follows:
 - Interest on capital was raised from 5% per annum to 6 % per annum for all partners.
 - Pendo introduced sh.24 million in cash as capital into the partnership.
 - Pendo received a salary of sh.12 million per annum. Lucy's salary was raised to sh. 12 million per annum.
 - The profit sharing ratio for Dan, Lucy and Pendo was adjusted to 4:2:1 respectively.
2. The profit for the year ended 31 July 2021 was sh.111, 570,000.
3. As at 31 July 2021 the working capital of the partnership was as follows:

	Sh. "000"
Inventory	25,110
Accounts receivable	7000
Cash	17260
Accounts payable and accruals	6960

4. Partners' drawings for the year ended 31 July 2021 were as follows:

	Sh. "000"
Dan	51410
Lucy	39050
Pendo	16500

5. The non-current assets are to be depreciated as follows:

Asset	Rate per annum
Premises	5% on cost
Equipment	10% on cost

Required:

- a) Statement of profit and loss and appropriation account for the year ended 31 July 2021(12 marks)
- b) Partners' current accounts (6 marks)

(Total 18 marks)

QUESTION FOUR [18 MARKS]

The trial balance of Mamboleo enterprises as at 31 December 2020 failed to balance. The debit balance was sh.1, 724,300 while the total of credit balance was sh.1, 713,200. A suspense account was opened with the difference.

Further investigation revealed the following errors:

1. Computers costing sh.40, 000 had been recorded as a debit entry in the repairs and maintenance account.
2. Total purchases in the period were understated by sh.20, 000 although the total value creditor was correctly recorded.
3. Bank charges of sh. 400 had been omitted entirely from the ledger.
4. Total telephone expenses were overstated by sh. 28,000.
5. Purchase returns of sh. 1,100 were recorded as a debit entry in the sales return account, but the correct entry had been made in the trade payable control account.
6. Rental expenses of sh. 10,980 were entered incorrectly as sh.11, 880 in the expense account, but were entered correctly in the bank account in the ledger.

7. Credit purchases amounting to sh.35, 000 had been omitted from the books of accounts.

Required:

- i. Journal entries to correct the above errors. (12 marks)
 - ii. Suspense account duly balanced. (6 marks)
- (Total 18 marks)**

QUESTION FIVE [18 MARKS]

- a) Summarize qualities of useful accounting information. (8 marks)
- b) Discuss the following types of journals:-
 - i. Sales journal (1 mark)
 - ii. Purchase journal (1 mark)
 - iii. Return inwards journal (1 mark)
 - iv. Return outwards journal (1 mark)
- c) Discuss the following types of errors:-
 - Error of commission (2 marks)
 - Error of omission (2 marks)
 - Error of overcast (2 marks)