



**TECHNICAL UNIVERSITY OF MOMBASA**  
***School of Business***

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATIONS FOR DEGREE IN  
BACHELOR OF SCIENCE IN DEVELOPMENT STUDIES

**BAC 4240: PRINCIPLES OF ACCOUNTING**

SPECIAL/SUPPLEMENTARY EXAMINATIONS

**SERIES: JUNE/JULY 2015**

**TIME: 2 HOURS**

**INSTRUCTIONS:**

- Answer Question **ONE (Compulsory)** and any other **TWO** questions.
- Do not write on the question paper

***This paper consists of Five printed pages***

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**QUESTION 1 (Compulsory)**

- a) I) Define the term International Accounting Standards (IAS) and state any **THREE** of their purposes. **(5 marks)**
- II) The IAS to which most professional Accounting bodies across the world subscribe to, recognize the following fundamental accounting concepts:
- i) Going concern
  - ii) Consistency of presentation
  - iii) Prudence
  - iv) Accruals basis of accounting

Explain each of the above concepts as used in financial accounting.

**(12 marks)**

b) Given below are the assets and liabilities of Bamba Wholesalers as at 1<sup>st</sup> November 2012.

	<b>Ksh.</b>
Capital	640,000
Trade creditors	60,000
Motor vehicles	680,000
Stock	25,000
Trade debtors	14,000
Cash in hand	5,000
Bank overdraft	24,000

During the month of November 2012, the following transactions took place:

- i) Received cash sh. 7,000 from a debtor
- ii) A motor vehicle which had a book value of sh. 140,000 was sold for sh. 145,000. The amount was received by cheque.
- iii) Paid a creditor sh. 20,000 by cheque
- iv) Purchased goods with a list of sh. 5,000 and was allowed a trade discount of 20%. The goods were paid by cheque.
- v) Purchased a machine for sh. 115,000 on credit from Sulwe Ltd.

**Required:**

Draw Bamba Wholesaler's Balance sheet as at 30<sup>th</sup> November, 2012 after taking into account the above transactions. **(13 marks)**

**QUESTION 2**

a) The following transactions were extracted from the books of Diwani, a sole trader in January, 2013

Jan

- 2<sup>nd</sup> Started business with sh. 350,000 cash
- 3<sup>rd</sup> Deposited sh. 280,000 of the cash into a bank account.
- 5<sup>th</sup> Bought goods on credit from Kazungu sh. 36,000 and from Egeza sh. 49,000
- 7<sup>th</sup> Sold goods on credit to: Majengo sh. 90,000 and Pandya sh. 80,000
- 8<sup>th</sup> Paid salaries in cash sh. 50,000
- 10<sup>th</sup> Withdrew sh. 100,000 from the bank for business use.

**Required:**

Ledger accounts: fully balanced to record the above transactions. **(12 marks)**

b) Explain any **FOUR** reasons why it is necessary for a firm to keep proper books of accounts.

**(8 marks)**

### QUESTION 3

The following balances were extracted from the books of Sawa Traders as at 30<sup>th</sup> June, 2014

	<b>Sh.</b>
Stock	10,500
Cash at bank	5,800
Cash in hand	1,200
Office machines	25,500

The following transactions took place during the month of July, 2014

July	1 <sup>st</sup>	Bought goods on credit from: Wekesa sh. 8,000: Munga sh. 6,200
	3 <sup>rd</sup>	Cash sales sh. 9,200
	4 <sup>th</sup>	Paid wages in cash sh. 1,900
	7 <sup>th</sup>	Sold goods on credit to Muthike sh. 7,700
	8 <sup>th</sup>	The proprietor converted a personal typewriter valued at sh. 30,000 into business use
	9 <sup>th</sup>	Bought goods for cash sh. 5,100
	11 <sup>th</sup>	Bought office machines on credit from Masawa Ltd. Sh. 5,500
	15 <sup>th</sup>	Returned goods sh. 2,500 to Munga
	19 <sup>th</sup>	Received a cheque for sh. 7,500 from Muthike in full settlement of his account
	25 <sup>th</sup>	Returned goods sh. 2,800 to Wekesa
	29 <sup>th</sup>	Received a loan from Roma sh. 6,500 in cash
	30 <sup>th</sup>	Paid Wekesa the total amount due by cheque

#### Required:

- Determine the capital as at 30<sup>th</sup> June, 2014. **(2 marks)**
- Enter the above transactions in the relevant ledger accounts and balance the accounts. **(14 marks)**
- Extract a Trial Balance as at 31st July, 2014. **(4 marks)**

### QUESTION 4

The following balances remained in the books of Athman and Sons Enterprises on 31<sup>st</sup> December 2014.

<b>Particulars</b>	<b>Debit (sh.)</b>	<b>Credit (sh.)</b>
Gross profit		212,550
Rent received		72,400
Insurance and rates	26,400	
Salaries and wages	84,960	
Discounts allowed	14,440	
Debtors	46,620	
Motor van at cost	150,000	

Discounts received		28,840
Creditors		39,450
Provisions for depreciation:		
Motor van 1/1/2014		13,000
Furniture and fittings at cost	48,000	
Provision for depreciation on Furniture and fittings 1/1/14		9,600
Electricity, water and light	11,200	
Advertising	8,400	
Bad debts written off	5,600	
Provision for bad debts		2,000
Stock	24,570	
Carriage outwards	3,600	
Capital		45,950

Additional information on 31<sup>st</sup> December 2014.

- i) Prepaid insurance sh. 2,400; rates outstanding sh. 1,000
- ii) Rent received in advance sh. 2,200
- iii) Write off a further sh. 620 as a bad debt and adjust the provision for bad debts to 5% of debtors.
- iv) Depreciation: Motor van sh. 26,000  
Furniture and fittings to be depreciated at 20% per annum on reducing balance method
- v) Drawings amounted to sh. 85,160

**Required:**

- a) Profit and loss account for the year ending 31<sup>st</sup> December, 2014. **(12 marks)**
- b) Balance sheet as at 31<sup>st</sup> December 2014. **(8 marks)**

**QUESTION 5**

- a) Define a trial balance. **(2 marks)**
- b) By use of an illustrated example, explain the limitations of a trial balance. **(4 marks)**
- c) Ebenezer Dealers are traders in Gospel Disks (CDs). During the month of May, 2014, their sales and purchases were summarized as follows:

<b>DATE</b>	<b>PURCHASES</b>		<b>SALES</b>	
<b>2014</b>	<b>Units</b>	<b>Unit price sh.</b>	<b>Units</b>	<b>Unit price sh.</b>
May 1	100	800	-	-
5	120	700	-	-
12	-	-	200	1,520
18	30	720	-	-
22	-	-	20	1,300
<b>Total</b>	<b>250</b>		<b>220</b>	

- i) Prepare stock valuation card using FIFO Method.
- ii) Calculate the Gross Profit made in May 2014 by Ebenezer Dealers.

**(4 marks)**