



(University of Choice)

**MASINDE MULIRO UNIVERSITY OF
SCIENCE AND TECHNOLOGY
(MMUST)**

**UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR
FIRST YEAR SECOND SEMESTER EXAMINATIONS**

FOR THE DEGREE

OF

**BACHELOR OF SCIENCE INFORMATION SYSTEMS AND
KNOWLEDGE MANAGEMENT/IT**

COURSE CODE: BIK 121/BIT 125

COURSE TITLE: PRINCIPLES OF ACCOUNTING

DATE: Thursday 21/04/2022

TIME: 12:00-2:00p.m

INSTRUCTIONS TO CANDIDATES

Question ONE (1) in Section A is compulsory
Answer any other 2 questions from Section B

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over.

Question ONE COMPULSORY (30 marks)

- (a) Define the following terms as used in accounting theory and practice. [2 marks]
- i) Accounting [2marks]
 - ii) Accountability [2marks]
 - iii) Transparency [2marks]
- b) Explain the following accounting concepts/Principles: [2 marks]
- (i) Historical cost [2 mark]
 - (ii) Objectivity [2 mark]
 - (iii) Going concern [2 mark]
 - (iv) Matching [2 mark]
- C) If a buyer places an order against a credit facility, it becomes necessary for the seller to establish the credit worthiness of the buyer. State and briefly explain any four sources of credit status information available to the seller. (8 marks)
- D) Consider the following business transactions for Kitale chemicals between 22 September to 26 September 2020.

Sept 22: Balance b/f Cash shs. 4000; Bank shs 2500 (Cr)

Cash Sales of Ksh. 5000.

Sept 22: Recieved Cheque from Mutuma shs. 3900 and allowed him discount of shs. 100.

Sept 23: Paid Kagwira shs. 2400 in settlement of a debt amounting to shs. 2500.

Sept 24: Paid Mafuko shs. 8300 by cheque having deducted a discount of shs. 200.

Sept 25: Paid Sunday express in cash shs. 1000.

Sept 25: Recieved cash shs. 1900 from Riverland Motors discount allowed shs. 1000.

Sept 26: Paid shs. 1000 into the bank from office cash.

Required

Record the transactions above in Kitale Chemical three- column cashbook. [8 marks]

Question TWO (20 marks)

- a) Use the following financial statements information to answer the questions that follow.

Income statement for Kakamega wholesale Ltd.

<i>Particulars</i>	<i>2018</i>	<i>2019</i>
Net sales	4,000	5,000
Less " Cost of Goods Sold	3,000	3,750
Gross Profit	1,000	1,250
Less " Operating Expenses:		
Office and Adime Expenses	200	250
Selling and Dist Exp	225	300
Total Operating Expenses	425	550
Net Profit	575	700

Kakamega wholesale ltd. Balance sheet

<i>Particulars</i>	<i>2018</i>	<i>2019</i>
Liabilities and Capital		
Current Liabilities:		
Short-Term Loan	37,000	35,000
Bills Payable	7,000	5,000
Sundry Creditors	6,000	8,000
Bank Overdraft	27,000	35,000
Total Current Liabilities	72,000	83,000
Long Term Liabilities:		
Long-Term Debts	945,000	942,000
Total Liabilities	1,017,000	1,025,000
Share Capital	1,035,000	1,045,000
Total Liabilities & Capital	2,052,000	2,070,000
Assets		
Liquid Assets:		
Cash in Hand	5,000	5,500
Cash at Bank	3,500	5,000
Sundry Debtors	45,000	40,000
Bills Receivable	11,000	11,500
Total Liquid Assets	64,500	62,000
<i>Add:</i> Stock	35,000	40,000
Prepaid Expenses	902,500	903,000
Total Current Assets	1,002,000	1,005,000
Fixed Assets	1,050,000	1,065,000
Total Assets	2,052,000	2,070,000

Compute the following ratios for the two periods and comment

- Current ratio (2 marks)
 - Inventory turnover ratio (2marks)
 - Return on Equity ratio (2marks)
 - Debt ratio (2marks)
- b) Explain four limitations of ratio analysis as a technique for evaluating management performance. (8 marks)
- c) Explain how information contained in a financial statement can be used to value a business organisation. (4marks)

Question THREE (20 marks)

Friends Company was established on December 15 2008. It sells merchandise on account and the sales transactions for December are shown below the terms of sale are 1/10 n 30 FOB destination

December 20 Sold merchandise on account to Kiilu Invoice no 1, shs 84,000

22 Sold merchandise on account to Sheila invoice no 2, shs 192,500

- 24 Sold merchandise to Mutua on account invoice no 3, shs 222,250
 25 Issued credit note no 1 for shs 7,000 to Kiilu for merchandise returned.
 27 Sold merchandise on account to Charles Invoice no 4, shs 175,000
 28 Sold merchandise on credit to Umira invoice no 5 shs 105,000
 28 Issued credit note no 2 for shs.10,500 to Sheila for merchandise returned
 30 Sold merchandise on account to Sheila invoice no 6 shs.204,750.
 30 Issued credit note no 3 for shs 5,250 to Charles for damages to merchandise caused by faulty packing.
 31 Sold merchandise on account to Mutua invoice no 7, shs 69,650.

Required

- (a) The sales Journal. [7 marks]
 (b) The sales Returns journal [3 marks]
 (c) Post the entries to the sales ledger [5 marks]
 (d) The total debtors ledger account [3 marks]
 (e) The sales account [2 marks]

Question Four (20 marks)

The following trial balance was extracted from the books of Muliro Business, a sole Trader in Mombasa.

Trial Balance

As at 31st December 2008

	Dr.	Cr.
Sales		427,726
Purchases	302,419	
Carriage Inwards	476	
Carriage outward	829	
Wages & Salaries	64,210	
Rates & Rent	12,466	
Heat & Lighting	4,757	
Stock at 1/1/2008	15,310	
Drawings	21,600	
Equipment at cost	103,000	
Motor van at cost	43,270	
Provision for depreciation		22,250
(a) Equipment		5,920
(b) Motor van		41,792
Debtors/Creditors		3,295
Bank	50,633	
Sundry expenses	8,426	
Cash	477	
Bank Loan		4000
Capital		<u>122,890</u>
		<u>627,873</u>
	<u>627,873</u>	

The following information was also provided:

- (i) KSh.350 is owing for heat & light.

- (ii) KSh.620 has been prepaid for rent and rates.
- (iii) Depreciation is to be provided for the year as follows.
 - Equipment - 10% on cost
 - Motor vehicle - 20% on cost
- (iv) Closing stock was valued KSh.16,480.

Required

- a) (i) Prepare the Income Statement for the year ended 31st December 2008. [7marks]
- (ii) Prepare a Balance Sheet as at 31st December 2008. [8 marks]
- b) Explain five errors not revealed by a trial balance. [5marks]