**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**P.O. Box 972-60200 – Meru-Kenya.**

 **Tel: 020-2069349, 061-2309217. 064-30320 Cell phone: +254 712524293, +254 789151411**

**Fax: 064-30321**

**Website:** [**www.must.ac.ke**](http://www.must.ac.ke) **Email:** **info@must.ac.ke**

**University Examinations 2015/2016**

FIRST YEAR, SECOND SEMESTER EXAMINATION FOR THE DIPLOMA IN BUSINESS ADMINISTRATION, DIPLOMA IN PURCHASING AND SUPPLIES MANAGEMENT.

AND

STAGE III EXAMINATION FOR THE DIPLOMA IN INFORMATION TECHNOLOGY.

**BFD 2103: PRINCIPLES OF ACCOUNTING I**

**DATE: AUGUST 2016 TIME: 11/2 HOURS**

**INSTRUCTIONS: -** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30 MARKS)**

1. Explain the following terms as used in accounting giving examples of each.
2. Fixed assets (2 marks)
3. Current assets (2 marks)
4. Current liabilities (2 marks)
5. Long-term liabilities (2 marks)
6. Define the following terms as used in accounting, explaining their treatment in the books of accounts.
7. Creditors (3 marks)
8. Debtors (3 marks)
9. Capital (3 marks)
10. Sales (3 marks)
11. Return outwards (3 marks)
12. The following balances were extracted from the books of J. Kinoti on June 2015. You are required to prepare a trial balance. (7 marks)

Item shs.

Capital 105,000

Cash 14,190

Bank 37,900

Purchases 28,780

Stationery 890

Sales 17,580

Rent 2,200

Fixtures & fittings 6,100

Salaries 7,900

Motor vehicles 65,000

Loan (BBK) 25,000

Sundry creditors 20,090

Sundry debtors 4,710

**QUESTION TWO (20 MARKS)**

1. Explain the elements of the accounting equation. (6 marks)
2. Mr. Kamau started a business on 1st January 2014 with a capital of shs. 400,000 in the bank and shs. 50,000 cash. During the month of January, he undertook the following transactions:
* On 2nd he purchased a motor vehicle for business for shs.100,000 and paid for it by cheque.
* On 3rd he sold goods for cash shs. 50,000 and also purchased goods for sale shs. 200,000 which he paid by cheque.
* On 10th he sold goods on credit to Mrs. Kim shs. 300,000.

On 11th he purchased goods for shs. 40,000 paying by cash.

* On 12th he purchased goods on credit from Umoja Ltd for shs. 500,000.
* 15th he purchased goods on credit from Mrs. Kendi for shs. 30,000
* On 17th Mrs. Kim returned goods to him worth shs.5,000
* On 20th Mr. Kamau returned goods purchased from Umoja Ltd worth shs. 30,000
* On 22nd purchased goods for cash shs. 10,000
* On 23rd paid transportation cost for goods purchased shs. 10,000 by cheque
* On 26th he withdrew shs. 100,000 for business use
* On 27th he withdrew shs. 20,000 for personal use
* Transferred money to the bank on 28th shs. 80,000.

**Required:**

1. Post the entries into the ledger accounts and balance them off. (8 marks)
2. Prepare a trial balance to show balances in the ledger accounts at period end. (6 marks)

**QUESTION THREE (20 MARKS)**

1. Discuss the limitations of accounting ratios. (5 marks)
2. Explain six errors not affecting the trial balance (12 marks)
3. Explain three errors disclosed by the trial balance. (3 marks)

**QUESTION FOUR (20 MARKS)**

The following trial balance was extracted from the books of Miss Catherine as at 30th Sept 2015.

 DR CR

Capital 3,095,500

Drawings 842,000

Cash at bank 311,500

Cash in hand 29,500

Debtors 1,230,000

Creditors 937,000

Stock 30th Sept 2014 2,391,000

Motor van 410,000

Office equipment 625,000

Sales 13,090,000

Purchases 9,210,000

Return inwards 55,000

Carriage inwards 21,500

Return outwards 30,700

Carriage outwards 30,900

Motor vehicle expenses 163,000

Rent 297,000

Telephone charges 40,500

Salaries and wages 1,218,000

Insurance 49,200

Office expenses 137,700

Sundry expenses 28,400

Stationery 63,000 \_\_\_\_\_\_\_\_\_

 17,153,200 17,153,200

**Additional information**

* Stock as at 30th Sept 2015 was shs. 2,213,000

**Required**

Prepare Catherine’s

1. Trading profit and loss account for the year ended 30th Sept 2015. (12 marks)
2. Balance sheet as at that date. (8 marks)

**QUESTION FIVE (20 MARKS)**

1. Explain any five functions of accounting. (5 marks)
2. The following information has been extracted from the books of Mugambi Traders Limited for the month of April 2015. (15 marks)

Balance as at 1st April 2015 shs.

Sales ledger- Debit balances 838,000

 Credit balances 184,000

Purchases ledger - Debit balances 196,000

 Credit balances 598,000

Transactions during the month:

Sales on credit 8,784,000

Purchases on credit 7,849,000

Returns inwards 248,000

Returns outwards 179,000

Cheques received from trade debtors 2,968,000

Cheques paid to trade creditors 4,674,000

Cash paid to trade creditors 1,393,000

Bad debts written-off 139,000

Discounts allowed to trade debtors 162,000

Discount received from trade creditors 231,000

Credit sales offset against credit purchases 356,000

Credit purchases of a motor vehicle posted in the purchases ledger 598,000

Dishonoured cheques form trade debtors 193,000

Cash received to replace dishonoured cheques from debtors 106,000

An invoice to trade debt of shs. 174,000 posted as 147,000

**Balances as at 30th April 2015**

Sales ledger credit balances 123,000

Purchases ledger debit balance 177,000

**Required:**

The sales ledger and purchases ledger control accounts for the month ended 30th April 2015.