



GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS MAY - AUGUST 2018 SEMESTER

DIPLOMA IN BUSINESS MANAGEMENT

COURSE CODE: DBAC 010

COURSE TITLE: PRINCIPLES OF FINANCIAL ACCOUNTING

DATE: 6 AUGUST 2018

TIME: 11.30 AM – 2.30 PM

INSTRUCTIONS TO CANDIDATES

1. SECTION A IS **COMPULSORY**.
2. SECTION B: ANSWER ANY OTHER **THREE** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

CAUTION: *All exam rooms are under CCTV surveillance during the examination period.*

SECTION A: COMPULSORY

Question One

- a) A trial balance is a summary record of the various business account balances in regards to a specific period. The debit balances are expected to equal the credit balances. However certain situations may affect the balancing of the trial balance. Discuss five possible reasons that may affect the balancing of the trial balance **[10 marks]**
- b) The following are the transactions in regards to Bidco limited for the month of June 2018
1. 1st June credit sales were made to Peter for kshs 2,000
 2. Andrew bought kshs 9,000 worth of goods on credit from the business on 4th
 3. More sales were made to William valued at kshs 8,000 on credit the same day on 4th
 4. The business made cash sales to Wood valued at kshs 13,000 on 6th
 5. On 13th Stephen purchased kshs 21,000 worth of goods on credit from Bidco
 6. On 15th, Stephen realised that part of the goods he had bought on 13th were faulty. He returned the goods the same day worth kshs 2,000
 7. On 17th Bidco purchased kshs 40,000 worth of raw materials from Kenya suppliers limited on credit basis

Required: Prepare a sales journal

[6 marks]

- c) Explain the two classification of assets while giving examples in each **[4 marks]**

- d) Belinda started a business on 1st January 2017 with kshs 29,000 in the bank and kshs 10,000 cash. The same day, she brought her pickup to transport goods relating to the business
1. On 2nd January, she purchased goods worth kshs 11,000 on credit basis from XYZ limited
 2. 5th January, customers bought kshs 13,000 worth of goods and paid through the issue of a cheque
 3. 7th, She acquired more goods on credit from XYZ limited valued at kshs 67,000
 4. On 8th, she noticed that part of the goods bought from XYZ limited valued at kshs 4,000 were defective. She returned the goods back to the firm
 5. 9th, She paid rent to the premises she acquired kshs 3,000 on cash basis
 6. 10th, she acquired stationery worth kshs 20,000 and issued a cheque as payment
 7. 11th, she sold on cash basis goods worth kshs 45,000
 8. 12th, she transferred kshs 10,000 of the cash of the firm into the business bank account

Required: ledger accounts to record the above transactions **[10 marks]**

- e) Useful financial information should assist users make informed judgement. Explain five qualities of useful financial information **[10 marks]**

SECTION B: ANSWER ANY THREE QUESTIONS

Question Two

- a) Discuss any six principles of accounting information and their usefulness in accounting **[12 marks]**
- b) Explain the following documents
- i) Debit note **[2 marks]**
 - ii) Credit note **[2 marks]**
 - iii) Bank reconciliation statement **[2 marks]**
 - iv) Petty cash voucher **[2 marks]**

Question three

- a) Andrea has a business that had the following account balances as at 31st December 2017

Item	kshs
Stock as at 1 st January 2017	19,000
Return outwards	3,000
Carriage inwards	5,000
Return inwards	7,000
Carriage outwards	9,000
Purchases	156,000
Sales	321,000
Wages	36,000
Bad debts	11,000
Electricity expenses	9,000
Closing stock	31,000
Water bills	4,000
Motor vehicles	98,000
Debtors	32,000

Bank	45,000
Premises	101,000
Creditors	28,000
Short term investments	123,000
Discount received	7,000
Discount allowed	3,000
Sale of old business furniture	31,000
Depreciation	13,000

Required: Income statement for the year ended 31st December 2017 **[12 marks]**

- b) Calculate the value of Net Assets using the information provided above **[4 marks]****
- c) Discuss two reasons why a business prepares financial statements **[4 marks]****

Question Four

a) Explain the term “Accounting Equation” **[6 marks]**

b) Using examples discuss five errors that do not affect the balancing of the trial balance **[10 marks]**

c) Amos started his business with the following items

	kshs
Cash	45,000
Motor Vehicle	143,000
Debtors	90,000
Creditors	35,000
Overdraft	76,000
New capital	350,000
Additional investment	201,000
Drawings	18,000

Required: compute the value of capital at the beginning **[4 marks]**

Question five

- a) Michael realised that the value of his net current assets have lost value by kshs 120,000 in the course of the year 2017. Discuss five reasons for the loss of value of such non-current assets **[10 marks]**
- b) The following transactions relate to Budget supermarket for the year ended 30th June 2018
1. The bank balance on 1st July 2017 was kshs 48,000 while the cash balance was kshs 92,000
 2. The supermarket manager bought kshs 24,000 worth of goods on credit from Kasuku limited on 5th July
 3. Sales totalling kshs 67,000 were sold on cash basis on 6th August
 4. 8th August, additional sales were sold on credit to Karoki customers valued at kshs 31,000
 5. The business acquired investments through the issue of a cheque for kshs 89,000 on 1st September
 6. 4th September, dividend income was credited to the supermarkets bank account by its bank totalling to kshs 59,000
 7. He brought his personal furniture into the business valued at kshs 8,000 on 8th September
 8. The manager paid wages on 10th October amounting to kshs 24,000 through the issue of a cheque
 9. On 12th October, sales amounting to kshs 45,000 and kshs 39,000 were made on cash and through receipt of cheque
 10. The business bills: electricity, water and rent were paid through the issue of a cheque to each concerned company amounting to kshs 1,000, kshs 5,000 and 13,000
 11. He transferred kshs 12,000 of the business cash to the businesses bank account
- Required: prepare a cashbook using the above information **[10 marks]**