



MACHAKOS UNIVERSITY

University Examinations for 2021/2022 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

FIRSTYEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF SCIENCE (HOSPITALITY AND TOURISM MANAGEMENT)

HTM 108-1: INTRODUCTION TO HOSPITALITY AND TOURISM ACCOUNTING

DATE: 28/1/2022

TIME: 2:00 – 4:00 PM

INSTRUCTIONS

Answer question ONE and any other TWO questions

QUESTION ONE (30 MARKS)

The books of Mr T, a trader in tea showed the following balances as at 31 March 2020:

	Shs.
Opening stock of tea	100,000
Purchases – Tea	400,000
Salaries paid	80,000
Buildings	95,000
Cash in hand	2,000
Cash at bank	135,000
Rent, rates and council taxes	15,000
Insurance premium paid	3,000
Miscellaneous receipts	10,000
Sales	720,000
Discounts allowed	4,750
Bad debts	3,250
Building repairs	2,900
Miscellaneous expenses	8,700
Advertisement	20,000

Commission to sales manager	32,400
Furniture and fittings	35,000
Air conditioners	30,000
Sundry debtors	100,000
Sundry creditors	80,000
Loan on mortgage	70,000
Interest paid on the above	3,000
Prepaid expenses	4,000
Drawings	18,000
Bills payable (Current liability)	30,000
Bank charges	2,000
Legal charges	6,000
Motor vehicles	80,000
Travelling and conveyance	10,000
Capital	280,000

The following further information was obtained :

1. Closing stock was Shs.55,000.
2. Legal charges include Shs.5,000 for the cost of stamps and registration of a new building acquired during the year.
3. Purchases include 4000 kg tea valued at Shs.20,000, which was found totally spoilt. An insurance claim of Shs.15,000 has been accepted by the insurance company.
4. Travelling and conveyancing include proprietor's personal travelling for which he is charged Shs.4, 800.
5. The sales manager is entitled to commission of 7.5% of the total sales. However any bad debts incurred during the year are deductible from such commission entitlements.
6. Debtors include:
7. Shs.10, 000 due from M & C0 (Creditors include Shs.18, 000 due to the same party).
8. Shs.5, 000 due from the sale of furniture.
9. Further bad debts of Shs.2, 000
10. Provision for bad debts is to be created at 2% of net amount outstanding from trade debtors.
11. Depreciation is chargeable as follows:

Buildings	2.5%
Furniture and Fittings	10%
Air conditioners	15%
Motor vehicles	20%

12. Miscellaneous receipts represent sales proceeds of furniture, whose written down value was Shs.12, 000.
13. Prepaid expenses include insurance premiums for the next year.

Required:

- (i) Income Statement for the year ended 31st March 2020 (12 marks)
- (ii) Statement of financial positions as at 31st March 2020. (8 marks)
- b) Highlight two advantages and two disadvantages of using Last in First Out (LIFO) method. (4 marks)
- c) Discuss the importance of accounting in hospitality firms. (6 marks)

QUESTION TWO (20 MARKS)

The following information relates to item P003 stocked by Punjab products Ltd for the month of April 2019:

Date	Receipts	Issues	Unit cost (Sh)
	Units	Units	
April 3	2,400		18
4		3,200	
6	2,600		20
12		2,700	
14	3,000		22
18	2,800		21
20		2,200	
22	2,600		23
25		3,800	
26	3,100		24
27	2,500		25
28	3,200		26
29		6,900	

The closing balance for March 2019 was a batch of 3,000 units received at a unit price of Sh 19.

Required:

- a) Stores perpetual inventory record for item P003 for April 2019 under LIFO and FIFO system of stores issues. (14 marks)
- b) Determine closing stock valuation in both methods. (6 marks)

QUESTION THREE (20 MARKS)

- a) Explain the importance following accounting concepts
 - (i) Substance over form concept (2.5 marks)
 - (ii) Materiality concept. (2.5 marks)
 - (iii) Matching Concept. (2.5 marks)
 - (iv) Historical cost concept. (2.5 marks)
- b) Identify and explain the usefulness of ten source documents. (5 marks)
- c) Explain five causes of depreciation on non-current assets. (5 marks)

QUESTION FOUR (20 MARKS)

- a) Explain four reasons why the trial balance is prepared. (4 marks)
- b) Identify and explain four errors not detected through preparation of trial balance. (8 marks)
- c) Dada Lil, a sole trader has prepared the following balance as at 31 March 2020

SHS

Sales	378,500.00
Discount Received	2,400.00
Rent Received	7,500.00
Returns outwards	7,700.00
Creditors	18,700.00
Bank Overdraft	30,000.00
Capital	287,500.00
Purchases	261,700.00
Salaries and Wages	45,700.00
Office expenses	8,400.00
Insurance premiums	3,100.00
Electricity	1,600.00
Stationery	6,200.00
Advertising	8,400.00
Telephone	2,100.00
Business Rates	7,500.00
Discounts allowed	600.00
Returns Inwards	4,100.00
Stocks as at 1 April 2019	120,600.00

Warehouse, shop and office	210,000.00
Fixtures and fittings	12,800.00
Debtors	13,000.00
Cash in till	500.00
Drawings	26,000.00

The following further information was obtained:

- Closing stock was Shs102,500.00
- Electricity charges accrued Shs700.00
- Advertising expenses accrued Shs500.00
- Insurance premiums paid in advance Shs900.00
- Business rates prepaid Shs1,500.00

Required:

Prepare a trial balance as at 31 march 2020.

(8 marks)

QUESTION FIVE (20 MARKS)

The following trial balance was extracted form the books of Rodney, a sole trader, at 31st December 2019:

	Shs	Shs.
Drawings/Capital	2,148	20,271
Debtors/Creditors	7,689	5,462
Purchases/Sales	62,101	81,742
Rent and Rates	880	
Light and heat	246	
Salaries and wages	8,268	
Bad debts	247	
Provision for bad debts	326	
Stock in trade 31st Dec 2018	9,274	
Insurance	172	
General Expenses	933	
Bank balances	1,582	
Motor van at cost/Provision for depreciation	8,000	3,600
Proceeds on sale of van	250	

Motor expenses	861	
Freehold premises at cost	15,000	
Rent received		750
Provision for depreciation on buildings		<u>5,000</u>
	<u>117,401</u>	<u>117,401</u>

The following matters are to be taken in to account:

1. Stock in trade at 31st December was Shs.9,884
2. Rates paid in advance at 31st December 2019, Shs.40
3. Rent receivable due at 31st December 2019, Shs.250
4. Lighting and heating due at 31st December 2019, sh.85
5. Provision for doubtful debts to be increased to Shs.388
6. Included in the amount for insurance Shs.172, is an item for Shs82 for motor insurance and this amount should be transferred to motor expenses.
7. Depreciation has been and is to be charged on vans at an annual rate of 20% on cost.
8. Depreciate buildings Shs.500
9. On 1st January 2019 a van which had been purchased for Shs.1,000 on 1st January 2016 was sold for Shs250. The only record of matter is the credit of Shs.250 to "Proceeds of sale on van" account.

Required:

- (i) Income Statement for the year ended 31st December 2019. (12 marks)
- (ii) Statement of Financial Position as at 31st December 2019. (8 marks)