



MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

FIRST YEAR FIRST TERM EXAMINATION FOR

DIPLOMA IN BUSINESS MANAGEMENT

DIPLOMA IN SUPPLY CHAIN MANAGEMENT

FINANCIAL ACCOUNTING

DATE: 4/6/2021

TIME: 8.30-11.30 AM

INSTRUCTIONS:

The paper contains of six questions

Answer any **Five** questions in the answer booklet

All questions carry equal marks

The questions should be answered in English

QUESTION ONE

- a) Explain each of the following accounting concepts (8 marks)
- i) Accrual concept
 - ii) Dual aspect concept
 - iii) Going concern concept
 - iv) Money measurement concept
- b) State the differences between financial accounting and management accounting (4 marks)

- c) John, a sole proprietor prepared the following Trial balance as at 31 December 2018

| Details | Dr (sh) | Cr (sh) |
|--|----------------|----------------|
| Sales | | 942330 |
| Motor vehicles | | 1250000 |
| Provision for depreciation on motor vehicles (1 January 2018) | | 550000 |
| Discount received | 5000 | |
| Carriage inwards | | 10000 |
| Provision for bad debts | 7000 | |
| Drawings | 35000 | |
| Rent expense | 23000 | |
| Returns inwards | | 10000 |
| Insurance | 800 | |
| Discounts allowed | | 4000 |
| Postage and telephone | | 450 |
| Commission received | | 8000 |
| Stationery | 1210 | |
| Return outwards | | 12000 |
| Salaries and wages | 24400 | |
| Bad debts written off | | 600 |
| Capital | | 1869820 |
| Lanad and buildings | 1314690 | |
| Purchases | 720000 | |
| | 2131100 | 4657200 |

Prepare a corrected Trial balance as at December 2018

(8 marks)

QUESTION TWO

- a) Explain four qualities of good accounting information (8 marks)

- b) The following information relates to Judy traders for the month of April 2019

April 1 purchased goods for ksh 50000 from Suntra suppliers on credit
 7 purchased good for sh 150000 from Temba stores on credit
 15 returned goods worth sh 30000 to Temba stores
 18 sold goods for sh 200000 to Atiti on credit
 20 purchased goods for sh 180000 from KN stores on Credit
 23 sold goods for sh 300000 to Jane on credit
 25 Atiti returned goods worth sh 15000
 28 returned goods worth sh 10000 to KN stores
 30 sold goods for sh 120000 to Mary on credit

Prepare;

- i) Sales journal
- ii) Purchases journal
- iii) Returns inwards journal
- iv) Returns outwards journal

(12 marks)

QUESTION THREE

a) Explain each of the following source documents

- i) Quotation
- ii) Credit note
- iii) Purchases order
- iv) Cash receipt

(8 marks)

b) The following trial balance was extracted from the books of accounts of Wodu enterprises as 3 December 2018

| Details | Ksh |
|----------------------------|---------|
| Capital | 3600000 |
| Sales | 1538000 |
| Land and buildings | 2660000 |
| Salaries and wages | 962000 |
| Purchases | 350000 |
| Motor vans | 900000 |
| Office expenses | 177500 |
| Drawings | 30000 |
| Account payable | 294000 |
| Cash at bank | 362000 |
| Inventory (1 January 2018) | 60000 |
| Commission received | 126500 |
| | 60000 |

Add. Information:

1. in December 31 2018, inventory was valued as sh 60000
2. motor vans are depreciated at the rate of 20% per annum on cost
3. on 31 December 2018, accrued office expense amounted to sh 12500

Prepare:

- i. Income statement for the year ended 31 December 2018
- ii. A statement of financial position as at December 2018

(12 marks)

QUESTION FOUR

- a) Explain each of the following accounting terms
- i. Error of principle
 - ii. Error of commission
 - iii. Error of original entry
 - iv. Error of complete reversal of entries (8 marks)
- b) Peter had the following balances on 1st January 2012; sh 150000 in the bank, sh 40000 cash in hand, purchases sh 10000 and sales sh 10000. The following transactions took place during the month;
- January 1 purchased office equipment sh 30000 by cheque,
Bought stock, sh 50000 by cheque
- 4 withdrew sh 25000 from bank for office use
Purchased stationery, sh 600 in cash
- 12 sold goods on credit for sh 8000
Bought goods sh 32000 on credit
- 25 received a cheque from debtors sh 4500
Purchased stationery on credit sh 200 from Tom
- 30 received cash sh 2000 from debtors

Required:

Record the above transactions in the relevant ledger accounts and balance them off (12 marks)

QUESTION FIVE

- a) The trial balance of Jane traders as at 30 June, 2018 failed to balance. The credit side exceeded the debit side by sh 3900. On investigation, the following errors were revealed
- i. Sales daybook had been under cast by sh 10000
 - ii. Purchases daybook had been under cast by sh 5000
 - iii. Discounts allowed were overcast by sh 100
 - iv. Returns inwards of sh 1000 had erroneously been credited to returns outwards account
 - v. Accounts payable was overcast by sh 7000
 - vi. Bank charges amounting to sh 500 had not been recorded in the books of account

Prepare;

- i. General ledger to correct the errors above
 - ii. Suspense account dully balances (10 marks)
- b) The following balances were extracted from the books of account of Musa Traders as at 30 June 2018.

| | ksh |
|-------------------------|-------------|
| Inventory (1 July 2017) | 15360000 |
| Motor vehicle expense | 3360000 |
| Purchases | 172000000 |
| Returns outwards | 7920000 |
| Returns inwards | 1,000,000 |
| Discount received | 1,480,000 |
| Sundry expenses | 700,000 |
| Equipment | 4,800,000 |
| Rent expense | 8,400,000 |
| Discount allowed | 2,320,000 |
| Sales | 185,440,000 |
| Furniture | 3,280,000 |
| Salaries and wages | 29,680,000 |

Additional information;

- i. Inventory as at 30 June 2018 was valued at sh 20,640,000
- ii. Depreciation is provided as follows;
 - I. furniture 10% per annum
 - II. equipment 20% per annum

Prepare an income statement for the year ended 30 June 2018 (10 marks)

QUESTION SIX

- a) Briefly describe four users of accounting information (8 marks)
- b) Creative Advertising, owned by Miss Abida Masood, provides advertising consulting services. During January 2011, the following events occurred:

Jan. 2 Owner contributed sh. 50,000 and a new computer costing sh. 20,500 to start her business.

Jan. 4 Office supplies were purchased on account for sh. 4,000.

Jan. 10 Creative Advertising obtained 12% 5-year loan of sh. 20,000 from the bank.

Jan. 12 Creative Advertising paid the utility bills for sh. 2,750.

Jan. 15 Paid the sh. 3,000 in Accounts Payable from the purchase of office supplies on Jan. 4.

Jan. 24 Advertising services completed in January were billed to clients Annie's Flowers at sh. 18,300.

Jan. 27 Creative Advertising received sh. 5,500 from Annie's Flowers, a client, as payment on account.

Jan. 30 Miss Abida Masood withdrew sh. 6,000 of cash for personal use.

Required;

Journalize the above transactions (12 marks)