

**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**](mailto:info@must.ac.ke)

**University Examinations 2015/2016**

FIRST YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE, BACHELOR OF BUSINESS ADMINISTRATION, BACHELOR OF BUSINESS INFORMATION TECHNOLOGY AND BACHELOR OF SCIENCE IN INFORMATION TECHNOLOGY

**BFC 3125: FINANCIAL ACCOUNTING I**

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

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

**QUESTION ONE (30MARKS)**

1. On 1st may, 2013, Mr. Gichuki a sole trader had capital balance of shs.2,500,000. During the month, he did the following transactions:
2. He converted his personal vehicle valued shs.1,700,000 into business use.
3. He withdrew shs.1,000,000 from business bank account to pay fee for his children.
4. Net profit was shs.1,200,000.

Required:

Determine Gichuki’s capital as at 31st May 2013. (5 Marks)

1. Accounting as a man-made discipline is developed to meet certain needs. What gives rise to the need for accountability? (5 Marks)
2. Why must we prepare a trial balance? Explain at least four reasons. (4 Marks)
3. The following are the balances of Nambale Andsons for the year ended 30th June, 2012.

**Particulars shs.000**

Motor vehicles 196,000

Discounts allowed 240

Loan 120,000

Accounts payable 18,000

Returns inwards 1,000

Sales 77,000

Furniture 14,000

Cash in hand 8,500

Salaries 4,600

Travelling 500

Bank overdraft 25,000

Stock/inventory, 30th June 2012 4,800

Electricity 300

Debtors 16,500

Stock/inventory 1st July 2011 6,200

Returns outwards 960

Machinery 32,000

Discount received 180

Capital 80,700

Purchases 42,000

Required:

1. Trial balance as at 30th June 2012 (3 Marks)
2. Trading and profit/loss account. (4 Marks)
3. Balance sheet as at that date. (3 Marks)
4. Discuss the following terms as used in financial accounting with examples:
5. Capital expenditure. (2 Marks)
6. Revenue expenditure. (2 Marks)
7. Depreciation of fixed assets. (2 Marks)

**QUESTION TWO (20 MARKS)**

Mr. Ochong’a has been trading for some years as a Wine Merchant. The following list of balances has been extracted from his ledger as at 31st December, 2013.

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Shs.000** | **Shs.000** |
| Trade creditors |  | 19,840 |
| Returns outwards |  | 13,407 |
| Capital |  | 83,887 |
| Discount allowed | 2,306 |  |
| Discount received |  | 1,750 |
| Sales |  | 259,870 |
| Provisions for bad debts |  | 512 |
| Purchases | 135,680 |  |
| Carriage outwards | 4,562 |  |
| Returns inwards | 5,624 |  |
| Drawings | 18,440 |  |
| Rent, rates and insurance | 25,973 |  |
| Carriage inwards | 11,830 |  |
| Heating and lighting | 11,010 |  |
| Postage | 2,410 |  |
| Adverting | 5,980 |  |
| Salaries and wages | 38,521 |  |
| Bad debts written off | 2,008 |  |
| Cash in hand | 534 |  |
| Cash at bank | 4440 |  |
| Stock as at 1st January 2013 | 15,654 |  |
| Trade debtors | 24,500 |  |
| Fixtures and fitting at cost | 120,740 |  |
| Provision for depreciation (fixtures) |  | 63,020 |
| Depreciation | 12,074 |  |
|  | **442,286** | **442,286** |

The following information was also found left out at the end of the year:-

1. Insurance had been overpaid by shs.1,120,000.
2. Heating and lighting was accrued by shs.1,360,000.
3. Rates have been prepaid by shs. 5,435,000.
4. Provision for bad debts is to be adjusted so that it is 3% of trade debtors.
5. Stock inventory at the close of the year was valued at shs.17,750,000.

Required:

1. Prepare Mr. Onchong’as income statement. (14 Marks)
2. Prepare his balance sheet as at that date. (6 Marks)

**QUESTION THREE (20 MARKS)**

1. Discuss the possible ways through which the fixed assets depreciate while on use. (8 Marks)
2. Why do we have to account for depreciation? Explain the system in use currently. (12 Marks)

**QUESTION FOUR (20 MARKS)**

On 1st December 2013 the owner of Mask enterprises Mr. Kirkland decided that he will keep records on a double entry system. His assets at that date were as follows:

|  |  |
| --- | --- |
| **Particulars** | **(shs.000)** |
| Equipments | 20,000 |
| Inventory | 15,000 |
| Bank balance | 17,500 |
| cash | 375 |
| **Accounts payable** |  |
| Markins | 3175 |
| Scotch | 200 |
| Macoy | 500 |

Kirkland’s transactions during the month were as follows:

1. Sold faulty equipments, original cost shs.500,000 Linton Corporation for cash shs.5m.
2. Bought stock on credit from central council shs.2,500,000.
3. Sold goods to Edwards on credit shs.1,500,000.
4. Bought equipment from Linton Corporation shs.3,500,000.
5. Paid the balance owed to Markins less 5% cash discount.
6. Paid central council full amount by cheque.
7. Received full amount due from Edwards by cheque.
8. Paid Linton Corporation by cheque after deducting 20% trade discount.

Required:

Open the enterprises’s ledger accounts record all the transactions for the month and balance the ledger accounts. (20 Marks)

**QUESTION FIVE (20 MARKS)**

Explain the following accounting concepts at least showing how they are applied in the preparation of financial reports.

1. The going concern concept. (5 Marks)
2. The accrual concept. (5 Marks)
3. The consistency concept. (5 Marks)
4. The concept of prudence. (5 Marks)