



MURANG'A UNIVERSITY COLLEGE (MRUC)
(A *Constituent* College of Jomo Kenyatta university of Agriculture & Technology)

SCHOOL OF COMMERCE AND ECONOMICS

UNIVERSITY EXAMINATION 2013

FORST YEAR 2ND SEMESTER EXAMINATION

FOR THE DEGREE OF BACHELOR OF INFORMATION TECHNOLOGY

HPS 2103: FINANCIAL ACCOUNTING

DATE:

TIME: 3 HOURS

INSTRUCTIONS

Answer Question *ONE* and any *OTHER TWO* Questions.

COMPULSORY QUESTION (30 MARKS)

Q1(a) State any *five* users of accounts and in each case show their areas of interest.

(b) Differentiate between

(i) Carriage inwards and carriage out wards

(ii) Returns inwards and returns outwards

(iii) Debit note and credit note

(iv) Prepayments and accruals

(c) The following information was extracted from the books of Jacob, a sole trade as at 30 June 2012

	shs
Capital	6,500,000
Drawings	1,144,000
Purchases	5,200,000
Sales	9,124,050
Purchases returns	183,300
Inventory (1 July 2011)	744,900
Bad debts	91,000
Allowance for doubtful debts (1.7.11)	210,600
Rates and Insurance	84,500
Discount received	12,350
Accounts receivable	4,115,150
Sales returns	275,600
Wages	408,200
Buildings	1,625,000
Rent received	136,500
Delivery expenses	1,101,100
Carriage inwards	150,150
Office expenses	87,100
Printing and stationery	42,900
Postage and telephone	53,300
Accounts payable	1,229,800

Cash at bank	806,000
Cash in hand	234,650
Office furniture	227,500
Salaries and commissions	641,550
Building extension	364,000

Additional information

1. Inventory as at 30 June 2012 was valued at sh 928,850.
2. Insurance paid in advance as at 30 June 2012 to sh 15,600
3. Rent receivable amounted to sh 13,000 as at 30 June 2012
4. Allowance for doubtful debts is to be increased to sh 246,909
5. Salary outstanding as at 30 June 2012 amounted to sh 43,550
6. Jacob decided to write off further bad debts of sh 37,050.
7. Depreciation is to be provided on cost at as follows

Asset	rate per annum
Buildings	2.5%
Building extension	2.5%
Furniture	5%

Required

- (a) Income statement for the year ended 30 June 2012. (12 marks)
- (b) Balance sheet as at the end of 30th June 2012 (8 marks)

Answer **ANY TWO** Questions

Q2. The following trial balance was extracted from the books of Nyambani Suppliers Ltd as at
31 March 2012

	Sh'000'	sh'000'
Issued share capital		
3,000,000 ordinary shares of sh 100 each		360,000
600,000 6% preference shares of sh 100 each		60,000
Share premium accounts		72,000
7% debentures		72,000
Motor Vehicle at cost	270,000	
Good Will	60,000	
Accumulated depreciation (1.april.2011)		87,600
Furniture and fittings	106,800	
Trade receivables and trade payables	126,000	77,700
Bank and cash	65,460	
Inventory (31 March 2012)	243,780	
Gross profit		359,400
Directors' emoluments	56,400	
Administrative expenses	200,940	
Revenue reserve (1 April 2011)		<u>106,680</u>
	<u>1,129,380</u>	<u>1,129,380</u>

Additional information:

1. Debentures were issued on 1 April 2011. No interest has been paid on them.
2. Depreciation on motor vehicles for the year has not yet been charged. Depreciation should be charged at 10% per annum on cost.
3. Allowance for doubtful debt should be at 5% per annum.
4. Provision for corporation tax for the year ended 31 March 2012 was sh 48,000,000.
5. Directors have proposed a dividend of 5% to the ordinary shareholders and a transfer of sh 18,000,000 to the general reserve.

Required

- (a) Income statement for the year ended 31 March 2012.
- (b) Statement of financial position as at 31 March 2012. (8 marks)

Q3 (a) Citing a relevant example in each case, explain the following accounting terms;

- (i) Personal accounts
- (ii) Nominal accounts
- (iii) Real accounts

(b) (i) Define the term “source document”

(ii) Describe any *five* source documents and indicate their usefulness in the accounting activities.

(c) Summarize *four* objectives of financial accounting.

Q4. Abel and Cain are trading as partners sharing profits and losses in the ratio 3:2 respectively.

The following trial balance was extracted from their partnership records as at 31 December 2012

	Sh'000,	sh'000'
Capital accounts:		
Abel		7,000
Cain		4,000

Current accounts;		
Abel		300
Cain	200	
Freehold premises at cost	4,000	
Motor vehicles	2,400	
Furniture and fittings	800	
Purchases/sales	22,000	25,616
Returns inwards/outwards	600	440
Cash at bank	1,880	
Cash drawing:		
Abel	480	
Cain	300	
Inventory (1.01.2012)	740	
Carriage in wards	1,080	
Carriage outwards	180	
Salaries	1,960	
Office expenses	364	
Allowance for doubtful debts		160
Discounts	84	120
Bad debts	66	
Rent and rates	146	
Accumulated depreciation (1.01.2012)		
Motor vehicles		960
Fixtures and fittings		2,106
	<u>40,886</u>	<u>40,886</u>

Additional Information:

1. Inventory was valued at sh2,400,000 as at 31 December 2012
2. Cain is entitled to a salary of sh60,000 per month
3. Interest is charged on cash drawing at the rate of 5% per annum.
4. Interest on capital account balances is allowed at 4% per annum
5. Goods taken by partners for personal use which were not yet recorded amounted to sh 200,000 and sh 20,000 for Abel and Cain respectively.
6. Depreciation on non-current assets is to be provided as follows:

Non-current asset	Rate (%) p.a	Basis
Motor vehicles	20	Reducing balance
Fixtures and fittings	10	straight line

7. As at December 2012, rent and rates outstanding amounted to sh 24,000, while salaries paid in advance amounted to sh 260,000
8. Allowance for doubtful debts is to be maintained at 3% of the outstanding trade receivables.

Required

- (a) Income statement for the year ended 31 December 2012. (9 marks)
 - (b) Partners, current accounts (3 marks)
 - (c) Statement of financial position as at 31 December 2012 (8 marks)
- (Total: 20 marks)**

Q5 The following balance sheets was extracted from the business of Kimani, A Sole Trade

Mr. Kimni

Balance sheet

As at 31 January 2012

	Sh.		sh
Machinery	80,000	Capital	325,000
Motor vehicle	350,000		
Stock	30,000	D.F.C Loan	90,000
Debtors	20,000	creditors	70,000
Cash in hand	15,000		
	<hr/>	Bank overdraft	<u>10,000</u>
	<u>495,000</u>		<u>495,000</u>

Transaction for the month of February 2012 are given below :

2012

Feb 2 Bought furniture for sh 65,000 by cheque

Feb 4 Bought goods on credit for sh 42,000

Feb 8 Sold goods worth sh 35,000 and payments received by cheque.

Feb 12. Received sh13, 000 from debtors in cash

Feb 19 Paid sh 8,000 to creditors by cheque

Feb 22 Bought goods worth sh58, 000 on credit

Feb 25 Sold goods worth sh38,000 from the business and payments received by cheque.

Feb 27 Kimani took goods worth sh12, 000 from the business for personal use.

Feb 28 Paid D.F.C loan sh 21,000 by cheque.

Required:

- (i) Open ledger accounts . (6 marks)
 - (ii) Record the opening balances and the transaction for the month of February (4 marks)
 - (iii) Balance off the accounts. (4 marks)
 - (iv) Prepare a closing trial balance. (6 marks)
- (Total 20 marks)



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INSTRUCTIONS

Answer Question *ONE* and any *OTHER TWO* Questions

Compulsory question (30 marks)

Q1. (a) On January, 2012 innocent Oluoch had the following assets and liabilities

	Sh
Cash at bank	210,000
Inventory	400,000
Trade receivables: Rotich	150,000
Njeri	96,000
Trade payables : Mwau	130,000
Wndo	85,000
Office equipment	420,000
Motor vehicles	3,250,000

The following transaction took place during the month of January 2012:

- Jan 2, Withdrew sh 20,000 from bank for business use.
- Jan 3 Purchased goods from Mwau worth sh 25,000 on credit.
- Jan 4, Bought stationery for sh 3,600 in cash.
- Jan 8, Received sh 94,000 from Njeri in full settlement less discount of sh 2,000.
- Jan14, Sold goods to rotich for sh 140,000 on credit.
- Jan 15 Paid salaries amounting to sh 8,000 in cash
- Jan 17, Paid Wendo sh 60,000 by cheque on account.
- Jan 18, Returned goods worth sh 3,000 to Mwau.
- Jan 20, bought office equipament for sh 14,500 on credit from bora brothers
- Jan 22, Sold goods at hand and received sh125,000 in cash and sh500,000 by cheque
- Jan 26, Paid bora brothers sh 13,000 in cash.
- Jan 27, withdrew sh 37,000 from the bank for personal use.
- Jan 30, Paid rent sh 16,000 in cash and sh 18,000 by cheque

Required:

- (i) Innocent Oluoch's capital balance as at 1 January 2012 (3 marks)
- (ii) Post the transactions to the relevant ledger accounts and close them as at 31 January 2012 (12 arks)
- (iii) Extract the trial balance as at 31 January 2012 (5 marks)
- (b)(i) Explain any four use of financial accounting. (4 marks)
 - (ii) Accounting has been described as
 - (I) an art
 - (II) A means to an end
 - (III) A barometer

In each case explain the meaning of the term that defines the accounting activities. (6 marks)

Q2. The following trial balance was extracted from the books of Mr. Patni for the year ended 31 December 2011.

	Sh.	Sh.
Capital		1,878,950
Drawings	270,000	
Purchases/sales	942,480	1,919,160
Returned inwards/outwards	32,490	49,230
Wages and salaries	423,000	
Discount allowed/received	22,320	38,340
Freehold premises (cost)	687,150	
Office equipment (cost)	136,800	
Motor vehicles (cost)	344,000	
Provision for depreciate(1.1.11)		
Office equipment		26,100
Motor vehicles		72,000
Miscellaneous expenses	32,040	
Bank balance	232,470	
Cash in hand	10,800	
Electricity	42,480	
Rate and rate	22,320	

Insurance	5,400	
Allowance for doubtful debts (1.1.11)		18,000
Bad debts written off	6,480	
Motor vehicle expenses	34,740	
Inventory (1.1.11)	570,060	
15% bank loan		90,000
Loan interest paid	<u>6,750</u>	<u> </u>
	<u>4,226,780</u>	<u>4,226,780</u>

Additional Information

1. Inventory as at 31 December 2011 at sh 558,900
2. Goods taken during the year by the proprietor for personal use were valued at sh 3,600.
3. Rte and insurance paid in advance as at 31 December 2011 amounted to sh 5,760 and sh 1,080 respectively
4. Depreciation is to be provided on cost as follows:

Asset	Rate per annum
Office equipment	10%
Moto vehicles	20%

5. Allowance for doubtful debts is to be increased by sh 4,500

Required

- (i) Trading Profit And Loss Account for the year ended 31 December 2011.
- (ii) Statement of finance position as at 31 December 2011.

Q4. The following information was extracted from the books of Bin Ltd as at 31 October 2012

	Sh'000'
Quoted investment	5,000
Allowance for doubtful debts (1 Nov.2011)	160
Directors remuneration	300
Preference dividend paid	100
Interim dividend paid	120
Bank overdraft	320
Rates, rent and insurance	