



MURANG'A UNIVERSITY OF TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF COMMERCE

TVET EXAMINATION

2023/2024 ACADEMIC YEAR

**FIRST YEAR FIRST SEMESTER EXAMINATION FOR DIPLOMA IN
ACCOUNTANCY (TVET) LEVEL 6**

BUS/OS/AC/CR/01/6/A – FUNDAMENTALS OF ACCOUNTING

DURATION: 2 HOURS

INSTRUCTIONS TO CANDIDATES:

1. Answer all questions in Section A and Any Three questions in Section B.
2. Mobile phones are not allowed in the examination room.
3. You are not allowed to write on this examination question paper.

SECTION A: ANSWER ALL QUESTIONS IN THIS SECTION

QUESTION ONE (40 MARKS)

- a) Explain the following terms as used in a Business Environment (5 marks)
- i. Financial Accounting
 - ii. Accruals
 - iii. Accounting errors
 - iv. Source documents
 - v. Accounts Payables
- b) Identify five users of the financial statements. (5 marks)
- c) State five examples of source documents applicable in a business. (5 marks)
- d) Explain three objectives of financial accounting (6 marks)
- e) Differentiate between capital expenditure and revenue expenditure. (2 marks)
- f) Highlight three (3) limitations of financial statements (3 marks)
- g) State four (4) examples of ledger accounts prepared in a business entity. (4 marks)
- h) State four (4) components of an Income Statement. (4 marks)
- i) Explain two (2) causes of depreciation. (2 marks)
- j) Explain two asset-details one must know when calculating depreciation. (4 marks)

SECTION B (60 MARKS): ANSWER ANY THREE QUESTIONS IN THIS SECTION

QUESTION TWO (20 MARKS)

- a) Explain five qualitative characteristics of good financial information. (10 marks)
- b) Discuss five possible accounting errors. (10 marks)

QUESTION THREE (20 MARKS)

- a) Distinguish between sole proprietorships and companies. (10 marks)
- b) Elaborate on five advantages of sole proprietorships over companies. (10 marks)

QUESTION FOUR (20 MARKS)

- a) Discuss five (5) accounting concepts applicable in the accounting field. (10 marks)
- b) Explain two advantages of suspense accounts. (4 marks)
- c) Discuss three (3) methods of valuating inventory. (6 marks)

QUESTION FIVE (20 MARKS)

The following trial balance was extracted from the books of ABC traders at at 30/06/2022

ABC Traders
Trial Balance
As at 30/06/2022

| No. | Account | Debit (Dr) (sh) | Credit (Cr) (sh) |
|-----|--------------------------|-----------------|------------------|
| 1 | Premises | 1,500,000 | |
| 2 | Debtors, Creditors | 20,000 | 30,000 |
| 3 | Cash at Bank | 90,000 | |
| 4 | Cash in hand | 10,000 | |
| 5 | Purchases, Sales | 140,000 | 320,000 |
| 6 | Inventory as at 1/7/2021 | 45,000 | |
| 7 | Discounts | 6,000 | 2,000 |
| 8 | Salaries | 50,000 | |
| 9 | Commission | | 8,000 |
| 10 | Power and Lighting | 12,000 | |
| 11 | Returns | 15,000 | 19,000 |
| 12 | Carriage inwards | 5,400 | |
| 13 | Carriage outwards | 2,300 | |
| 14 | Capital | | 1,543,700 |
| 15 | Furniture | 27,000 | |
| | Total | 1,922,700 | 1,922,700 |

Additional information:

The stock of goods on 30/06/2022 was worth sh. 22,000

Prepare:

- a. A statement of income (Trading and loss Account) for ABC traders for the year ended 30/06/2022 (10 marks)
- b. A statement of financial position (balance sheet) as at 30/06/2022 (10 marks)