



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

SCHOOL OF COMMERCE AND ECONOMICS

UNIVERSITY SPECIAL/SUPPLEMENTARY EXAMINATIONS 2013

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) 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
Wendo	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 equipment 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** uses 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)

(Total 30 marks)

Answer any **TWO** Questions

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	
Trade receivables/payables	405,000	135,000
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 dents (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. Rate 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. (10 marks)
- (ii) Statement of finance position as at 31 December 2011. (10 marks)

(Total: 20 marks)

Q3. 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 draft	320
Rates, rent and Insurance	190
Revenue reserves (1 Nov 2011)	1,065
Office administration expenses	160
Motor vehicle (cost sh1.4 million)	1,010
Furniture and fittings (cost 4.5million)	2,300
Trade payables	240
12% Debentures	1,000

Ordinary share capital of sh 10 each	3,000
9% Preference share capital of sh 10 each	2,000
Share premium account	1,500
Carriage outwards	530
Carriage inwards	470
Salaries and wages	1,300
Motor vehicle expenses	320
Rent income	1,200
Investment income	940
Inventory (1 Nov 2011)	2,120
Bad debts	185
Purchases	5,600
Sales	10,800
Return outwards	160
Return inwards	210
Cash in hand	1,190
Trade receivables	2,480
General reserves	1,200

Additional information:

1. Inventory as at 31 October 2012 was valued at sh 3,200,000
2. Depreciation is to be provided as following:

Asset	Rates per annum	Method
Furniture and fittings	5%	straight line
Motor vehicle	20%	Reducing balance

3. Prepayment and accruals as at 31 October 2012 were as follows:

	Prepayments	Accruals
	Sh	sh
Wages	100,000	-
Auditors fees	-	120,000
Directors' remunerations	-	20,000
Investment income	-	540,000
Carriage inwards	30,000	-

4. Corporation tax for the year ended 31 October 2012 was sh.278,000
5. Allowance for doubtful debts as at 31 October 2012 was sh 145,000.
6. The board of directors has approved the following:
 - Final dividend of sh 0.5 per share
 - Transfers of sh 285,000 from the general reserve

Required

- (i) Income statement for the year ended 31 October 2012 (12 marks)
- (ii) Statement of financial position as at 31 October 2012 (8 marks)

Q4. (a) Differentiate between the following:

- (i) Nominal account and real account.
- (ii) Purchase order and purchase invoice.
- (iii) Invoice and receipt.
- (iv) Credit note and debt note
- (v) Appropriate and expenses.
- (vi) Cash discount and trade discount.
- (vii) Financial accounting and bookkeeping. (14 marks)

(b) Explain the term source document and state four (4) source documents. (3 marks)

(c) Explain *six (6)* uses of accounts. (3 marks)

(Total: 20 marks)

Q5. Abel and Cain are trading as partners sharing profits and losses in the ratio 3:2 respectively. The following trail balance was extracted from their partnership records as a t 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		<u>2,106</u>
	<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 drawings 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:

<u>Non-current asset</u>	<u>Rate (%) p.a</u>	<u>Basis</u>
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 main tined 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)