



UNIVERSITY OF EMBU

2021/2022 ACADEMIC YEAR

FIRST SEMESTER EXAMINATIONS

EXAMINATION FOR DIPLOMA IN BUSINESS MANAGEMENT WITH
INFORMATION TECHNOLOGY

BAC 051: FINANCIAL ACCOUNTING

DATE: DECEMBER 6, 2021

TIME: 11:00 AM – 1:00 PM

INSTRUCTIONS:

Answer Question ONE and ANY Other TWO Questions.

QUESTION ONE (30 MARKS)

a) Define the following terms as used in financial accounting.

- i) Double entry (2 marks)
- ii) Intangible Assets (2 marks)
- iii) Partnership deed (2 marks)
- iv) Share capital (2 marks)
- v) Depreciation (2 marks)

b) Outline **six** circumstances under which a cheque may be dishonored by a bank. (6 marks)

c) Highlight **four** purpose for which control accounts are prepared. (4 marks)

d) Distinguish between the following terms as used in financial accounting.

- i) Capital expenditure and revenue expenditure (3 marks)
- ii) Accrued expenses and prepaid expenses (3 marks)

e) Kangaru Enterprises prepares its financial statements for periods ending 31st December. On 31st December 2019 a bill for electricity amounting to Sh 27,000 had been received by the accountant but not paid. Other bills received for the period amounted to Sh 210,000 had been paid for as at 31st December 2019.



Retained profit 1 October 2018	362,000
Goodwill	160,000
Bank overdraft	25,000

The following additional information is available:

- 1) Depreciation is provided annually on the cost of fixed assets held at the end of the financial Year at the following rate:
 - a) Freehold buildings 20%
 - b) Fixtures and fittings 10%
- 2) The trade debtors' balance includes Sh. 10,000 due from Musa who has now been declared Bankrupt. In the circumstances, it has been decided to write the debt off as a bad debt.
- 3) The provision for doubtful debts as at 30 September 2019 is to be 5% of trade debtors
- 4) Establishment expenses prepaid at 30 September 2019 amounted to Sh.4,000
- 5) Administration expenses accrued at 30 September 2019 amounted to Sh.7,000.
- 6) The company paid the interest on the loan stock for the year, ended 30 September 2019 on 30 October 2019.
- 7) Closing stock was valued at Sh.560,000.
- 8) The company's directors propose that the preference share dividend be paid and a Dividend of 10% on ordinary shares be paid.

Required:

- (i) Trading and profit and loss account and appropriation account for the year ended 30 September 2019 of Karatina Traders Ltd. (8 marks)
- (ii) Statement of financial position as at 30 September 2019. (8 marks)

QUESTION THREE (20 MARKS)

- a) Identify **four** users of accounting information and for each indicate how the information is useful to them (8 marks)

QUESTION FOUR (20 MARKS)

- a) Discuss **five** qualitative characteristics of good accounting information. (10 marks)
- b) Mr. Jwan started a business on 1st June 2018. during the first month of trading the following Transactions took place.

2nd Jan, Wrote a personal cheque and deposited into the business bank account Sh800,000

2nd Jan, Withdrew Sh200, 000 from the bank and put it into the cash till.

2nd Jan, Purchased goods by cheque Sh70,000

3rd Jan, Bought furniture for cash Sh25,000

3rd Jan, Bought equipment on credit Sh75,000

4th Jan, Sold goods for cash Sh100,000

5th Jan, Bought goods and paid by cheque Sh.200,000

6th Jan, Bought a motor van paying by cheque Sh.210,000

10th Jan, Obtain loan from the bank Sh.500,000

12th Jan, Sold goods on credit Sh75,000

16th Jan, Sold goods payment made by cheque Sh.100,000

16th Jan, Received a cheque from a debtor Sh.60,000

30th Jan, Took Sh10,000 from the cash till personal use.

- i) Using the given details write up and balance the two column cash book for Mr. Jwan for the month of June 2018. (10 marks)

QUESTION FIVE (20 MARKS)

- a) Define and explain the relevance of the following accounting concepts.

i) Going concern (2 marks)

ii) Business entity (2 marks)

iii) Materiality (2 marks)

iv) Substance over form (2 marks)

- b) On 31st December 2016 the cash book of H. Njeri showed a balance at the bank of Sh Sh8, 100. The bank statement however showed a balance of Sh 6,700. Going through the bank statement she found out that:

1. A cheque received from Taifa Ltd on 1st December for Sh 600 and entered into the cash book did not appear on the bank statement
2. A cheque paid to E. Kamara Sh 700 on 25th December had not been presented
3. A cheque received from N Njiru on 24th December Sh 600 and entered into the cash book was returned dishonored. No entry in this regard was recorded I the cash book
4. Bank charges amounting to Sh 100 had not been entered into the cash book