



TECHNICAL UNIVERSITY OF MOMBASA
Faculty of Business & Social Studies
DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR
MASTERS IN BUSINESS ADMINISTRATION

BAC 5101: FINANCIAL ACCOUNTING

SPECIAL/SUPPLEMENTARY EXAMINATIONS

SERIES: MARCH 2015

TIME: 3 HOURS

INSTRUCTIONS:

– Answer any **FOUR** questions.

This paper consists of Three printed pages

QUESTION 1

- a) Examine the role of financial accounting in the analysis of accounting transactions and the preparation of financial statements. (10 marks)
- b) Matt Spode is a wholeseller. His trial balance extracted from his books on 31st December 2013 revealed the following balances:

	Sh.	Sh.
Capital account		112,000
Purchases	92,400	
Sales		157,240
Premises at cost	64,000	
Motor vehicles at cost	30,000	
Accumulated depreciation of motors		8,200
Fixtures and fittings at cost	6,500	

Accumulated depreciation – fixture and fittings		1,100
Motor expenses	7,300	
Rates	2,300	
Balances at bank	4,200	
Wages and salaries	42,000	
Drawings	9,600	
Insurance	2,000	
Trade debtors	18,000	
Provision for doubtful debts		560
Trade creditors		15,000
Sundry expenses	16,200	
Long term loan		20,000
Stock as at 1 st Jan. 2013	19,250	
Cash in hand	<u>350</u>	<u> </u>
	<u>314,100</u>	<u>314,100</u>

The following information was available at 31st December 2013:

- Stock at 31st December was sh. 22,400
- There were salaries and wages of sh. 1,200 owing.
- There was a payment of sh. 1,200 on 30th September to cover 12 months insurance.
- On reviewing debtors, it was discovered that a debt of sh. 800 would not be recovered and that a further sh. 1,200 was doubtful.
- Depreciation is 25% reducing balance on motors \$10 % straight line on fittings and fixtures.
- Loan interest at 10% has not been allowed for.

Required:

Prepare a P & L account and balance sheet for Matt Spode to cover the period in question.

(15 marks)

QUESTION 2

- Discuss the limitations of the analytical techniques used in ratio analysis of financial statements. **(5 marks)**
- Financial statements attract various categories of stakeholders interest. In reference to the above statement, identify **FIVE** categories of financial statements information stakeholders. For each category identify their specific interests in that information. **(10 marks)**
- Briefly discuss **TEN** fields of accounting specialization and identify any **TWO** fields that are a requirement shared by all of them. **(10 marks)**

QUESTION 3

- a) There are **FOUR** parts to a cash flow statement list them and show the one with least effect in your brief explanation. **(8 marks)**
- b) From the information below show the calculations for cash provided by operating activities in a cashflow statement.

Net income	Sh. 100,000
Depreciation expense	Sh. 10,000
Increase in accounts receivable	Sh. 30,000
Decrease in accounts payable	Sh. 15,000

- (7 marks)**
- c) i) Explain the reasons for the preparation of the trial balance. **(5 marks)**
ii) What kind of errors would cause the totals of a trial balance to be equal and go undetected. **(5 marks)**

QUESTION 4

- a) Explain why accounting is referred to as the language of business. **(5 marks)**
- b) Distinguish elements of financial statements that appear in the main financial statements. **(4 marks)**
- c) Explain the **THREE** components of the accounting equation and what they represent. **(6 marks)**
- d) Discuss the assumptions and principles or constraints below and identify what statement they communicate about financial accounting:
- i) Entity assumption
 - ii) Periodicity assumption
 - iii) Going concern assumption
 - iv) Unit of measure assumption
 - v) Historical cost principle
 - vi) Conservation
 - vii) Full disclosure principle
 - viii) Materiality
 - ix) Cost effectiveness.
 - x) Realization principle. **(10 marks)**