



# TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

Department of Accounting & Finance

**UNIVERSITY EXAMINATION FOR:**

**MSF/ MPSM**

**BAC 5101: FINANCIAL ACCOUNTING**

**END OF SEMESTER EXAMINATION**

**SERIES: APRIL 2022**

**TIME: 3 HOURS**

**DATE: APRIL,2022**

## Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

This paper consists of FIVE questions. Question One is Compulsory. Answer any other Two questions.

**Do not write on the question paper**

## Question ONE

- a. The following trial balance has been extracted from the ledger of Mrs. Ali, sole trader.

	Dr	Cr.
	Kshs.	Kshs.
Sales		138,078
Purchases	82,350	
Carriage	5,144	
Drawings	7,800	
Rent rates and instance	6,622	
Postage and stationery	3001	
Advertising	1,330	
Salaries and wages	26,420	
bad debts	877	
Allowance of doubtful debts		130
account receivable	12,120	

Account payable		6,471
Cash in hand	177	
Cash at bank	1,002	
Inventory 1/6/11	11,927	
Equipment		
cost	58,000	
Accumulated depreciation		19,000
Capital		53,091
	216,770	216,770

Additional information

- i. Rent is accrued by Kshs.210/=
- ii. Rates have been repaid by Kshs.880/=
- iii. Kshs.2,211 of carnage represents carriage inwards on purchases
- iv. Equipment is to be depreciated at 15% per annum using straight line method.
- v. Allowance for downfall debits to be increased by Kshs.40/=
- vi. Inventory at the close of business has been valued at Kshs.13,551/=

**Required**

- i. Prepare income statement for the year ending 31<sup>st</sup> May 2012 (10 marks)
- ii. Statement of financial position as at that date (10 Marks)
- a) "In practice the regulation of any field leads to misallocation of resources because production is not geared towards the market forces of demand and supply. The accounting profession is no exception."

Required;

Discuss the problems facing the accounting profession as a result of regulation.  
(10marks)

**Question TWO**

ABC Ltd CO's Income statement for the year ended 31<sup>st</sup> December 2018 and statements of financial position at 31<sup>st</sup> December 2017 and 31December 2018 were as follows.

**ABC LTD CO.**

Income statement for the year ended 31 December 2018

	KSH.'000'	KSH.'000'
Sales		720
Raw Materials consumed	70	
Staff costs	<u>94</u>	
Depreciation	<u>118</u>	

<u>Loss on disposal of non-current asset</u>	<u>18</u>	
		<u>300</u>
<u>Operating profit</u>		<u>420</u>
<u>Interest payable</u>		<u>28</u>
<u>Profit before tax</u>		<u>392</u>
<u>Taxation</u>		<u>124</u>
<u>Profit for the year</u>		<u>268</u>

ABCLTD CO.

Statements of financial position as at 31 December

	2018	2017
	KSH.'000'	KSH.'000'
Non-current assets	15,960	15,600
Cost	(3,180)	(2,240)
Depreciation	12,780	13,360
Current assets	240	200
Inventory	760	580
Trade receivables	480	5600
Bank	1,480	1340
Total assets	14,260	14,700
Equity and Liabilities		
Equity	3,600	3,240
Share capital	360	240
Share Premium	7,160	5,140
Retained earnings	11,120	8,780
Non-current liabilities		
Long-term Loans	2,000	5,000
Current liabilities		
Trade payables	120	60
Taxation	1,020	860
	1,140	920
Total equity and Liabilities	14,260	14,700

Dividends paid were Ksh. 660,000

During the year, the company paid Ksh.900,000 for a new machinery.

Required

- b) Prepare a statement of cash flows for ABC LTD CO. for the year ended 31 December 2018 in accordance with the requirements of IAS 7, using the indirect method. (20Marks)

**Question THREE**

The following information relates to TEB Co, a business which provides service support to customers worldwide.

	2019	2018
	KSH."M"	KSH "M"
Sales revenue	2,176.2	2,344.8
Cost of Sales	<u>1,659.0</u>	<u>1,731.5</u>
Gross profit	<u>517.2</u>	<u>613.3</u>
Current assets		
Inventories	42.7	78.0
Receivables(note1)	378.9	431.4
Short-term deposits and cash.	<u>205.2</u>	<u>145.0</u>
	<u>626.8</u>	<u>654.4</u>
Current liabilities		
Loans and overdrafts	32.4	81.1
Tax on profits	67.8	76.7
Accruals	11.7	17.2
Payables (note2)	<u>487.2</u>	<u>467.2</u>
	<u>599.1</u>	<u>642.2</u>
Net current assets	<u>27.7</u>	<u>12.2</u>
Notes		
1. Trade receivables	<u>295.2</u>	<u>335.5</u>
2. Trade payables	<u>190.8</u>	<u>188.1</u>

Required

- a) Compute the following ratios
- i) Current ratio (2marks)
  - ii) Quick ratio (2marks)
  - iii) Accounts receivable (2marks)
  - iv) Collection period (2marks)
  - v) Inventory turnover period (2marks)

- vi) Accounts payable (2marks)
- vii) Payment Period. (2marks)
- b) Comment on the results of your calculations (2marks)
- c) Discuss the importance of ratio analysis. (4marks)

**Question FOUR**

- a) "Accounting standards are basically working rules that guide accounts in the preparation and presentation of financial statements and reports."

Required:

Discuss the extent to which accounting standards have improved the usefulness of accounting information. (15marks)

- b) Explain accrual accounting model. How does it add to the usefulness of financial statements? (5Marks)

**Question Five**

- a) Differentiate between trend analysis and cross-sectional analysis as techniques for analyzing financial statements. (5marks)
- b) ShikaTwende Ltd has an authorized capital of Kshs.50,000/=, 10% preference shares of 1ksh each and Kshs.200,000/= ordinary shares of Kshs.0.5/= each. After preparation of the income statement for 2016, the following balances remained in the in financial statements.

	Ksh." 000"
Share capital: fully paid -up	
Preference shares	30
Ordinary shares	80
Loan notes	20
Share premium account	4
General reserve	7
Retained profit 2012	3
Net profit for 2013	27
Non-current assets	140
Current assets	50
Account payable	19

The directors recommend

- i. That Kshs.10,000/= be transferred to general reserve
- ii. Payment of the preference dividend
- iii. An ordinary dividend of 15%

**Required**

Prepare a statement of changes in equity for 2016 and a statement financial position as at 31<sup>st</sup> December,2016. (10 Marks))

c) Explain the following accounting principles and assumptions

- i) Going concern (1Mark)
- ii) Matching (1Mark)
- iii) Full disclosure (1Mark)
- iv) Realization (1Mark)
- v) Periodicity (1Mark)