



TECHNICAL UNIVERSITY OF MOMBASA

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SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

DIPLOMA IN ACCOUNTANCY

DIPLOMA IN BUSINESS MANAGEMENT

DIPLOMA IN BUSINESS ADMINISTRATION

DIPLOMA IN PROCUREMENT AND MATERIAL MANAGEMENT

DIPLOMA IN HUMAN RESOURCE MANAGEMENT

DIPLOMA IN SALES AND MARKETING

BAC 2104: FINANCIAL ACCOUNTING

SUPPLEMENTARY/SPEC. EXAMINATION

**SERIES:** JUNE 2022

**TIME:** 2 HOURS

**DATE:** Pick Date Jun 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. Attempt question ONE (Compulsory) and any other **TWO** questions.

**Do not write on the question paper.**

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**Question ONE**

a) Define Accounting and analyze FOUR users of the accounting information. (10 Marks)

b) The following trial balance was extracted from the books of Tiwi traders as at 31<sup>st</sup> December, 2020.

Dr	Cr
Sh.000	Sh.000

Capital		130,000
Drawings	27,000	
Accounts receivable/payable	25,350	22,500
Inventory 1/1/2020	39,610	
Purchases and sales	145,000	224,000
Returns	5,390	4,620
Wages and salaries	31,650	
Carriage inwards	4,700	
Discounts	3,540	3,300
Advertising	5,130	
Bad debts	1,100	
General expenses	5,100	
Rates	2,750	
Cash	800	
Bank	3,300	
Motor vehicles at cost	15,000	
Provision for depreciation		
Motor vehicle		4,000
Premises	100,000	
Provision for depreciation on premises		25,000
Allowances for doubtful debts		<u>2,000</u>
	<u>415,420</u>	<u>415,420</u>

**Additional information:**

- (i) Inventory at 31 December was valued at Sh.41,260,000
- (ii) Motor vehicles are depreciated at 20% on cost and premises are depreciated at 10% on cost.
- (iii) Wages owing at 31 December 2020 were to Sh.5, 400,000 while prepaid rates amounted to Sh.750, 000 at that time.
- (iv) Allowances for doubtful debts should be adjusted to 10% of accounts receivable.

Required:

Prepare:

- i. The Income statement of Tiwi Traders for the period ended 31<sup>st</sup> December, 2020. (12 Marks)
- ii. A statement of financial position as at that date. (8 Marks)

### Question TWO

Otieno is a sole trader. He has just completed her accounts for the year ended 31 December 2017. His net profit for the year was calculated as Sh. 389,700. However, during the following month these errors were discovered:

- i. The returns inwards day book was overcast by Sh. 32,000.
- ii. Sales of Sh. 43,000 on credit to Mellor were entered in the sales account as Sh. 24,000.
- iii. Otieno introduced his own computer into the business at a valuation of Sh. 29,500. However, this was credited to sales by mistake.
- iv. Sundry expenses of Sh. 7,600 cash was entered in both accounts as a credit entry.
- v. A payment by cheque of Sh. 2,500 to Smith was entered in both accounts as Sh. 25,200.

Required:

- a) Show the corrections needed for the above errors in the Journal. (10 Marks)
- b) Open up a suspense account and make entries as appropriate in correcting the errors thus showing the correct opening balance on the suspense account. (10 Marks)

### Question THREE

- a) A business is an economic institution engaged in production and / or distribution of goods and services in order to earn profits. Sole proprietorship is of immense interest to investors to partnership. Discuss. (10 Marks)
- b) You have been asked to prepare the final accounts for W Smith, a sole trader, for the year ended 31 December 2013. W Smith has forwarded to you all books of prime entry and ledgers, and in addition has given you the following information:
  - i. Mr Smith had taken £2,000 out of the business bank account to take his wife on holiday.
  - ii. Up to last year the machinery and vehicle used in the business had been depreciated using the reducing balance method. W Smith thinks that they should now be depreciated using the straight line method.
  - iii. Mr Smith is confident, given his order book that the business will continue to operate in its present form for many years.
  - iv. Mr Smith had purchased ten staplers, four flip charts and four packets of whiteboard markers which will be used in the business for the next couple of years.
  - v. Mr Smith informs you that he has just found an unopened electricity bill for £900 which was for the quarter October to December 2013.

Required:

In each case, identify and then explain the main accounting concepts being highlighted and indicate how each should be treated in the final accounts. (10 Marks)

#### **Question FOUR**

- a) Summarizing a set of subsidiary accounts had been an integral part of accounting. Elaborate the reasons why control accounts are maintained. (8 Marks)
- b) The Cash Book of Lotonea Ltd shows a balance of Sh. 12,500. On comparing with the pass book, the following discrepancies were noted:
- i. Cheque issued but not yet presented for payment of Sh. 6,000.
  - ii. Cheque deposited in the bank but not collected sh. 9,000.
  - iii. Bank paid insurance premium sh. 5,000
  - iv. Bank charges sh. 300
  - v. Direct deposit by a customer sh. 8,000
  - vi. Interest on interest collected by bank sh. 2,000

Required:

Prepare a bank reconciliation statement.

(12 Marks)

#### **Question FIVE**

Financial accounting has evolved over the years. Discuss the emanating trends in Financial Accounting. (20 Marks)