TECHNICAL UNIVERSITY OF MOMBASA

School of Business

Department of Accounting & Finance

UNIVERSITY EXAMINATION FOR:

BACHELOR OF SCIENCE IN MATHS AND FINANCE

BAC 4250: FINANCIAL ACCOUNTING 2

END OF SEMESTER EXAMINATION

SERIES: DECEMBER 2024

TIME:2HOURS

DATE: Pick DateDec2024

Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

This paper consists of **FIVE** questions. Attemptquestion ONE (Compulsory) and any other TWO questions.

Do not write on the question paper.

Question ONE

Each of these multiple-choice questions has four suggested answers, (A), (B), (C) and (D). You should read each question and then decide which choice is best, either (A) or (B) or (C) or (D). ***Write down your answers on in the booklet.***

MC1 Gross profit is

(A) Excess of sales over cost of goods sold
(B) Sales less Purchases
(C) Cost of goods sold + Opening stock
(D) Net profit less expenses of the period.

MC2 Net profit is calculated in the

(A) Trading account
(B) Profit and loss account
(C) Trial balance
(D) Balance sheet.

MC3 To find the value of closing stock at the end of a period we

(A) do this by stocktaking
(B) look in the stock account
(C) deduct opening stock from cost of goods sold
(D) deduct cost of goods sold from sales.

MC4 Which of this best describes a balance sheet?

(A) An account proving the books balance
(B) A record of closing entries
(C) A listing of balances
(D) A statement of assets. ʻ

MC5 Which of the following are correct?

	Account to be debited	*Account to be credited*
(*i*) Bought office furniture for cash	Office furniture	Cash
(*ii*) A debtor, P Sangster, pays us by cheque	Bank	P Sangster
(*iii*) Introduced capital by cheque	Capital	Bank
(*iv*) Paid a creditor, B Lee, by cash	B Lee	Cash

(A) (*i*), (*ii*) and (*iii*) only
(B) (*ii*), (*iii*) and (*iv*) only
(C) (*i*), (*ii*) and (*iv*) only
(D) (*i*) and (*iv*) only

MC6 Which of the following are **incorrect**?

	Account to be debited	*Account to be credited*
(*i*) Sold van for cash	Cash	Van
(*ii*) Returned some of Office Equipment to Suppliers Ltd	Office Equipment	Suppliers Ltd
(*iii*) Repaid part of loan from C Charles by cheque	Loan from C Charles	Bank
(*iv*) Bought machinery on credit from Betterways Ltd	Betterways Ltd	Machinery

(A) (*ii*) and (*iv*) only
(B) (*iii*) and (*iv*) only
(C) (*ii*) and (*iii*) only
(D) (*i*) and (*iii*) only

MC7 Which of the following best describes the meaning of 'Purchases'?
(A) Items bought
(B) Goods bought on credit
(C) Goods bought for resale
(D) Goods paid for

MC8 Which of the following should not be called 'Sales'?
(A) Office fixtures sold
(B) Goods sold on credit
(C) Goods sold for cash
(D) Sale of item previously included in 'Purchases'

MC9 A debit balance of shs.100 in a cash account shows that

(A) There was shs.100 cash in hand
(B) Cash has been overspent by shs.100
(C) shs.100 was the total of cash paid out
(D) The total of cash received was less than shs.100.

MC10 Given the following, what is the amount of Capital? Assets: Premises £20,000; Stock £8,500; Cash £100. Liabilities: Creditors £3,000; Loan from A Adams £4,000
(A) £21,100
(B) £21,600
(C) £32,400
(D) £21,400

MC11 Which of the following are correct?

	Account to be debited	*Account to be credited*
(*i*) Received commission by cheque	Bank	Commission received
(*ii*) Paid rates by cash	Rates	Cash
(*iii*) Paid motor expenses by cheque	Motor expenses	Bank
(*iv*) Received refund of insurance by cheque	Insurance	Bank

(A) (*i*) and (*ii*) only
(B) (*i*), (*ii*) and (*iii*) only
(C) (*ii*), (*iii*) and (*iv*) only
(D) (*i*), (*ii*) and (*iv*) only

MC12 Shs.50 cash taken from the cash till and banked is entered.

(A) Debit cash column shs.50: Credit bank column shs.50
(B) Debit bank column shs.50: Credit cash column shs.50
(C) Debit cash column shs.50: Credit cash column shs.50
(D) Debit bank column shs.50: Credit bank column shs.50.

MC13
Which of the following best describes a trial balance?
(A) Shows the financial position of a business
(B) It is a special account

(C) Shows all the entries in the books
(D) It is a list of balances on the books

MC14 Given figures showing: Sales £8,200; Opening stock £1,300; Closing stock £900; Purchases £6,400; Carriage inwards £200, the cost of goods sold figure is
(A) £6,800
(B) £6,200
(C) £7,000
(D) Another figure.

MC15 Carriage inwards is charged to the trading account because
(A) It is an expense connected with buying goods
(B) It should not go in the balance sheet
(C) It is not part of motor expenses
(D) Carriage outwards goes in the profit and loss account.

(30 MARKS)

Question TWO

(a) Outline **FOUR** weaknesses of ratio analysis as a tool for making decisions. **(8 Marks)**

(b) The following are the financial statements of Africana Hotels Ltd. for the two years ended 31 March 2017 and 2018.

Balance sheet:	**2018**	**2017**
Assets:	**Sh. '000'**	**Sh. '000'**
Investments at cost	10,400	16,000
Land	8,800	12,600
Plant and machinery at cost	2,000	2,200
Buildings at cost	10,000	18,000
Stock	11,000	13,000
Debtors	8,000	10,000
Bank	200	-
	50,400	71,800
Liabilities and capital:		
Ordinary shares of Sh.20 each.	8,000	10,000
Share premium	2,600	2,800
Revaluation reserve	-	4,000
Profit and loss account	9,000	5,000
10% debentures	16,000	30,000
Accumulated depreciation:		
Plant and machinery	800	1,000
Building	2,000	2,200

Creditors	8,000	12,000
Proposed dividend	4,000	4,000
Bank	-	800
	50,400	71,800

Profit and loss account:

Sales	40,000	40,000
Cost of goods sold	(20,000)	(24,000)
Gross profit	20,000	16,000
Expenses (including interest)	12,000	12,000
Net profit	8,000	4,000
Dividends	4,000	4,000
Retained profit for the year	4,000	-
Balance b/f	5,000	5,000
Balance c/f	9,000	5,000

Required;

For each of the two years: Calculate the following ratios.

(i). Gross profit percentage. **(2 Marks)**

(ii). Debtors turnover. **(2 Marks)**

(iii). Creditors turnover. **(2 Marks)**

(iv). Current ratio. **(2 Marks)**

(v). Acid test ratio. **(2 Marks)**

(vi). Dividend cover. **(2 Marks)**

(20 Marks)

Question THREE

The following trial balance was extracted from the books of Halima at the close of the business on 31 March 2019.

	DR	CR
	SHS	SHS
Purchases and Sales	61400	127,245
Stock 1 April 2018	7,940	
Capital 1 April 2018		25,200
Bank overdraft		2,490
Cash	140	

Discounts	2,480	62
Returns inwards	3,486	
Returns outwards		1,356
Carriage outwards	3,210	
Rent and insurance 8,870	8,870	
Provision for doubtful debts		630
Fixtures and fittings	1,900	
Van	5,600	
Debtors and creditors	12,418	11,400
Drawings	21,400	
Wages and salaries	39,200	
General office expenses	319	
	168,383	**168,383**

Notes:

(a) Stock 31 March 20X9 shs.6,805.
(b) Wages and salaries accrued at 31 March 2019 shs.3,500; Office expenses owing shs.16.
(c) Rent prepaid 31 March 2019 shs.600.
(d) Increase the provision for doubtful debts by shs.110 to shs.740.
(e) Provide for depreciation as follows: Fixtures and fittings shs.190; Van shs.1,400.

Required

a. The trading and profit and loss account for the year ending 31 March 2019(12 marks)
b. Balance sheet as on 31 March 2019 (8 marks)

(Total :20 MARKS)

Question FOUR

a) Explain the benefits of maintaining control accounts? **(5 marks)**

b) The trial balance of Outsize Books Ltd revealed a difference in the books.

2018	Kshs.
Jan 1	Purchases ledger balances 19,420
	Sales ledger balances 28,227
	Totals for the year 20X8
	Purchases journal 210,416
	Sales journal 305,824
	Returns outwards journal 1,452
	Returns inwards journal 3,618
	Cheques paid to suppliers 205,419
	Petty cash paid to suppliers 62
	Cheques and cash received from customers 287,317
	Discounts allowed 4,102
	Discounts received 1,721
	Balances on the sales ledger set off against balances in the purchases ledger 640
Dec 31	The list of balances from the purchases ledger shows a total of £20,210 and that from the sales ledger a total of £38,374

Required
From the above prepare the Sales ledge and Purchases ledger control accounts and show where an error may have been made:
(15 marks)

(Total :20 MARKS)

Question FIVE

a. State five persons who are beneficiaries of the financial statements (10 marks)

b. Briefly explain the following accounting concepts.

i. Going concern (2 marks)
ii. Money measurement concept(2 marks)
iii. Cost concept 2 marks)
iv. Dual aspect (2 marks)

(Total :20 MARKS)