



# Machakos University College

(A Constituent College of Kenyatta University)

University Examinations 2013/2014 Academic Year

**SCHOOL OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT STUDIES**

**EXAMINATION FOR THE DEGREE OF MASTERS IN BUSINESS  
ADMINISTRATION**

**BAC 500: FINANCIAL ACCOUNTING**

**DATE: 11/8/2014**

**TIME: 11:30 - 1.30 Pm**

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## INSTRUCTIONS

Answer Question One and any other three questions in section B

### QUESTION ONE (COMPULSORY)

The accounting profession has been working towards developing a conceptual framework which is acceptable across all the countries in the world. In line with this you are required to;

- i) Define conceptual frame work. (2 marks)
- ii) explain four advantages and four disadvantages of conceptual frame work for the accounting profession. (4marks)
- iii) The following transactions were extracted from the books of JogooMpya enterprises for the month of May. You are required to record the following transaction in the general journal of JogooMpya for May 2002

May

1. Paid rent by cheque 2000
2. Sold for Cash Shs 5,000
3. Bought furniture by cheque Shs 15,000 less 10% trade discount
4. Bought stock for cash sh. 2,600 less 5% quantity discount
5. Sold stock on credit to MuliKsh. 700
6. Bought a delivery van Ksh 190,000 on credit from Dubby LTD.

7. Purchased Goods on credit from Kilos worth Ksh 90,000

(7 marks)

iv) Maputo accounts disclose the following information as at 31<sup>st</sup> July 2007.

Opening stock	15,000
Purchases	150,000
Closing stock	25,000
Sales	220,000
Wages	20,000
Electricity	5,000
General expenses	7,000
Rent received	15,000

Required,

Using this prepare Maputo's statement of financial performance to show;

- Gross profit
- Net profit

(8 marks)

v) Under the revenue recognition principle, any basis for revenue recognition short of actual sale opens the door to wide variations in practice. Recognition at the time of sale provides a uniform and reasonable test. However, there are exceptions where the point of sale may not give a fair result. Briefly describe any other four acceptable methods of revenue recognition.

(4 marks)

**(TOTAL 25 MARKS)**

**SECTION B (ANSWER ANY THREE QUESTIONS 15 MARKS EACH)**

**QUESTION TWO**

The following trial balance was extracted from the books of Salama traders for the year ended 31st December 2007.

Accounts details	Debit Shs	Credit Shs
Machinery at cost	450,000	
Provision for depreciation - machinery 1/1/07		90,000
Motor vehicle at cost	250,000	
Provision for depreciation - motor vehicle 1/1/07		45,000
Purchases	500,000	
Sales		900,000
Returns Outwards		15,000
Returns Inwards	30,000	
Carriage inwards	4,000	
Discount allowed	5,000	
Discount received		8,000
Rent income		26,000

Electricity expenses	6,700	
Insurance expenses	10,000	
Stock 1/1/07	60,000	
Debtors	150,000	
Creditors		80,000
3 years Bank loan		75,000
Drawings	3,000	
Provision for doubtful debts 1/1/07		8,000
Capital		<u>221,700</u>
	1,468,700	1,468,700

Additional information:

- Value of closing stock shs.45,000
  - Unpaid electricity as at 31/12/07 was shs.3,000
  - Rent income receivable as at 31/12/07 was shs.4,000
  - Prepaid insurance expenses shs.2,000
  - Bad debts to be written off shs.7,000
  - Provision for doubtful debts to be 10% of remaining debtors
  - Machinery to be depreciated at a rate of 10% p.a. on cost
  - Motor vehicles to be depreciated at a rate of 5% p.a. using the reducing balance method
- Required: Prepare the Income statement and the Balance sheet for the year ended 31/12/07 (15 marks)

**(TOTAL 15 MARKS)**

### QUESTION THREE

- a) Explain giving examples the two different types of errors which affect the trial balance (5 marks)
- b) The following information relates to south End Ltd for the year ended 31<sup>st</sup> Dec 2008

Cash and cash equivalents	<u>Sh. 000</u>
Jan 2008	8,952
Dec 2008	10,043
Operating profit	4,100
Depreciation charges	1,080
Proceeds of sale of tangible assets book value sh.116, 000	96
Increase in working capital	165
Issuance of ordinary share capital	400
Expenses in connection with share	10
Purchases of intangible fixed assets	150
Purchases of tangible fixed assets	2,540
Corporation tax paid	2,460
Dividends paid	1,570
Interest received	2,290

Required:

Prepare a cash flow statement for the year ended 31<sup>st</sup> Dec 2008. (10 marks)

**(TOTAL 15 MARKS)**

#### QUESTION FOUR

The following transactions took place in David business during the month of July 2000.

- 1/7/00 Owner started the business with sh. 80,000 cash
- 4/7/00 Obtained bank loan shs20, 000 cash
- 5/7/00 Bought a business premises worth shs26, 000 and paid by cash
- 6/7/00 Bought goods worth shs15, 000 from John on credit
- 8/7/00 Paid transport cost shs600 cash for transporting the purchases from John premises to his premises
- 9/7/00 Made cash sales amounting to sh. 6,000
- 11/7/00 Made credit sales to Nicholas worth sh. 18,000
- 12/7/00 Deposited part of cash in hand sh. 20,000 into the bank account
- 14/7/00 Paid amount due to John less 10% cash discount using a cheque
- 18/7/00 Purchased goods on credit from Timothy worth sh. 8, 000
- 20/7/00 Nicholas paid the amount due from him by cheque less 5% cash discount
- 22/7/00 Made credit sales to Mutua worth sh. 4,000
- 25/7/00 Bought furniture worth sh. 2, 000 and paid by cash
- 27/7/00 Paid the amount due to Timothy less 8% cash discount using cash
- 30/7/00 Received cash from Mutua in respect of the amount due from him less 15% cash discount.

Required: Write a three column cash book for the month of July 2000 (15 marks)

**(TOTAL 15 MARKS)**

#### QUESTION FIVE

- a) Discuss the argument for and against regulation of the accounting profession. (10 marks)
- b) Outline the reasons for the change from the Kenya accounting standards to the international standards (5 marks)

**(TOTAL 15 MARKS)**