



MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

THIRD YEAR FIRST TERM EXAMINATION FOR

DIPLOMA IN ACCOUNTANCY

FINANCIAL ACCOUNTING

DATE: 4/6/2021

TIME: 8.30-11.30 AM

INSTRUCTIONS:

Answer any three questions

QUESTION ONE

Mack and Spencer are in partnership sharing profits and losses equally. The following is the trial balance as at 30 June 2003.

| | Dr. | Cr. |
|--------------------------------------|---------|-----------|
| | KSH | KSH |
| Buildings (cost £750,000) | 500,000 | |
| Fixtures at cost | 110,000 | |
| Provision for depreciation: Fixtures | | 33,000 |
| Debtors | 162,430 | |
| Creditors | | 111,500 |
| Cash at bank | 6,770 | |
| Stock at 30 June 19X8 | 419,790 | |
| Sales | | 1,236,500 |
| Purchases | 854,160 | |
| Carriage outwards | 12,880 | |
| Discount allowed | 1,150 | |
| Loan interest: King | 40,000 | |
| Office expenses | 24,160 | |

| | | |
|-------------------------|------------------|------------------|
| Salaries and wages | 189,170 | |
| Bad debts | 5,030 | |
| Provision for bad debts | | 4,000 |
| Loan from J King | | 400,000 |
| Capitals: Mack | | 350,000 |
| Spencer | | 290,000 |
| Current accounts: Mack | | 13,060 |
| Spencer | | 2,890 |
| Drawings: Mack | 64,000 | |
| Spencer | <u>56,500</u> | |
| | <u>2,446,040</u> | <u>2,446,040</u> |

Required:

Prepare a trading and profit and loss appropriation account for the year ended 30 June 19X9 and a balance sheet as at that date.

- a) Stock, 30 June 2003, ksh563,400
- b) Expenses to be accrued: Office Expenses ksh960; Wages ksh2,000
- c) Depreciate fixtures 10 per cent on reducing balance basis, buildings ksh10,000
- d) Reduce provision for bad debts to ksh3,200.
- e) Partnership salary: ksh8,000 to Mack. Not yet entered
- f) Interest on drawings: Mack ksh1,800; Spencer ksh1,200.
- g) Interest on capital account balances at 10 per cent. (20 marks)

QUESTION TWO

The Following Trial Balance Was Extracted From the Books of Collins Othiambo Ltd at 31 December 2005

| | KSH | KSH |
|---|----------------|----------------|
| Share capital authorized and issued: | | |
| 80,000 ordinary shares of ksh1 each | | 80,000 |
| Freehold premises at cost | 59,000 | |
| Motor vans | | |
| Balance 1 January 2005 at cost | 15,000 | |
| Additions less sale proceeds | 650 | |
| Provisions for depreciation of motor vans to 31 December 2004 | | 6,750 |
| Stock in trade 31 December 2004 | 13,930 | |
| Balance at bank | 6,615 | |
| Provision for doubtful debts 31 December 2004 | | 275 |
| Trade debtors and creditors | 12,395 | 11,380 |
| Directors' remuneration | 4,000 | |
| Wages and salaries | 13,127 | |
| Motor and delivery expenses | 3,258 | |
| Rates | 700 | |
| Purchases | 108,440 | |
| Sales | | 142,770 |
| Legal expenses | 644 | |
| General expenses | 5,846 | |
| Profit and loss account: balance at 31 December 2004 | | <u>2,430</u> |
| | <u>243,605</u> | <u>243,605</u> |

You are given the following information.

1. Stock in trade, 31 December 2005, Ksh14, 600.
2. Rates paid in advance, 31 December 2005, ksh140.
3. Debts of ksh1, 075 to be written off and the provision to be increased to ksh350.
4. On 1 January 2005, a motor van which had costksh680, was sold for ksh125.
5. Depreciation provided for this van up to 31 December 2004 was ksh475.
6. Provide for depreciation of motor vans (including additions) at 20% of cost.
7. The balance on legal expenses account included ksh380 in connection with the purchase of one of the freehold properties.

8. The directors have decided to recommend a dividend of 5%.

Required:

With particular emphasis on presentation, prepare a trading and profit and loss account for the year 2005, and a balance sheet at 31 December 2005, ignoring taxation. (20 marks)

QUESTION THREE

The following is a list of assets and liabilities of Peter Mwangangi as at 1st January 2015,

| | kshs |
|---------------------|-----------|
| Debtors | 33,500 |
| Creditors | 41,000 |
| Stock of goods | 544,000 |
| Plant and machinery | 1,200,000 |
| Motor vehicles | 2,200,000 |
| Cash at bank | 500,000 |
| Cash in hand | 120,000 |
| Bank loan | 230,000 |
| Creditors | 150,000 |

During the 1st week of January the following transactions took place,

1. Sold some of the stock by cash kshs 50,000
2. Bought more stock on credit kshs 100,000
3. One of the debtors paid us kshs 20,000 by cheque
4. Sold some of the machinery by cheque kshs 500,000
5. Paid part of the bank loan by cheque kshs 100,000

Required,

Prepare a balance before and after the above transactions. (20 marks)

QUESTION FOUR

Briefly explain any five users of financial statements (20 marks)

QUESTION FIVE

Highlight the contents of a partnership agreement or deed. (20 marks)