



MACHAKOS UNIVERSITY

University Examinations for 2022/2023 Academic Year

**SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM
MANAGEMENT**

**DEPARTMENT OF BUSINESS ADMINISTRATION AND FINANCE
FIRST YEAR FIRST SEMESTER EXAMINATION FOR**

BACHELOR OF SCIENCE (HOSPITALITY AND TOURISM MANAGEMENT)

HTM 103: INTRODUCTION TO HOSPITALITY AND TOURISM ACCOUNTING

DATE:

TIME:

INSTRUCTIONS

Answer Question One and Any Other Two Questions.

QUESTION ONE

- a) Define the following accounting concepts and for each explain their implication in the preparation of financial Statements.
 - i) The Going concern concept. (4 marks)
 - ii) Business entity concept. (4 marks)
- b) Identify five users of financial accounting information and explain why they need information? (5 marks)
- c) Identify and explain THREE broad types of accounting. (3 marks)

d) The trial balance of Zach Ltd. as at 31 December 2019 was as follows:

	Sh.	Sh.
Share capital (10,000 Sh.20 Ordinary shares)		200,000
Purchases and Sales	1,220,000	2,000,000
Debtors and Creditors	400,000	140,000
Profit and loss 1 January 2019		380,000
Sales returns	40,000	
Buildings at cost	800,000	
Plant at cost	1,000,000	
Provision for depreciation:		
Plant		400,000
Buildings		40,000
Purchases returns		80,000
Selling expenses	140,000	
Bank		160,000
10% Debentures		600,000
Stock 1 January 2019	300,000	
Provision for bad debts		20,000
Operating expenses	180,000	
Administrative expenses	140,000	
Suspense account		<u>200,000</u>
	<u>4,220,000</u>	<u>4,220,000</u>

Additional information:

1. Stock at 31 December 2019 was Sh.360,000.
2. Sales returns of Sh.20,000 have been entered in the sales day book as if they were sales. When this error was discovered, the debtors account had been corrected but the sales figure was not rectified.
3. A debtor of Sh.20,000 has been declared bankrupt. A general provision is required at 5% of debtors.
4. Rates of Sh.30,000 paid in December covering half year to 31 March 2020 have not been entered in the books.
5. Debenture interest has not been paid.
6. Depreciation on plant is at 10% on cost and buildings at 2% on cost.

Required:

- (a) Income statement for the year ended 31 December 2020. (8 marks)
- (b) Statement of financial position as at 31 December 2020. (6 marks)

QUESTION TWO (20 MARKS)

- a) Briefly indicate the arguments for and against First In First Out (FIFO) method of inventory valuation. (5 marks)
- b) The following information relates to item P003 stocked by XYZ products Ltd for the month of April 2016:

	Receipts	Issues	
Date	Units	Units	Unit cost (Sh)
April 3	2,400		18
4		3,200	
6	2,600		20
12		2,700	
14	3,000		22
18	2,800		21
20		2,200	
22	2,600		23
25		3,800	
26	3,100		24
27	2,500		25
28	3,200		26
29		6,900	

The closing balance for March 2016 was a batch of 3,000 units received at a unit price of Sh 19.

Required:

- a) Stores perpetual inventory record for item P003 for May 2016 under LIFO and FIFO system of stores issues. (10 mark)
- b) Determine closing stock valuation in both methods. (5 marks)

QUESTION THREE (20 MARKS)

- (a) Briefly explain the following types of errors:
- (i) Error of commission (2 marks)
 - (ii) Error of principle (2 marks)
 - (iii) Complete reversal of entries (2 marks)
 - (iv) Compensating errors (2 marks)
- b) Enter the following in the three-column cash book of an office supply shop. Balance off the cash book at the end of the month and show the discount accounts in the general ledger. (12 marks)

2017

- June 1 Balances brought forward: Cash Shs420; Bank Shs4,940.
- 2 The following paid us by cheque, in each case deducting a 5 per cent cash discount: S Braga Shs820; L Pine Shs320; G Hodd Shs440; M Rae Shs1,040.
- 3 Cash sales paid direct into the bank Shs740.
- 5 Paid rent by cash Shs340.
- 6 We paid the following accounts by cheque, in each case deducting 2.5 per cent cash discount: M Peters Shs360; G Graham Shs960; F Bell Shs400.
- 8 Withdrew cash from the bank for business use Shs400.
- 10 Cash sales Shs1,260.
- 12 B Age paid us their account of Shs280 by cheque less Shs4 cash discount.
- 14 Paid wages by cash Shs540.
- 16 We paid the following accounts by cheque: R Todd Shs310 less cash discount Shs15; F Dury Shs412 less cash discount Shs12.
- 20 Bought fixtures by cheque Shs4,320.
- 24 Bought lorry paying by cheque Shs14,300.
- 29 Received Shs324 cheque from A Line.
- 30 Cash sales Shs980.
- 30 Bought stationery paying by cash Shs56.

QUESTION FOUR

Araka Ltd., a company dealing in retail products, extracted from the following trial balance as at 30 September 2014:

	Shs. '000'	Shs. '000'
Freehold land: Cost	121,500	
Buildings: Cost	431,000	
Accumulate depreciation		68,960
Plant and machinery: Cost	64,172	

Accumulated depreciation		16,074
Sales		1,312,567
Purchases	839,004	
Cash in hand	1,268	
Creditors ledger control account		21,172
Electricity	6,917	
Ordinary share capital		50,000
Cash at bank	1,210	
Debtors ledger control account	61,074	
Suspense account	4,300	
Inventory as at 1 October 2013	41,912	
Retained profits		296,057
Motor vehicle expenses	4,174	
Sundry expenses	2,002	
Salaries and wages	121,600	
Directors remuneration	48,999	
Bank charges	1,621	
Motor vehicles: Cost	28,900	
Accumulated depreciation	<u> </u>	<u>14,712</u>
	<u>1,779,542</u>	<u>1,779,542</u>

Additional information:

1. Provision for doubtful debts should be made at 2% of the debtors ledger balances after writing of bad debts amounting to Shs. 1,370,000.
2. The suspense account was analysed as follows:

Shs. '000' Shs. '000'

Bad debts written off during the year		512
Motor vehicle purchased on 1 April 2014		7,400
		7,912
Less: motor vehicle sold on 1 April 2014	3,000	
Amounts received in respect of a bad debt recovered	<u>612</u>	<u>(3,612)</u>
		<u><u>4,300</u></u>

3. The motor vehicle sold during the year had been purchased on 1 February 2011 for Sh.6,500,000.
4. Bank statement as at 30 September 2014 showed bank charges of Sh.533,000. This had not been recorded in the cash book.
5. The debtors ledger control account did not agree with the list of balances in personal accounts. You ascertain that some invoices for October 2014 had been posted in the personal accounts as at September 2014. The list of balances was overstated by Sh.4,300,000.
6. Estimated corporation tax for the year ended 30 September 2014 was Sh.131,700,000.
7. The value of inventory as at 30 September 2014 was amounted to Sh.62,047,000.
8. The directors proposed to pay ordinary dividend of 10%.
9. The following petty cash expenditure had not been recorded:

	Shs. '000'
Motor vehicle expenses	412
Sundry expenses	91
Casual workers wages	36

10. Depreciation is provided at the following rates:
Buildings- 2% per annum on cost

Plant and machinery – 20% per annum on reducing balance basis.

Motor vehicle – 25% per annum on cost

Full year's depreciation is provided in the year of purchase and none in the year of disposal.

Required:

- a) Income statement for the year ended 30 September 2014. (12 marks)
 b) Statement of financial position as at 30 September 2014 (8 marks)

QUESTION FIVE (20 MARKS)

Mr Chai has been trading for some years as a wine merchant. The following list of balances has been extracted from his ledger as at 30 April 2017, the end of his most recent financial year.

	Shs
Capital	83,887
Sales	259,870
Trade creditors	19,840
Returns out	13,407
Provision for doubtful debts	512
Discounts allowed	2,306
Discounts received	1,750
Purchases	135,680
Returns inwards	5,624
Carriage outwards	4,562
Drawings	18,440
Carriage inwards	11,830
Rent, rates and insurance	25,973
Heating and lighting	11,010
Postage, stationery and telephone	2,410
Advertising	5,980
Salaries and wages	38,521
Bad debts	2,008
Cash in hand	534
Cash at bank	4,440

Stock as at 1 May 2016	15,654
Trade debtors	24,500
Fixtures and fittings – at cost	120,740
Provision for depreciation on fixtures and fittings – as at 30 April 2017	63,020
Depreciation	12,074

The following additional information as at 30 April 2017 is available:

- (a) Stock at the close of business was valued at Shs 17,750.
- (b) Insurances have been prepaid by Shs 1,120.
- (c) Heating and lighting is accrued by Shs 1,360.
- (d) Rates have been prepaid by Shs 5,435.
- (e) The provision for doubtful debts is to be adjusted so that it is 3% of trade debtors.

Required:

- a) Mr Chai's income statement for the year ended 30th April 2017. (10 marks)
- b) Mr Chai's statement of financial position as at 30th April 2017. (10 marks)