

**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY -
KISII CAMPUS**

THE SCHOOL OF BUSINESS AND ECONOMICS

**SEMESTER EXAMS FOR MASTER OF BUSINESS ADMINISTRATION. 1ST YEAR
1ST SEM. MAY-AUGUST 2014**

MBA 803: FINANCIAL ACCOUNTING

TIME 3 HOURS

ANSWER ANY FOUR QUESTIONS

QUESTION ONE:

a.

the following errors were identified by Mpeketoni traders.

1. Purchase of goods worth 10,000 on credit from Bundo double entry was completed erroneously in Bundo account.
2. Purchase of a machine in cash worth 50,000 was debited to purchases account.
3. The sales account was overcast by 20,000 as well as the salaries account.
4. Sales of 42,000 to bwogo was entered in the books as 24,000
5. Payment of cash of 32,000 to Kajwangi was entered on the debit side of the cash book and credited to Kajwangi's account.

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Required: Prepare journal entries in the General journal to correct the above errors. (5mks)

b) The following transactions relate to Kisumu traders for the month of December 2013.

1st Balances were ; Bank sh. 120,000 and cash sh.150,000

2nd Credit purchases from Odhiambo worth sh. 47,000

3rd Credit sales to Kansime sh. 150,000 and Mwala sh. 220,000

5th Cash purchases Sh. 75,000

10th Buyers returned defective goods as follows; Kansime 10,000 and Mwala 10,050

15th Odhiambo's account was settled in full less 5% cash discount by cheque.

18th Purchases worth sh.70,000 from Marambii paying sh. 20,000 by cash and the rest to be paid later.

28th Received cheques of sh. 100,000 and sh. 150,000 from Kansime and Mwala respectively.

Required; enter the transactions in personal accounts only and balance them. (6mks)

c) The following are some of the theories on which Financial accounting is founded and operates.

i. Stewardship theory.

ii. Agency theory.

Discuss the major contributions for each of the above theories to the development of the discipline. (4 marks)

QUESTION TWO.

a) The following categories of people are recognized as users of the information contained in financial statements:

i. Equity owners.

- ii. The government
- iii. Lenders.
- iv. The management

For each of the above users of financial statements, identify the kind of information they may require, why they require it and the decisions they make from that information (8 marks)

- a) “Qualitative characteristics are the attributes that make information provided in financial statements useful to users.” Briefly explain the main qualitative characteristics of financial statements with reference to major stakeholders of business units.(7 marks)

QUESTION THREE

The following version of the receipts and payments account has been provided by the treasurer of Park Vila Sports club for the year ended 31 October 2013:

	Receipts Shs.' 000'	Payments Shs.' 000'
Opening Balance	500	
Accountancy Fees		200
Bar Purchases		24,000
Bar sales	55,000	
Dances: Expenses		900
Ticket Sales	1,600	
Foods: Purchases		4,500
Sales	8,000	
Insurance		500
Electricity		1,500
Members Subscriptions	35,000	
Office Expenses		22,000
Purchase of Furniture		4,000
Rates		2,000
Salaries and Wages: Bar Staff		10,000
Other Staff		14,000
Telephone		3,000
Travelling Expenses		13,000
Balance c/f		500
	<u>100,100.</u>	<u>100,100</u>

Additional Information:

1. Fixed Assets: At November 2012

 Club Premises at Cost

 Furniture and Fittings at Cost

 Less Provision for depreciation

Shs. 000	Shs. 000
	18,000
35,000	
<u>14,000</u>	<u>21,000</u>
	<u>39,000</u>

2. Accruals and Sundry Creditors	At Nov 2012	At 31 Oct 2013
	Shs. 000	Shs. 000
Accountancy Fees	200	250
Bar Purchases	1,500	2,000
Electricity	400	300
Members Subscriptions (Paid in Advance)	1,000	800
Telephone	600	700

3. Sundry Prepayments and Receivables

Insurance	300	200
Members Subscriptions (In Arrears)	6,000	7,000

4. Park Vila Sports Club had a Bank Account, which had a balance of Shs. 2,500,000 on 1 Nov 2012. This Bank account was not used during the year to 31 Oct 2013 and the only entry made in this account was for the interest of shs. 200,000 which was credited to the bank on 31 Oct 2013.
5. Depreciation on Furniture and fittings is at the rate of 10% per annum on cost. A full years depreciation is provided for any furniture bought during the year.
6. Bar stock was valued at shs. 7,000,000 On 1 Nov 2012 and at Shs. 1,500,000 on 31 Oct 2013.
7. No Apportionment of costs is made between bar activities and other club activities.

Required:

- i. Income and Expenditure Account for the year 31 Oct. 2013. (10 marks)
- ii. Balance Sheet as 31.12 2013 (5Marks)

QUESTION FOUR.

Kipruto carries on a manufacturing business in Eldoret Town. The trial balance extracted from his books as at 31 March 2014 was as follows:

	Sh.'000	Sh.'000
Stock at 1 April 2013:		
Raw materials	16,200	
Finished goods	58,000	
Purchases of raw materials	409,600	
Manufacturing wages	92,200	
Rent, rates and insurance	15,400	
Salaries	102,400	
Discounts allowed	4,000	
Carriage inwards	7,600	
General expenses	53,800	
Professional charges	6,400	
Carriage outwards	9,400	

Motor vehicles at cost	24,400	
Plant and machinery at cost	96,000	
Leasehold premises (acquired on 1 April 2013)	140,000	
Capital as at 1 April 2013		200,000
Sales		841,600
Discounts received		5,000
Provision for doubtful debts (1 April 2013)		10,000
Sundry creditors		59,000
Provision for depreciation (1 April 2013):		
Plant and machinery		26,800
Motor vehicles		11,600
Sundry debtors	79,000	
Bank balance	39,600	
	<u>1,154,000</u>	<u>1,154,000</u>

Additional information:

1. Sales included Sh.46,000,000 in respect of goods charged out to customers at cost plus 25% on a sale or return basis. The goods remained unsold as at 31 March 2014.
2. The stock of finished goods and raw materials at cost as at 31 March 2014 amounted to Sh.63,600,000 and Sh.15,800,000 respectively.
3. Prepaid insurance as at 31 March 2014 was Sh.400,000 and Sh.1,000,000 was owing for lighting and heating as at the same date. Lighting and heating is accounted for through the general expense account.
4. Included in the salaries account were drawings by Kipruto amounting to Sh.400,000 per week. (Assume a 52 weeks in year)
5. A debt of Sh. 1,000,000 is to be written off and provision for doubtful debts is to be reduced to Sh.8,000,000
6. During the year, motor vehicles which had cost Sh.12,000,000 and which had been written down to Sh.4,000,000 were sold for Sh.9,600,000. This amount has been credited to motor vehicles account.
7. Legal fees amounting to Sh.2,800,000 in respect of acquisition of the leasehold premises are included in the professional charges account. The lease costs are to be amortized over 20 years.
8. Provision for depreciation on motor vehicles and plant and machinery is to be made at Sh.3,800,000 and Sh.5,000,000 respectively.

Required:

- (a) Manufacturing, trading and profit and loss accounts for the year ended 31 March 2014. (8 marks)
- (b) Statement of the financial position as at 31 March 2014. (7 marks)

QUESTION FIVE

The trial balance of Teeth Ltd as at 31 October 2004 is as follows:

	Sh.'000	Sh.'000
Ordinary shares of Sh.50 each		10,000

10% preference shares of Sh.100 each		9,000
10% debentures		8,000
Land and buildings (net book value)	25,000	
Plant and machinery (net book value)	8,000	
Motor vehicles (net book value)	2,000	
Inventory	6,000	
Accounts receivables and payables	20,000	19,000
Cash at bank	4,100	
Capital redemption reserve		6,000
Share premium		4,000
Retained profits as at (November 2003)		3,000
Debenture interest	400	
Preference dividend	450	
Gross profit		25,000
Other operating income		4,000
Administrative expenses	13,000	
Distribution costs	6,000	
Other operating expenses	1,550	
Interim ordinary dividend paid	2,000	
Corporation tax		500
	<u>88,500</u>	<u>88,500</u>

Additional information:

1. A building whose net book value is currently Sh.5 million is to be revalued to Sh.9 million
2. A final ordinary dividend of Sh.2 million is proposed.
3. The balance on the corporation tax for the current year is estimated at Sh.3 million.

Required:

- (i) Income statement for the year ended 31 October 2004. (8 marks)
- (ii) Balance sheet as at 31 October 2004. (7 marks)

QUESTION SIX

Mr. King is a sole proprietor of a small business and the following trial balance was extracted from his books at 31 March 2010.

	Sh. '000'	Sh. '000'
Capital		4,896
Freehold land and buildings (at cost)	3,600	
Plant and machinery at cost	3,480	
Provision for depreciation – plant and machinery		1,680
Delivery vans	960	
Provision for depreciation – delivery vans		672
Loose tools at valuation on 1 April 2009	288	

Stocks 1 April 2009	2,232	
Purchases	4,440	
Loose tools	192	
Sales		15,840
Wages and Salaries	5,288	
Rates and Insurance	384	
Repairs and maintenance of buildings	240	
Sales expenses including vehicle running costs	344	
Electricity and power	1,440	
Industrial training levy	72	
Administration expenses	672	
Provision for doubtful debts		240
Debtors and Creditors	1,984	1,928
Drawings	480	
Bank		864
Cash in hand	<u>24</u>	
	<u>26,120</u>	<u>26,120</u>

Additional information:

1. Closing stock on 31 March 2010 was Sh.2,008,000. Loose tools at valuation Sh.384, 000.
2. Provision is to be made for the following amount owing on 31 March 2010: Electricity and power Sh.192,000.
3. Payments in advance on 31 March 2010 were as follows: Van licenses Sh.2,520 and rates Sh.13,800.
4. Depreciation on plant and machinery and delivery vans is to be provided at the rate of 20% and 25% respectively on cost at the end of the year.
5. Bad debts amounting to Sh.26,000 are to be written off and the provision for doubtful debts is to be 10% of trade debtors.

Required:

- a) An income statement for the period ended 31st March 2010 (8 marks)
- b) Statement of the financial position as at 31st March 2010 (7 marks)

